

GUARANTY FEDERAL BANCSHARES INC
Form DEF 14A
April 25, 2016
United States

Securities and Exchange Commission

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. __)

Filed by the registrant [X]

Filed by a party other than the registrant []

Check the appropriate box:

[] Preliminary Proxy Statement

[] Confidential, for use of the Commission

Only (as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[] Definitive Additional Materials

[] Soliciting Material Under Rule 14a-12

Guaranty Federal Bancshares, Inc.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

GUARANTY FEDERAL BANCSHARES, INC.

**1341 WEST BATTLEFIELD
SPRINGFIELD, MO 65807-4181
(417) 520-4333**

NOTICE OF MEETING OF STOCKHOLDERS

To Be Held on May 25, 2016

Notice is hereby given that an annual meeting of the stockholders (the "Meeting") of Guaranty Federal Bancshares, Inc. (the "Company") will be held at the Highland Springs Country Club, 5400 S. Highland Springs Blvd., Springfield, Missouri, on May 25, 2016, at 6:00 p.m., local time. Stockholders of record at the close of business on April 4, 2016 are the stockholders entitled to vote at the Meeting.

A Proxy Card and a Proxy Statement for the Meeting are enclosed.

The Meeting is being held for the purpose of considering and acting upon:

1. The election of two directors.
2. The advisory (non-binding) vote to approve executive compensation.
3. The ratification of BKD, LLP as Independent Registered Public Accounting Firm to the Company for the fiscal year ending December 31, 2016.

Such other matters as may come properly before the Meeting or any adjournments thereof. Except with respect to 4. procedural matters incident to the conduct of the Meeting, the Board of Directors is not aware of any other business to come before the Meeting.

Important Notice Regarding the Availability of Proxy Materials for the 2016 Annual Stockholders' Meeting to be Held on May 25, 2016. Pursuant to the rules promulgated by the Securities and Exchange Commission, we have elected to provide access to our proxy materials both by: (i) sending you this full set of proxy materials, including a proxy card; and (ii) notifying you of the availability of our proxy materials on the internet. **This Notice and Proxy Statement and our 2015 Annual Report may be accessed at www.gbankmo.com.**

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Don M. Gibson

Don M. Gibson
Chairman of the Board

Springfield, Missouri
April 25, 2016

THE BOARD OF DIRECTORS URGES YOU TO SIGN, DATE AND RETURN YOUR PROXY CARD AS SOON AS POSSIBLE, EVEN IF YOU CURRENTLY PLAN TO ATTEND THE ANNUAL MEETING. THIS WILL NOT PREVENT YOU FROM VOTING IN PERSON AT THE ANNUAL MEETING IF YOU DESIRE, AND YOU MAY REVOKE YOUR PROXY BY WRITTEN INSTRUMENT AT ANY TIME PRIOR TO THE VOTE AT THE ANNUAL MEETING. IF YOU ARE A STOCKHOLDER WHOSE SHARES ARE NOT REGISTERED IN YOUR OWN NAME, YOU WILL NEED ADDITIONAL DOCUMENTATION FROM YOUR RECORD HOLDER TO VOTE PERSONALLY AT THE MEETING.

1341 W. Battlefield Springfield, MO 65807
417-520-4333 www.gbankmo.com

April 25, 2016

Dear Fellow Stockholder:

On behalf of the Board of Directors and management of Guaranty Federal Bancshares, Inc., I cordially invite you to attend the 2016 Annual Meeting of Stockholders to be held at the Highland Springs Country Club, 5400 S. Highland Springs Blvd., Springfield, Missouri, on Wednesday, May 25, 2016 at 6:00 p.m., local time. The attached Notice of Annual Meeting of Stockholders and Proxy Statement describe the formal business to be transacted at the meeting. Following the formal meeting, I will report on the operations of the Company. Directors and officers of the Company, as well as representatives of BKD, LLP, our independent registered public accounting firm, will be present to respond to any questions that stockholders may have.

Whether or not you plan to attend the meeting, please sign and date the enclosed proxy card and return it in the accompanying postage-paid return envelope as soon as possible. This will not prevent you from voting in person at the meeting but will assure that your vote is counted if you are unable to attend the meeting.

Respectfully,

/s/ Shaun A. Burke

Shaun A. Burke
President and CEO

**GUARANTY FEDERAL BANCSHARES, INC.
1341 WEST BATTLEFIELD
SPRINGFIELD, MISSOURI 65807-4181**

PROXY STATEMENT

This Proxy Statement has been prepared in connection with the solicitation of proxies by the Board of Directors of Guaranty Federal Bancshares, Inc. (the “Company”) for use at the annual meeting of stockholders to be held on May 25, 2016 (the “Annual Meeting”), and at any adjournment(s) thereof. The Annual Meeting will be held at 6:00 p.m., local time, at the Highland Springs Country Club, 5400 S. Highland Spring Blvd., Springfield, Missouri. It is anticipated that this Proxy Statement will be mailed to stockholders on or about April 25, 2016.

RECORD DATE--VOTING--VOTE REQUIRED FOR APPROVAL

All persons who were holders of record of the common stock, par value \$0.10 per share (“Common Stock”) of the Company at the close of business on April 4, 2016 (“Record Date”) will be entitled to cast votes at the Annual Meeting. Voting may be by proxy or in person. As of the Record Date, the Company had 4,431,470 shares of Common Stock issued and outstanding.

Holders of a majority of the outstanding shares of Common Stock entitled to vote, represented in person or by proxy, will constitute a quorum for purposes of transacting business at the Annual Meeting.

Stockholders are urged to indicate their vote in the appropriate spaces on the proxy card. Each proxy solicited hereby, if properly executed, duly returned to the Board of Directors of the Company (the “Board of Directors” or the “Board”) and not revoked prior to the Annual Meeting, will be voted at the Annual Meeting in accordance with the stockholder’s instructions indicated thereon. Where no instructions are indicated, proxies will be voted by those named in the proxies FOR the approval of the specific proposals presented in this Proxy Statement and on the proxy card and in the discretion of those named in the proxies upon any other business that may properly come before the Annual Meeting or any adjournment thereof. Each stockholder shall have one vote for each share of Common Stock owned. No appraisal or dissenters’ rights exist for any action to be taken at the Annual Meeting.

A stockholder giving a proxy has the power to revoke the proxy at any time before it is exercised by filing with the Secretary of the Company written instructions revoking the proxy. A duly executed proxy bearing a later date will be sufficient to revoke an earlier proxy. The proxy executed by a stockholder who attends the Annual Meeting will be revoked only if that stockholder files the proper written instrument with the Secretary prior to the end of the voting at the Annual Meeting.

To the extent necessary to assure sufficient representation at the Annual Meeting, proxies may be solicited by officers, directors and regular employees of the Company personally, by telephone, by internet or by further correspondence. Officers, directors and regular employees of the Company will not be compensated for their solicitation efforts. The cost of soliciting proxies from stockholders will be borne by the Company. The Company will also reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of Common Stock.

Regardless of the number of shares of the Company's Common Stock owned, it is important that stockholders be represented by proxy or be present in person at the Annual Meeting. In order for any proposals considered at the Annual Meeting to be approved by the Company's stockholders, a quorum must be present. Stockholders are requested to vote by completing the enclosed proxy card and returning it signed and dated in the enclosed postage-paid envelope.

Proxies marked as abstentions and broker non-votes (as defined below) will be treated as shares present for purposes of determining whether a quorum is present. Proxies marked as abstentions will not be counted as votes cast and will not affect the election of directors, advisory approval of executive compensation, or ratification of BKD, LLP as the independent registered public accounting firm. Brokers are entitled to vote the shares they hold for their customers in “street name” on routine matters when the customers (i.e. the “beneficial owners”) do not instruct the brokers how to vote the customer’s shares. Only Proposal Three, regarding the ratification of BKD, LLP as Independent Registered Public Accounting Firm, is deemed to be a routine matter. Brokers will be entitled to vote shares of Common Stock they hold in street name on Proposal Three in the absence of instructions on how to vote by the beneficial owners. Proposals One, and Two are not deemed to be routine matters and, as such, brokers are not entitled to vote shares of Common Stock they hold in street name on Proposals One and Two in the absence of instructions on how to vote from the beneficial owners. These are referred to as “broker non-votes.” Broker non-votes will not be counted as votes cast, and therefore will not affect the election of directors or advisory approval of executive compensation.

Directors are elected by a plurality of votes of the shares represented in person or by proxy at the Annual Meeting. The proposals to approve executive compensation (advisory), and to ratify the selection of the independent registered public accounting firm require the affirmative vote of a majority of the votes cast on such matters.

SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND management

Persons and groups owning in excess of 5% of the Common Stock are required to file certain reports regarding such ownership pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Certificate of Incorporation of the Company restricts the voting by persons who beneficially own in excess of 10% of the outstanding shares of Common Stock. This restriction does not apply to employee benefit plans of the Company. The following table sets forth, as of the Record Date, persons or groups who are known by the Company to beneficially own more than 5% of the Common Stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Total Outstanding Common Shares
Castle Creek Capital Partners V, LP 6051 El Tordo Racho Santa Fe, CA 92067	425,500	(1) 9.60%

FJ Capital Management, LLC

1313 Dolley Madison Blvd, Ste 306 300,715 (2) 6.79%

McLean, VA 22101

Banc Funds Co LLC

20 North Wacker Drive, Suite 3300 230,971 (3) 5.21%

Chicago, IL 60606

Information based on a joint schedule 13G/A filed with the Securities and Exchange Commission on December 11, 2014 by Castle Creek Capital Partners V, LP (“Fund V”), Castle Creek Capital V LLC (“CCC V”), John M. Eggmeyer III, Mark G. Merlo, John T. Pietrzak and J. Mikesell Thomas as the “Reporting Persons.” Each of the Reporting Persons may be deemed to be the beneficial owner of the 425,500 Common Shares held directly by Fund V. CCC (1) V is the sole general partner of Fund V. Mr. Eggmeyer, Mr. Merlo, Mr. Pietrzak, and Mr. Thomas share voting and dispositive power over the 425,500 shares beneficially owned by Fund V, due to the fact that each is a managing principal of CCC V. CCC V, Mr. Eggmeyer, Mr. Merlo, Mr. Pietrzak, and Mr. Thomas each disclaim beneficial ownership of the Common Shares, except to the extent of their respective pecuniary interest in Fund V.

Information based on a joint schedule 13G/A filed with the Securities and Exchange Commission on February 10, 2016 by FJ Capital Management LLC (“FJ”), Financial Opportunity Fund (“FOF”), Martin S. Friedman, Bridge Equities III LLC (“BE III”), Bridge Equities VIII LLC (“BE VIII”), Bridge Equities IX LLC (“BE IX”), Bridge Equities X LLC (“BE X”), SunBridge Manager LLC (“SB Manger”), SunBridge Holdings LLC (“SB Holdings”) and Realty Investment Company Inc. (“RIC”) as the “Reporting Persons.” The Schedule 13G/A reports shared voting and investment power over the shares as follows: FJ (300,715 voting and 54,938 investment), FOF (38,127 voting and investment), BE III (243,686 voting and investment), BE VIII (419 voting and investment), BE IX (627 voting and investment), BE X (1,045 voting and investment), Mr. Friedman (300,715 voting and 54,938 investment), SB Manager (245,777 voting and investment), SB Holdings (245,777 voting and investment) and RIC (245,777 voting and investment).

Information based on a joint schedule 13G filed with the Securities and Exchange Commission on February 9, 2016 by Banc Fund VI L.P. (“BF VI”), Banc Fund VII L.P. (“BF VII”), Banc Fund VIII L.P. (“BF VIII”) and Banc Fund IX L.P. (“BF IX”) as the “Reporting Persons.” The general partner of the general partners of BF VI, BF VII, BF VIII and BF IX is The Banc Fund Company, L.L.C., whose principal shareholder is Charles J. Moore. Mr. Moore has voting and dipositive power over the shares held by each entity. BF VII holds sole voting and investment power over 65,100 shares; BF VIII holds sole voting and investment power over 150,900 shares; BF IX holds sole voting and investment power over 14,971 shares.

The following table sets forth certain information as of the Record Date, with respect to the shares of the Company’s Common Stock beneficially owned by each of the directors, nominees for director and Named Executive Officers (see section titled “Summary Compensation Table”) of the Company, and the total shares beneficially owned by directors and executive officers as a group. The Company’s policy is for each director to own a minimum of 2,500 shares, exclusive of stock grants and non-exercised stock options. Directors with less than five years of experience on the Board are required to own a minimum of 500 shares for each full year of service on the Board, up to 2,500 shares. Less than 1% stock ownership is shown below with an asterisk (*).

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)		Percent of Total Outstanding Common Shares	
Don Gibson	93,406	(2)	2.1	%
Shaun A. Burke	74,921	(3)	1.7	%
Kurt Hellweg	93,423	(4)	2.1	%
Tim Rosenbury	28,765	(5)	*	
Jamie Sivils, III	25,607	(6)	*	
James Batten	49,562	(7)	1.1	%
John Griesemer	94,051		2.1	%
David Moore	3,316		*	
Greg Horton	1,167		*	
Carter Peters	31,093	(8)	*	
H. Michael Mattson	46,606	(9)	1.0	%
Sheri Biser	15,224	(10)	*	
Robin Robeson	11,168		*	
	568,309	(11)	12.5	%

Total owned by all directors and executive
officers as a group (Thirteen persons)

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- Amounts may include shares held directly, as well as shares held jointly with family members, in retirement accounts, in a fiduciary capacity, by certain family members, by certain related entities or by trusts of which the directors and executive officers are trustees or substantial beneficiaries, with respect to which shares the respective director or executive officer may be deemed to have sole or shared voting and/or investment powers. Due to the rules for determining beneficial ownership, the same securities may be attributed as being beneficially owned by more than one person. The holders may disclaim beneficial ownership of the included shares which are owned by or with family members, trust or other entities.
- | | | | |
|------|----------|--------|--|
| (1) | | | |
| (2) | Includes | 2,500 | shares that may be acquired within 60 days of the Record Date through the exercise of options. |
| (3) | Includes | 20,000 | shares that may be acquired within 60 days of the Record Date through the exercise of options. |
| (4) | Includes | 2,500 | shares that may be acquired within 60 days of the Record Date through the exercise of options. |
| (5) | Includes | 7,500 | shares that may be acquired within 60 days of the Record Date through the exercise of options. |
| (6) | Includes | 7,500 | shares that may be acquired within 60 days of the Record Date through the exercise of options. |
| (7) | Includes | 32,500 | shares that may be acquired within 60 days of the Record Date through the exercise of options. |
| (8) | Includes | 5,000 | shares that may be acquired within 60 days of the Record Date through the exercise of options. |
| (9) | Includes | 15,000 | shares that may be acquired within 60 days of the Record Date through the exercise of options. |
| (10) | Includes | 6,500 | shares that may be acquired within 60 days of the Record Date through the exercise of options. |
| (11) | Includes | 99,000 | shares that may be acquired within 60 days of the Record Date through the exercise of options. |

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who own more than 10% of the Common Stock, to file reports detailing their ownership and changes of ownership in the Common Stock with the Securities and Exchange Commission ("SEC") and to furnish the Company with copies of all such ownership reports. Based solely on the Company's review of the copies of the ownership reports furnished to the Company, and written representations relative to the filing of certain forms, the Company believes that all Section 16(a) filing requirements applicable to its officers and directors, and persons who own more than 10% of the Common Stock, were complied with during the 2015 fiscal year. However, during the first quarter of 2016, the following late filing occurred for the following reporting person: Greg A. Horton (one report involving one transaction).

FIRST PROPOSAL: ELECTION OF DIRECTORS

With the pending retirement of Mr. Gibson, the number of directors constituting the Board will be eight, with one director position currently vacant. The Board is divided into three classes. The term of office of one class of directors expires each year in rotation so that the class up for election at each annual meeting of stockholders has served for a three-year term. The terms of two of the present directors (Messrs. Rosenbury and Horton) are expiring at the Annual Meeting.

Messrs. Rosenbury and Horton have been nominated, upon the recommendation of the Nominating Committee of the Board, by the Board and, upon election at the Annual Meeting, will hold office for a three-year term expiring in 2019 or until their successors are elected and qualified. Each nominee has indicated that he is willing and able to serve as a director if elected and has consented to being named as a nominee in this Proxy Statement.

Unless otherwise specified on the proxies received by the Company, it is intended that proxies received in response to this solicitation will be voted in favor of the election of each person named in the following table to be a director of the Company for the term as indicated, or until his successor is elected and qualified. There are no arrangements or understandings between the nominees or directors and any other person pursuant to which any such person was or is selected as a director or nominee.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS
THAT YOU VOTE FOR THE FOLLOWING NOMINEES.**

Nominees for Three-Year Terms Expiring 2019

Name	Age (1)	Director Since	Current Term Expires
Tim Rosenbury	59	2002	2016
Greg A. Horton	56	2016	2016

In addition to the two nominees proposed to serve on the Board as described above, the following individuals are also directors of the Company, each serving for the current term indicated.

**Directors Who Are Not Nominees
Who Will Continue in Office After the Annual Meeting**

Name	Age (1)	Director Since	Current Term Expires
John F. Griesemer	48	2008	2017
James L. Sivils, III	51	2002	2017
David T. Moore	45	2014	2017
Shaun A. Burke	52	2004	2018
Kurt D. Hellweg	58	2000	2018
James R. Batten	53	2006	2018

(1) As of the Record Date

Biographical Information

Set forth below are brief summaries of the background and business experience, including principal occupation, of each nominee and director currently serving on the Board of Directors of the Company.

Tim Rosenbury, AIA, is Managing Partner of Butler, Rosenbury & Partners, Inc., an architecture, engineering, and planning firm in Springfield, Missouri. Mr. Rosenbury joined the firm in 1984 after practicing in Memphis, Tennessee. He graduated with a B.Arch. from Mississippi State University in 1980, which in 1999 awarded him the designation of Alumni Fellow. He is a member of a number of professional and civic organizations, for many of which he has held leadership positions, including Chairman of the Springfield Area Chamber of Commerce and currently, Vice President of the Board of Education for Springfield Public Schools. Mr. Rosenbury brings to the Board strong community leadership and significant experience in general business and real estate development and management.

Greg A. Horton, CPA, is chief executive officer, co-founder, and co-owner of Integrity Pharmacy and Integrity Home Care, a multi-line home care enterprise that employs 2,400 and serves over 5,000 clients in Missouri and Kansas. Prior to launching Integrity Home Care in 2000, Mr. Horton was a partner in the accounting firm Whitlock, Selim & Keehn, LLP. He has over twenty years of experience in public accounting with an emphasis in management consulting, information systems, and auditing services. Mr. Horton holds a Bachelor of Science in Business Administration with an Accounting Specialization from Central Missouri State University. He is a member of the American Institute of Certified Public Accountants, and has been active in board and volunteer service with the Fellowship of Christian Athletes, Boys & Girls Town of Missouri, Rotary Club of Springfield Southeast, and the Springfield Area Chamber of Commerce. Mr. Horton's expertise in large service-based organizations and his background in public accounting make him a valuable resource to the Board.

James R. Batten, CPA, is a management consultant serving businesses and non-profit organizations. Mr. Batten was the Executive Vice President of Convoy of Hope, an international nonprofit relief organization from April 2009 through February 2014. Mr. Batten served as Chief Operations Officer and Executive Vice President of AG Financial Solutions from September 2007 through March 2009. Mr. Batten served as the Executive Vice President of Finance, Chief Financial Officer and Treasurer of O'Reilly Automotive, Inc. (NASDAQ: ORLY) from January 1993 through March 2007. Prior to joining O'Reilly, Mr. Batten was employed by the accounting firms of Whitlock, Selim & Keehn, from 1986 to 1993 and Deloitte, Haskins & Sells from 1984 until 1986. Mr. Batten is a member of the board of AG Financial Solutions, Foundation Capital Resources and Treasurer of Hope Church. Mr. Batten is a former member of the NASDAQ Issuer Affairs Committee. He has also served on a number of other professional and civic boards including the Springfield Area Chamber of Commerce, Big Brothers Big Sisters of the Ozarks and New Covenant Academy. Mr. Batten's accounting expertise, public company background and community involvement make him a valuable resource to the Board.

Shaun A. Burke joined the Bank in March 2004 as President and Chief Executive Officer and was appointed President and Chief Executive Officer of the Company on February 28, 2005. He has over 30 years of banking experience. Mr. Burke received a Bachelor of Science Degree in Finance from Missouri State University and is a graduate of the Graduate School of Banking of Colorado. Mr. Burke currently serves on the board of the Missouri Bankers Association as Vice Chairman of the Legislative Affairs Committee and was previously Chairman of the Audit Committee. In 2014, he began a three-year term on the Community Bankers Council of the American Bankers Association. In March 2016 he was appointed to the Federal Reserve Bank of St. Louis' Community Depository Institutions Advisory Council. From 2012 to 2014, he was a Board Member of the Springfield Area Chamber of Commerce serving as Vice Chairman of Economic Development in 2014. From 2009 through 2014, he was a Board Member of the Springfield Business Development Corporation, the economic development subsidiary of the Springfield Area Chamber of Commerce serving as President in 2012. He is also a past Member of the United Way Allocations and Agency Relations Executive Committee, Salvation Army Board, and Big Brothers Big Sisters Board.

Kurt D. Hellweg is the Chairman of the Board and Chief Executive Officer of International Dehydrated Foods, Inc. ("IDF"), American Dehydrated Foods, Inc. ("ADF"), Food Ingredients Technology Company, L.L.C ("FITCO" – a joint venture with Mars Petcare), and Chairman of the Board of IsoNova Technologies, L.L.C. ("IsoNova" – a joint venture with Rembrandt Enterprises, Inc.). IDF, ADF, FITCO and IsoNova are privately held companies that manufacture and market ingredients for both the food and feed industries. Mr. Hellweg joined ADF in 1987 and has previously served as Vice President of Sales, Senior Vice President of Operations, and President/COO. Prior to joining ADF, Mr. Hellweg was an officer in the U.S. Navy from 1980 to 1987. During that time, he served tours as a helicopter pilot in the Atlantic Fleet and as an instructor pilot. Mr. Hellweg holds a B.S. degree in Engineering from the University of Nebraska. He is a past Board Member of the Springfield Area Chamber of Commerce, the Springfield Area Arts Council, and the Springfield Symphony. He is the founding member of the Greater Ozarks Chapter of World Presidents' Organization ("WPO") (where he is still active), and has previously chaired the Greater Ozarks Chapter of the Young Presidents' Organization. He is a Black Belt in Taekwondo, a member of Mensa, and enjoys competing in ultra-distance bicycling races. He currently serves on the following Boards: ADF, CoxHealth, the Darr Family Foundation, Environmental Works, Inc., FITCO, Hammons Products Company, IDF, IsoNova, WPO, and is a Trustee of the ADF profit sharing plan, serving as a Director of the Investment Committee.

John F. Griesemer is Executive Vice President, Chief Operations Officer and member of the Board of Directors of Springfield Underground, Inc. Springfield Underground, Inc. is a privately held construction materials supplier and real estate developer in the Springfield, Missouri area. Mr. Griesemer previously served as Area Manager and General Manager of Springfield Underground, Inc. related companies and as a management trainee with Vulcan Materials Company in Northern Virginia. Mr. Griesemer holds a B.S. degree in Industrial Management and Engineering from Purdue University. He is the Chairman of the Board of Mercy Springfield Communities and an officer of Missouri Limestone Producers Association. He is a past Member of the Board of Catholic Campus Ministries, Junior Achievement of the Ozarks and Ozark Technical Community College Foundation. Mr. Griesemer brings to the Board a strong organizational and leadership background, management experience and deep ties in the local community.

James L. Sivils, III, JD, is the CEO of Environmental Works, Inc., a Springfield Missouri based environmental consulting firm. Mr. Sivils worked as an attorney from 1990-1993. Since 1993, Mr. Sivils has been a licensed Missouri Real Estate Broker and Developer and has developed numerous commercial and residential projects in Southwest Missouri. Mr. Sivils holds a J.D. degree from the University of Missouri – Kansas City Law School and a B.A. degree from the University of Missouri – Columbia. Mr. Sivils is a member and past Chapter Chair of the Ozarks Chapter of the Young Presidents’ Organization. Mr. Sivils legal background and knowledge and experience with real estate matters make him a valuable resource to the Board.

David T. Moore is President, Chief Executive Officer, and member of the Board of Directors of Paul Mueller Company. Paul Mueller Company is a publicly held manufacturer of milk cooling equipment and processing equipment headquartered in Springfield, Missouri. Mr. Moore has worked at Paul Mueller Company since 2002, serving as the President since 2011. Additionally, he has been a member of the company’s Board of Directors since 1997. Prior to joining Paul Mueller Company, Mr. Moore was Vice President of Product Development at Corporate Document Systems, a computer software company, for six years. Mr. Moore holds an MBA from The University of Chicago - Booth School of Business and a B.A. from Middlebury College. Mr. Moore is a valuable asset to the Board due to his significant experience in public company management, corporate governance, business acquisition and integration, and information and technology development. In addition, Mr. Moore has long-term personal and business ties to the local community.

Director Independence

The Board has determined that all of the directors, except for Mr. Burke who is an executive officer of the Company, are “independent directors” as that term is defined in Rule 5605(a) (2) of the Marketplace Rules of The Nasdaq Stock Market (“Nasdaq”). These directors constitute a majority of the Board.

Board Leadership Structure

Throughout its history, the Company has kept the positions of Chairman of the Board and Chief Executive Officer separate. Currently, Mr. Gibson holds the position of Chairman of the Board and Mr. Burke holds the position of Chief Executive Officer. Mr. Gibson is considered to be “independent” according to NASDAQ listing requirements.

The Board believes that having separate positions and having an independent outside director serve as Chairman is the appropriate leadership structure for the Company at this time and demonstrates our commitment to good corporate governance. Separating these positions allows our Chief Executive Officer to focus on our day-to-day business, while allowing the Chairman to lead the Board in its fundamental role of providing advice to and independent oversight of management. We believe that having an independent Chairman eliminates the conflicts of interest that may arise

when the positions are held by one person. In addition, this leadership structure allows the Board to more effectively monitor and evaluate the performance of our Chief Executive Officer.

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Board's Role in Risk Oversight

It is necessary to effectively manage risk when managing and operating every financial institution. We face a number of risks, including but not limited to, general economic risks, credit risks, regulatory risks, audit risks, reputational risks, and business competition. Management is responsible for the day-to-day management of risks the Company faces, while the Board, as a whole and through its committees, has responsibility for the general oversight of risk management. In its role of risk oversight, the Board has the responsibility to satisfy itself that the risk management processes and procedures designed and implemented by management are appropriate and functioning as designed.

While the full Board is charged with ultimate oversight responsibility for risk management, various committees of the Board and members of management also have specific responsibilities with respect to our risk oversight. Each Board committee has been assigned oversight responsibility for specific areas of risk and risk management, and each committee considers risks within its areas of responsibility. Each of these committees receives regular reports from management regarding our risks and reports regularly to the Board concerning risk.

We believe that providing for full and open communication between management and the Board is essential for effective risk management and oversight. Certain senior management personnel, consistent with their specific areas of responsibility, attend Board meetings and/or Board committee meetings on a regular and consistent basis. We have regular and ongoing reporting and communication mechanisms in place to ensure that oversight is effective.

Meetings and Committees of the Board of Directors

The business of the Company is conducted at regular and special meetings of the full Board of Directors and its standing committees. The standing committees consist of the Executive, Audit, Compensation, Investment, Nominating and Special. During the twelve months ended December 31, 2015, the Board held twelve regular meetings and one Strategic Planning Meeting. No director attended less than 75% of those meetings and the meetings held by all committees of the Board of Directors on which he served.

Although the Company does not have a formal policy regarding director attendance at the Company's annual stockholders' meeting, all directors are expected to attend these annual meetings absent extenuating circumstances. All current directors, except Mr. Griesemer, attended the Company's annual meeting of stockholders held on May 27, 2015.

Stockholder Communications with Directors

Stockholders and other interested persons who wish to communicate with the Board of Directors of the Company, or any individual director, should send their written correspondence by mail to: Vicki Lindsay, Secretary, Guaranty Federal Bancshares, Inc., 1341 West Battlefield, Springfield, Missouri 65807.

Audit Committee

The Company has a separately designated Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee of the Board currently consists of five directors: Messrs. Batten, Hellweg, Rosenbury, Moore and Sivils, each of whom is an “independent director” as defined under the NASDAQ listing standards and the criteria for independence set forth in Rule 10A-3 of the Securities Exchange Act of 1934. The Board has determined that Mr. Batten qualifies as an Audit Committee Financial Expert, as defined in the rules and regulations of the SEC. This standing committee, among other things, (i) regularly meets with the internal auditor to review audit programs and the results of audits of specific areas as well as other regulatory compliance issues, (ii) meets at least annually in executive session with the Company’s independent auditors to review the results of the annual audit and other related matters, and (iii) meets quarterly with management and the independent auditors to review the Company’s financial statements and significant findings based on the independent auditor’s review. The Audit Committee is responsible for hiring, retaining, compensating and terminating the Company’s independent auditors. The Audit Committee operates under a written charter adopted by the Company’s Board of Directors. A copy of the Audit Committee Charter was included as Appendix B to the Proxy Statement prepared in connection with the annual meeting of stockholders held on May 27, 2015.

During the twelve months ended December 31, 2015, the Audit Committee met six times.

Nominating Committee

The Nominating Committee of the Board is composed of four or more directors as appointed by the Board, each of whom are required to be an “independent director” as defined under the NASDAQ listing standards. Currently, the Nominating Committee consists of four directors, Messrs. Rosenbury, Sivils, Moore and Gibson, each of whom is an “independent director.” During the twelve months ended December 31, 2015, the Nominating Committee met two times. The Nominating Committee operates under a formal written charter adopted by the Board of Directors. A copy of the Nominating Committee Charter was included as Appendix A to the Proxy Statement prepared in connection with the annual meeting of stockholders held on May 28, 2014.

The Nominating Committee is responsible for identifying individuals qualified to serve as members of the Board and recommending to the Board the director nominees for election and appointment to the Board, as well as director nominees for each of the committees of the Board. In accordance with its charter, the Nominating Committee recommends candidates (including incumbent nominees) based on the following criteria: business experience, education, integrity and reputation, independence, conflicts of interest, diversity, age, number of other directorships and commitments (including charitable obligations), tenure on the Board, attendance at Board and committee meetings, stock ownership, specialized knowledge (such as an understanding of banking, accounting, marketing, finance, regulation and public policy) and a commitment to the Company’s communities and shared values, as well as overall experience in the context of the needs of the Board as a whole. The Committee monitors the mix of skills and experience of its directors and committee members in order to assess whether the Board has the appropriate tools to perform its oversight function effectively. The Committee does not have a separate diversity policy, but the Nominating Committee does consider the diversity of its directors and nominees in terms of knowledge, experience, skills, expertise, and other demographics which may contribute to the Board.

With respect to nominating existing directors, the Nominating Committee reviews relevant information available to it and assesses their continued ability and willingness to serve as a director. The Nominating Committee will also assess such person’s contribution in light of the mix of skills and experience the Nominating Committee has deemed appropriate for the Board as a whole. With respect to nominations of new directors, the Nominating Committee will conduct a thorough search to identify candidates based upon criteria the Nominating Committee deems appropriate and considering the mix of skills and experience necessary to complement existing members of the Board. The Nominating Committee will then review selected candidates and make its recommendation to the Board.

Nominations by a stockholder will be considered by the Nominating Committee if such nomination is written and delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Company between 30 and 60 days prior to the meeting at which such nominee may be considered. However, if less than 31 days’ notice of the meeting is given by the Company to stockholders, written notice of the stockholder nomination must be given to the Secretary of the Company as provided above no later than the tenth day after notice of the meeting was mailed to stockholders. A nomination must set forth, with respect to the nominee, (i) name, age, and addresses, (ii) principal occupation or employment, (iii) Common Stock beneficially owned, and (iv) other information that would be required in a proxy statement. The stockholder giving notice must list his or her name and address, as they appear on the

Company's books, and the amount of Common Stock beneficially owned by him or her. In addition, the stockholder making such nomination must promptly provide to the Company any other information reasonably requested by the Company. Nominations from stockholders will be considered and evaluated using the same criteria as all other nominations.

Compensation Committee

The Board of Directors of the Company and the Board of Directors of the Bank are comprised of the same persons. The Compensation Committee of the Bank's Board of Directors, which consists solely of non-employee directors of the Bank, is comprised of Messrs. Hellweg, Batten, Moore and Griesemer. As indicated above, each of these committee members is an "independent director" as defined under the NASDAQ listing standards. The Company has no employees and relies on employees of the Bank for the limited services received by the Company. All compensation paid to executive officers of the Company is paid by the Bank.

The Compensation Committee, together with the full Board, is responsible for designing the compensation and benefit plans for all employees, executive officers and directors of the Company and the Bank, including the Chief Executive Officer, based on its review of performance measures, industry salary surveys and the recommendations of management concerning compensation (See "Report on Executive Compensation"). The Compensation Committee recommends adjustments to the compensation of the Chief Executive Officer and the other Named Executive Officers of the Company based upon its assessment of individual performance and the Bank's performance, and makes other recommendations, when appropriate, to the full Board of Directors. Independent consultants may be engaged directly by the Compensation Committee to evaluate the Company's executive compensation. The Compensation Committee, together with the full Board, determines the compensation of all other officers. The Compensation Committee may delegate its authority to a subcommittee of the Compensation Committee.

During the twelve months ended December 31, 2015, the Compensation Committee met three times. The Compensation Committee operates under a formal written charter adopted by the Company's Board of Directors. A copy of the Compensation Committee Charter was included as Appendix B to the Proxy Statement prepared in connection with the annual meeting of stockholders held on May 28, 2014.

REPORT OF THE COMPENSATION COMMITTEE

Compensation Committee Interlocks and Insider Participation

Since August 2002, the Compensation Committee of the Board has consisted of non-employee directors of the Bank. Prior to March 2005, Mr. Gibson served as the President and Chief Executive Officer of the Company and the Bank, but during 2015 he was not a member of the Compensation Committee. In addition, Mr. Burke, the current President and Chief Executive Officer of the Company and the Bank, did not serve as a member of the Compensation Committee during 2015. No executive officer of the Company served on the Compensation Committee or Board of Directors of any company that employed any member of the Company's Compensation Committee or Board of Directors.

COMPENSATION DISCUSSION AND ANALYSIS

Overall Compensation Philosophy and Objectives

The Compensation Committee, together with the full Board, has designed the compensation and benefit plans for all employees, executive officers and directors in order to attract and retain individuals who have the skills, experience and work ethic to provide a coordinated work force that will effectively and efficiently carry out the policies adopted by the Board and to manage the Company and the Bank to meet the Company's mission, goals and objectives.

To determine the compensation of executive officers and directors, the Compensation Committee reviews industry compensation statistics based on our asset size, makes cost of living adjustments, and establishes salary ranges for each executive officer and fees for the Board. The Compensation Committee then reviews (i) the financial performance of the Bank over the most recently completed fiscal year (including Return on Assets, Return on Equity, asset quality, etc.) compared to results at comparable companies within the industry, and (ii) the responsibilities and performance of each executive officer and the salary compensation levels of each executive officer compared to like positions at comparable companies within the industry. The Compensation Committee evaluates all factors subjectively in the sense that they do not attempt to tie any factors to a specific level of compensation.

The Compensation Committee offers long-term incentives for executive officers and other management personnel primarily in the form of stock option and restricted stock awards. We believe that our stock award programs are an important component of compensation to attract and retain talented executives, provide an incentive for long-term corporate performance, and to align the long-term interests of executives and stockholders.

All executive officers may participate on an equal, non-discriminatory basis in the Bank's contributory 401(k) tax-deferred savings plan, medical insurance plan, long-term disability plan and group life insurance plan. The Compensation Committee of the Bank recommends all compensation and benefit plans to the full Board for approval annually.

Executive Compensation Philosophy and Objectives

The Compensation Committee is guided by the following four key principles in determining the compensation of the Company's executive officers:

Competition. The Committee believes that compensation should reflect the competitive marketplace, so the Company can attract, retain and motivate talented personnel.

Accountability for Business Performance. Compensation should be tied in part to the Company's financial performance, so that executives are held accountable through their compensation for the performance of the Company.

Accountability for Individual Performance. Compensation should be tied in part to the individual's performance to reflect individual contributions to the Company's performance.

Alignment with Stockholder Interests. Compensation should be tied in part to the Company's stock performance through long-term incentives such as restricted stock, to align the executive's interests with those of the Company's stockholders.

Report of Executive Compensation

The compensation of the Chief Executive Officer (the "CEO") and other Named Executive Officers (or "NEOs") is recommended by the Compensation Committee with final approval from the full Board. The CEO is not a member of the Compensation Committee and does not attend any Compensation Committee meetings unless specifically requested to do so by the Chairman of the Compensation Committee. The CEO may act as a key discussion partner with the Compensation Committee members to provide information regarding business context, the market environment and our strategic direction. The CEO also provides recommendations to the Compensation Committee on individual performance evaluations and compensation for the NEOs, other than himself. The Compensation Committee strives to provide total compensation that is aligned and competitive with compensation data compiled in 2014 by its compensation consultant, ChaseCompGroup, LLC, based on a peer group of selected publicly-traded

companies within the banking industry, a similar geographic location and with comparable financial performance. The peer group provides a reference point when making pay decisions and benchmarking short-term and long-term incentive plan awards and mechanics. The compensation packages reflect a range based on this analysis, augmented by the performance of the individual executive officer and the Company. Grants under the various equity plans described below provide long-term incentive to stay with the Company, but should not replace, or override, maintenance of the compensation range established from the peer group.

The Compensation Committee has reviewed all components of the CEO's and the other NEOs compensation, including salary, bonus, accumulated and realized and unrealized stock options and restricted stock awards. Based on this review, the Committee finds the CEO's and other NEOs total compensation in the aggregate to be reasonable and not excessive. It should be noted that when the Compensation Committee considers any component of the CEO's and NEOs total compensation, the aggregate amounts and mix of all the components, including accumulated and realized and unrealized stock options and restricted stock awards, are taken into consideration in the Committee's decisions.

The Compensation Committee did not utilize the services of an independent compensation consultant during 2015.

COMPENSATION COMMITTEE REPORT

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis included in this Statement with management. Based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Statement for filing with the SEC.

In view of the current economic and financial environment, the Compensation Committee of the Board of Directors has reviewed the design and operation of the Company's incentive compensation arrangements, including the performance objectives and target levels used in connection with incentive awards and evaluated the relationship between the Company's risk management policies and practices and these arrangements. The Compensation Committee's review was designed to assess whether any aspect of the compensation program would encourage any of the Company's executives to take any unnecessary or inappropriate risks that could threaten the value of the Company or the Bank.

The Committee members identified the risks that the Company faces that could threaten its value. These risks include, but are not limited to, the following:

- Credit risk
- Liquidity risk
- Interest rate risk
- Market risk
- Operation/transactional risk
- Information and technology risk
- Fiduciary/litigation risk
- Compliance risk
- Environmental risk
- Reputation risk
- Financial risk
- Fraud risk

The Compensation Committee also reviewed and discussed materials on compensation risk assessment, including information on executive compensation design and administrative features that could induce excessive risk taking. In this regard, the performance objectives contained in our annual incentive compensation plan have been balanced with those contained in our long-term incentive compensation plan to ensure that both are aligned and consistent with our long-term business plan, our mix of equity-based awards has been allocated to ensure an appropriate combination of incentive and retention objectives, and our stock ownership guidelines have been established to ensure that the interests of our Senior Executive Officers have been aligned with the interests of our stockholders.

**THE COMPENSATION
COMMITTEE**

**James R. Batten Kurt D. Hellweg
John F. Griesemer David T. Moore**

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Summary Compensation Table

The following table sets forth information with respect to the compensation awarded to, paid to or earned for the periods indicated by the CEO, the Chief Financial Officer (“CFO”), the Chief Lending Officer (“CLO”), the Chief Credit Officer (“CCO”) and the Chief Operating Officer (“COO”). These executive officers are collectively referred to as the NEOs. During the fiscal year ended December 31, 2015, no other person served as the CEO or CFO of the Company, and no other executive officer received annual compensation that exceeded \$100,000.

Name and Principal Position	Year	Salary (1)	Bonus (2)	Stock Awards (3)	Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation	All Other Compensation	Total Compensation
Shaun A. Burke President/CEO	2015	\$ 300,600	\$ 47,846	\$ 63,601	\$ -	\$ -	\$ -	\$ 14,620	(4) \$ 426,667
	2014	300,600	31,796	60,422	-	-	-	19,152	(4) 411,970
	2013	300,600	-	-	-	-	-	14,536	(4) 315,136
Carter Peters EVP/CFO	2015	180,000	36,000	35,987	-	-	-	12,840	(5) 264,827
	2014	180,000	17,990	21,006	-	-	-	12,266	(5) 231,262
	2013	180,000	10,503	-	-	-	-	11,714	(5) 202,217
H.Michael Mattson EVP/CLO	2015	168,333	17,125	20,474	-	-	-	11,449	(6) 217,381
	2014	164,625	10,235	26,937	-	-	-	11,316	(6) 213,113
	2013	159,958	13,469	-	-	-	-	11,631	(6) 185,058
Sheri Biser EVP/CCO	2015	165,833	17,179	20,396	-	-	-	7,041	(7) 210,449
	2014	149,638	10,196	24,496	-	-	-	5,986	(7) 190,316
	2013	145,263	12,248	-	-	-	-	5,811	(7) 163,322
Robin Robeson EVP/COO	2015	187,833	38,000	47,167	-	-	-	7,513	(8) 280,513
	2014	176,583	23,580	32,116	-	-	-	7,063	(8) 239,342
	2013	171,833	16,058	-	-	-	-	6,873	(8) 194,764

(1) No director fees were paid to Mr. Burke for any of the years presented.

(2) Cash bonuses were awarded to NEOs in accordance with established Executive Incentive Compensation Annual Plans.

(3) This column represents compensation related to restricted stock awards granted in 2015 and 2014.

Amounts represent the aggregate grant date fair value computed in accordance with Accounting Standards Codification Topic 718 (“ASC Topic 718”) of time-vested restricted stock granted. No assumptions were necessary to determine the fair value. The number of shares and grant price of restricted stock awarded to each of the executives was as follows: Mr. Burke: 2015 – 4,300 shares at a per share grant price of \$14.79; 2014 - 5,543 shares at a per share grant price of \$10.90; Mr. Peters: 2015 – 2,433 shares at a per share grant price of \$14.79; 2014 – 1,927 shares at a per share grant price of \$10.90; Mr. Mattson: 2015 – 1,384 shares at a per share grant price of \$14.79; 2014 - 2,471 shares at a per share grant price of \$10.90; Ms. Biser: 2015 – 1,379 shares at a per share grant price of \$14.79; 2014 – 2,247 shares at a per share grant price of \$10.90, respectively; and Ms. Robeson: 2015 – 3,189 shares at a per share grant price of \$14.79; 2014 – 2,946 shares at a per share grant price of \$10.90. The restricted stock grants cliff vest three years after the grant date.

Amount includes payments of \$9,314, \$9,148 and \$8,948 in 2015, 2014 and 2013, respectively, to Mr. Burke for (4) the Company's 401(k) matching contribution and payments of \$5,306, \$10,004 and \$5,588, respectively, for country club dues.

Amount includes payments of \$7,920, \$7,620 and \$7,200 in 2015, 2014 and 2013, respectively, to Mr. Peters for (5) the Company's 401(k) matching contribution and payments of \$4,920, \$4,646 and \$4,514, respectively, for country club dues.

Amount includes payments of \$6,733, \$6,585 and \$6,398 in 2015, 2014 and 2013, respectively, to Mr. Mattson (6) for the Company's 401(k) matching contribution and payments of \$4,716, \$4,731 and \$5,233, respectively, for country club dues.

(7) Amount includes payments of \$7,041, \$5,986 and \$5,811 in 2015, 2014 and 2013, respectively, to Ms. Biser for the Company's 401(k) matching contribution.

(8) Amount includes payments to Ms. Robeson of \$7,513, \$7,063 and \$6,873 in 2015, 2014 and 2013, respectively, for the Company's 401(k) matching contribution.

Employment Agreements, Potential Payments Upon Termination or Change-in-Control

On March 24, 2014, the Company entered into Employment Agreements with the NEOs. Each employment agreement has a term of one year, unless further extended or earlier terminated pursuant to its terms, and sets forth a minimum base salary payable to the officer and provides that the officer is eligible to participate in the Company's bonus, incentive, retirement, health and other insurance benefit plans made available to executive-level employees.

Each employment agreement obligates the Company to pay the officer severance in the event the officer's employment is terminated by the Company without cause. In the event of the officer's involuntary termination without cause prior to a change in control of the Company (as defined in the employment agreement), each officer other than Mr. Burke would receive 6 months base pay. Mr. Burke would receive 12 months base pay. Such severance would be made in periodic installments and is conditioned upon the officer executing a release and waiver of claims in favor of the Company.

In the event of involuntary termination without cause within 12 months after a change in control of the Company, each officer other than Mr. Burke would receive 12 months base pay. Mr. Burke would receive 24 months base pay. Such severance would be made in a single lump sum and is conditioned upon the officer executing a release and waiver of claims in favor of the Company.

As a condition of entering into the employment agreement, each officer has agreed not to divulge any confidential information during his or her employment or to solicit the Company's employees or customers for a period of 12 months (24 months in the case of Mr. Burke) following the officer's termination of employment.

On March 2, 2015, the Company entered into incentive compensation arrangements with respect to bonuses payable in 2015 for the NEOs, which are further discussed below.

The Compensation Committee approved an incentive compensation plan for Mr. Burke, the Company's CEO, for 2015. Pursuant to this plan, a maximum amount of 50% of base pay may be paid to Mr. Burke, with the amount of bonus being based on three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). Fifty percent of the bonus amount will be paid in cash and fifty percent will be paid in the form of restricted stock grants subject to a three year vesting period. For any amount to be paid, the threshold level of performance must be achieved. The four performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) revenue growth (20%); (ii) net interest margin (20%); (iii) pre-tax net income (40%); and (iv) non-performing assets to average total assets (20%). Certain criteria, however, must be satisfied before an award is paid under this plan.

The Compensation Committee approved an incentive compensation arrangement with respect to Mr. Peters, the Company's Chief Financial Officer, for 2015. Pursuant to this plan, a maximum amount of 40% of base pay may be paid to Mr. Peters, with the amount of bonus being based on three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). Fifty percent of the bonus amount will be paid in cash and fifty percent will be paid in the form of restricted stock grants subject to a three year vesting period. For any amount to be paid under this plan, the threshold level of performance must be achieved. The four performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) revenue growth (30%); (ii) net interest margin (20%); (iii) efficiency ratio (20%); and (iv) pre-tax net income (30%). Certain criteria, however, must be satisfied before an award is paid under this plan.

The Compensation Committee approved an incentive compensation arrangement with respect to Ms. Robeson, the Company's Chief Operating Officer, for 2015. Pursuant to this plan, a maximum amount of 40% of base pay may be paid to Ms. Robeson, with the amount of bonus being based on three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). Fifty percent of the bonus amount will be paid in cash and fifty percent will be paid in the form of restricted stock grants subject to a three year vesting period. For any amount to be paid under this plan, the threshold level of performance must be achieved. The four performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) revenue growth (30%); (ii) net interest margin (20%); (iii) efficiency ratio (20%); and (iv) pre-tax net income (30%). Certain criteria, however, must be satisfied before an award is paid under this plan.

The Compensation Committee approved an incentive compensation arrangement with respect to Mr. Mattson, the Company's Chief Lending Officer, for 2015. Pursuant to this plan, a maximum amount of 40% of base pay may be paid to Mr. Mattson, with the amount of bonus being based on three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). Fifty percent of the bonus amount will be paid in cash and fifty percent will be paid in the form of restricted stock grants subject to a three year vesting period. For any amount to be paid under this plan, the threshold level of performance must be achieved. The four performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) revenue growth (20%); (ii) net interest margin (20%); (iii) pre-tax net income (30%), and (iv) non-performing assets to average total assets (30%). Certain criteria, however, must be satisfied before an award is paid under this plan.

The Compensation Committee approved an incentive compensation arrangement with respect to Ms. Biser, the Company's Chief Credit Officer, for 2015. Pursuant to this plan, a maximum amount of 40% of base pay may be paid to Ms. Biser, with the amount of bonus being based on three possible levels of incentive awards: threshold (25%); target (50%); and maximum (100%). Fifty percent of the bonus amount will be paid in cash and fifty percent will be paid in the form of restricted stock grants subject to a three year vesting period. For any amount to be paid under this plan, the threshold level of performance must be achieved. The four performance measurements of the Company (and the weight given to each measurement) applicable to each award level are as follows: (i) revenue growth (20%); (ii) net interest margin (20%); (iii) pre-tax net income (30%); and (iv) non-performing assets to average total assets (30%). Certain criteria, however, must be satisfied before an award is paid under this plan.

Outstanding Equity Awards at Fiscal Year End 2015

The following table summarizes the option and stock awards the Company has made to the NEOs which were outstanding as of December 31, 2015.

Name and	OPTION AWARDS		STOCK AWARDS	
	Option	Option	Option	Option

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Principal Position	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Exercise Price	Expiration Date	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (\$)(7)
Shaun A. Burke President/CEO(1)	10,000 10,000	- -	- -	\$ 28.43 28.78	1/3/2018 1/2/2018	17843	\$ 150,106
Carter Peters EVP/CFO	5,000 5,000	- -	- -	28.78	1/2/2018	13360	\$ 66,490

By:
Authorized Representative

**NATIONAL UNION FIRE INSURANCE COMPANY
OF PITTSBURGH, PA**

Rider No. 13

To be attached to and form part of Investment Company Blanket Bond No. 5618242 in favor of Source Capital, Inc.

1. In consideration of the premium paid, it is hereby understood and agreed that Item 5 of the Declaration Page is changed by deleting the following:

Rider 10 Computer Crime Coverage Rider

And replaces it with:

Rider 14 Computer Crime Coverage Rider

2. Nothing herein shall be held to vary, alter, waive or extend any of the terms, limitations, conditions or provisions of the attached bond other than as above stated.

3. This rider shall become effective as of 12:01 a.m. on 08/23/10 standard time as specified in the attached bond.

By:
Authorized Representative

This endorsement, effective at 12:01 AM 08/23/10 forms a part of

Policy number 5618242

Issued to: Source Capital, Inc.

By: National Union Fire Insurance Company of Pittsburgh, PA.

**Rider 14
COMPUTER CRIME COVERAGE RIDER**

In consideration of the premium charged, it is hereby understood and agreed that bond is hereby amended as follows:

1. All the terms and conditions of bond form 41206 (9/84) shall apply to coverage as is afforded by this endorsement unless specifically stated otherwise herein or in any endorsement attached hereto.

2. Items 3 of the Declarations is hereby amended by adding the following under Optional Insuring Agreements and Coverages:

	Single Loss Limit of Liability	Single Loss Deductible
Computer Systems Fraud	\$ 8,100,000	\$ 50,000
Data Processing Service Operations	\$ 8,100,000	\$ 50,000
Voice Initiated Transfer Fraud	\$ 8,100,000	\$ 50,000
Telefacsimile Transfer Fraud	\$ 8,100,000	\$ 50,000
Destruction of Data or Programs by Hacker	\$ 8,100,000	\$ 50,000
Destruction of Data or Programs by Virus	\$ 8,100,000	\$ 50,000
Voice Computer Systems Fraud	\$ 8,100,000	\$ 50,000

3. The Declarations page is hereby amended by adding the following paragraph to the end thereof:

Item 7

Voice Initiated Transfer Fraud

Under the terms of the Voice Initiated Transfer Fraud Insuring Agreement, the Insured must place verification call-back for each transfer in excess of **\$50,000**.

Telefacsimile Transfer Fraud

Under the terms of the Telefacsimile Transfer Fraud Insuring Agreement, the Insured must place a Verification call-back for each transfer in excess of **\$50,000**.

4. The Insuring Agreements are hereby amended by adding the following Insuring Agreements to the Bond:

COMPUTER SYSTEMS FRAUD

(G) Loss resulting directly from a fraudulent:

(1) entry of Electronic Data or Computer Program into, or

(2) change of Electronic Data or Computer Program within

any Computer System operated by the Insured, whether owned or leased; or any Computer System identified in the application for this bond; or a Computer System first used by the Insured during the bond period; as provided by General Agreement B; provided the entry or change causes:

(i) Property to be transferred, paid or delivered,

(ii) an account of the Insured, or of its customer, to be added, deleted, debited or credited, or

(iii) an unauthorized account or a fictitious account to be debited or credited.

In this Insuring Agreement, fraudulent entry or change shall include such entry or change made by an Employee of the Insured acting in good faith:

(a) on an instruction from a software contractor who has a written agreement with the Insured to design, implement or service programs for a Computer System covered by this Insuring Agreement, or

(b) on an instruction transmitted by Tested telex or similar means of Tested communication identified in the application for this bond purportedly sent by a customer, financial institution or automated clearing house.

DATA PROCESSING SERVICE OPERATIONS

(H) Loss sustained by a Client of the Insured resulting directly from a fraudulent:

(1) entry of Electronic Data or a Computer Program into, or

(2) change of Electronic Data or a Computer Program within

a Computer System covered under the terms of the **COMPUTER SYSTEMS FRAUD** Insuring Agreement, or

(3) entry or change of Electronic Data during electronic transmission or physical transit from the Insured to its Client, provided that the entry or change causes:

- (i) Property to be transferred, paid or delivered,
- (ii) an account of the Client, or a customer of the Client, to be added, deleted, debited or credited, or

(iii) an unauthorized account or a fictitious account to be debited or credited,

and for which loss the Insured is legally liable to the Client as a provider of data processing services for such Client.

In this Insuring Agreement, fraudulent entry or change shall include such entry or change made by an Employee of the Insured acting in good faith:

(a) on an instruction from a software contractor who has a written agreement with the Insured to design, implement or service programs for a Computer System covered by this Insuring Agreement, or

(b) on an instruction transmitted by Tested telex or similar means of Tested communication identified in the application for this bond purportedly sent by a customer, financial institution or automated clearing house.

In this Insuring Agreement, Client means an entity for which the Insured serves as data processor under the terms of a written agreement.

VOICE INITIATED TRANSFER FRAUD

(I) Loss resulting directly from the Insured having, in good faith, transferred Funds from a Customer's account through a Computer System covered under the terms of the **COMPUTER SYSTEMS FRAUD** Insuring Agreement in reliance upon a fraudulent voice instruction transmitted by telephone which was purported to be from:

(1) an officer, director, partner or employee of a Customer of the Insured who was authorized by the Customer to instruct the Insured to make such transfer,

(2) an individual person who is a Customer of the Insured, or

(3) an Employee of the Insured in another office of the Insured who was authorized by the Insured to instruct other Employees of the Insured to transfer Funds,

and was received by an Employee of the Insured specifically designated to receive and act upon such instructions, but the voice instruction was not from a person described in (1), (2) or (3) above, provided that:

(i) such voice instruction was electronically recorded by the Insured and required password(s) or code word(s) given; and

(ii) if the transfer was in excess of the amount shown on the Declarations Page as the verification call-back amount for this Insuring Agreement, the voice instruction was verified by a call-back according to a prearranged procedure.

As used in this Insuring Agreement, Customer means an entity or individual which has a written agreement with the Insured authorizing the Insured to rely on voice instructions to initiate transfers and has provided the Insured with the names of

persons authorized to initiate such transfers, and with which the Insured has established an instruction verification mechanism.

TELEFACSIMILE TRANSFER FRAUD

(J) Loss resulting directly from the Insured having, in good faith, transferred or delivered Funds, Certificated Securities or Uncertificated Securities through a Computer System covered under the terms of the **COMPUTER SYSTEMS FRAUD** Insuring Agreement in reliance upon a fraudulent instruction received through a Telefacsimile Device, and which instruction:

- (1) purports and reasonably appears to have originated from:
 - (a) a Customer of the Insured,
 - (b) another financial institution, or
 - (c) another office of the Insured

but, in fact, was not originated by the Customer or entity whose identification it bears, and

- (2) contains a valid test code which proves to have been used by a person who was not authorized to make use of it, and
- (3) contains the name of a person authorized to initiate such transfer;

provided that, if the transfer was in excess of the amount shown on the Declarations as the verification call-back amount for this Insuring Agreement, the instructions was verified by a call-back according to a prearranged procedure.

As used in this Insuring Agreement, Customer means an entity or individual which has a written agreement with the Insured authorizing the Insured to rely on Telefacsimile Device instructions to initiate transfers and has provided the Insured with the names of persons authorized to initiate such transfers, and with which the Insured has established an instruction verification mechanism.

DESTRUCTION OF DATA OR PROGRAMS BY HACKER

(K) Loss resulting directly from the malicious destruction of, or damage to, Electronic Data or Computer Programs owned by the Insured or for which the Insured is legally liable while stored within a Computer System covered under the terms of the **COMPUTER SYSTEMS FRAUD** Insuring Agreement.

The liability of the Company shall be limited to the cost of duplication of such Electronic Data or Computer Programs from other Electronic Data or Computer Programs which shall have been furnished by the Insured.

In the event, however, that destroyed or damaged Computer Programs cannot be duplicated from other Computer Programs, the Company will pay the cost incurred for computer time, computer programmers, consultants or other technical specialists as is reasonable necessary to restore the Computer Programs to substantially the previous level of operational capability.

DESTRUCTION OF DATA OR PROGRAMS BY VIRUS

(L) Loss resulting directly from the malicious destruction of, or damage to, Electronic Data or Computer Programs owned by the Insured or for which the Insured is legally liable while stored within a Computer System covered under the terms of the **COMPUTER SYSTEMS FRAUD** Insuring Agreement if such destruction or damage was caused by a computer program or similar instruction which was written or altered to incorporate a hidden instruction designed to destroy or damage Electronic Data or Computer Programs in the Computer System in which the computer program or instruction so written or so altered is used.

The liability of the Company shall be limited to the cost of duplication of such Electronic Data or Computer Programs from other Electronic Data or Computer Programs which shall have been furnished by the Insured.

In the event, however, that destroyed or damaged Computer Programs cannot be duplicated from other Computer Programs, the Company will pay the cost incurred for computer time, computer programmers, consultants or other technical specialists as is reasonable necessary to restore the Computer Programs to substantially the previous level of operational capability.

Special Condition: Under this Insuring Agreement, **Single Loss** means all covered costs incurred by the Insured between the time destruction or damage is discovered and the time the Computer System is restored to substantially the previous level of operational capability. Recurrence of destruction or damage after the Computer System is restored shall constitute a separate **Single Loss**.

VOICE COMPUTER SYSTEM FRAUD

(M) Loss resulting directly from charges for voice telephone long-distance toll calls which were incurred due to the fraudulent use or fraudulent manipulation of an Account Code or System Password required to obtain access to a Voice Computer System owned or leased by the Insured, installed on the Insured's premises, whose System Administration is performed and controlled by the Insured; provided, however, that the unauthorized access was not made possible by

(1) failure to incorporate a System Password feature or failure to change the System Password at least once every 30 days thereafter, or

(2) failure to have a call-disconnect feature in operation to automatically terminate a caller's access to the Voice Computer System after not more than three unsuccessful attempts to input an Account Code.

Special Condition: Under this Insuring Agreement, Single Loss means loss resulting from toll call charges made only on telephone lines directly controlled by one Voice Computer System and only toll call charges occurring for a period of not more than 30 days inclusive of the date on which the first such toll call charge was made.

5. GENERAL AGREEMENTS B. ADDITIONAL OFFICES OR EMPLOYEES-CONSOLIDATION, MERGER OR PURCHASE OF ASSETS-NOTICE is hereby deleted in its entirety and is replaced with the following:

ADDITIONAL OFFICES OR EMPLOYEES OR COMPUTER SYSTEMS - CONSOLIDATION, MERGER OR PURCHASE OF ASSETS OR COMPUTER SYSTEMS

B. If the Insured shall, while this bond is in force, establish any additional offices, other than by consolidation or merger with, or purchase or acquisition of assets or liabilities or computer systems of, another institution, such offices and computer systems shall be automatically covered hereunder from the date of such establishment without the requirement of notice to the Underwriter or the payment of additional premium for the remainder of the premium period.

If the Insured shall, while this bond is in force, consolidate or merge with, or purchase or acquire assets or liabilities or computer systems of, another institution, the Insured shall not have such coverage as is afforded under this bond for loss which:

- (a) has occurred or will occur in offices or premises or computer systems, or
- (b) has been caused or will be caused by an employee or employees of such institution, or
- (c) has arisen or will arise out of the assets or liabilities or computer systems acquired by the Insured as a result of such consolidation, merger or purchase of assets or liabilities or computer systems unless the Insured shall:
 - (i) give the Underwriter written notice of the proposed consolidation, merger or purchase of assets or liabilities or computer systems prior to the proposed effective date of such action; and
 - (ii) obtain the written consent of the Underwriter to extend the coverage provided by this bond to such additional offices or premises or computer systems, Employees and other exposures; and
 - (iii) upon obtaining such consent, pay to the Underwriter an additional premium.

6. Solely for the coverage provided by this rider, Section 1. DEFINITIONS (o) Property of the CONDITIONS AND LIMITATIONS section is hereby amended to include Electronic Data and Computer Programs.

7. Solely for the coverage provided by this rider, Section 1. DEFINITIONS of the CONDITIONS AND LIMITATIONS section is hereby amended by adding the following definitions to the end thereof:

(i) Account Code means a confidential and protected string of characters which identifies or authenticates a person and permits that person to gain access to a Voice Computer System for the purpose of making toll calls or utilizing voice mail box messaging capabilities or other similar functional features of the System;

(ii) Computer Program means a set of related electronic instructions which direct the operations and functions of a computer or devices connected to it which enable the computer or devices to receive, process, store or send Electronic Data;

(iii) Computer System means:

- (1) computers with related peripheral components, including storage components wherever located;
- (2) systems and applications software;
- (3) terminal devices; and
- (4) related communication networks, including the internet

by which Electronic Data are electronically collected, transmitted, processed, stored and retrieved;

(iv) Electronic Data means facts or information converted to a form usable in a Computer System by Computer Programs and which is stored on magnetic tapes or disks, or optical storage disks or other bulk media;

(v) Funds means Money on deposit in an account;

(vi) System Administration means the performance of security functions including but not limited to defining authorized persons to access a Voice Computer System and adding, changing and deleting Account Codes or passwords in connection therewith; and invoking or revoking a System option which directs telephone call routing or which adds, moves or drops telephone lines or which performs any other similar activity

allowed by a hardware or software-based System option that has been incorporated by a manufacturer or vendor into a System or any component thereof provided said System option is not intended for the sole use of such manufacturer or vendor;

(vii) System Maintenance means the performance of hardware and software installation, diagnostics and corrections and similar activities that are performed in the usual custom and practice by a manufacturer or vendor to establish

or maintain the basic operational functionality of a Voice Computer System or any component thereof;

(viii) System Password means a confidential and protected string of characters which identifies or authenticates a person and permits that person to gain access to a Voice Computer System or any portion thereof for the purpose of performing System Administration or System Maintenance activities;

(ix) Telefacsimile Device means a machine capable of sending or receiving a duplicate image of a document by means of electronic impulses transmitted through a telephone line and which reproduces the duplicate image on paper;

(x) Tested means a method of authenticating the contents of a communication by placing a valid test key on it which has been agreed upon by the Insured and a customer, automated clearing house, or another financial institution for the purpose of protecting the integrity of the communication in the ordinary course of business;

(xi) Uncertificated Security means a share, participation or other interest in property of, or an enterprise of, the issuer or an obligation of the issuer, which is:

- 1) not represented by an instrument and the transfer of which is registered upon books maintained for that purpose by or on behalf of the issuer;
- 2) of a type commonly dealt in securities, exchanges or markets; and
- 3) either one of a class or series or by its terms divisible into a class or series of shares, participations, interests or obligations;

(xii) Voice Computer System means a Computer System installed in one location which functions as a private branch exchange (PBX), voice mail processor, automated call attendant or provides a similar capability used for the direction or routing of telephone calls in a voice communications network.

8. Solely for the coverage provided by this rider, Section 2. EXCLUSIONS of the CONDITIONS AND LIMITATIONS section is hereby amended by adding the following definitions to the end thereof:

(i) any loss of the type or kind covered by any other Insuring Agreement provided in this financial institution bond, regardless of any deductible amount or limit of liability;

(ii) loss caused by a director or Employee of the Insured or by a person in collusion with any director or Employee of the Insured;
(Collusion shall include the willful withholding of knowledge from the Insured by any director or Employee that a fraudulent act by a person not an Employee has been or will be perpetrated against the Insured.);

(iii) loss resulting directly or indirectly from entry or change of Electronic Data or Computer Programs in a Computer System, unless covered under the **COMPUTER SYSTEMS FRAUD** or **DATA PROCESSING SERVICE OPERATIONS** Insuring Agreements;

(iv) loss resulting directly or indirectly from the Insured having transferred Funds in reliance on the validity of a voice instruction, unless covered under the **COMPUTER SYSTEMS FRAUD** or **VOICE INITIATED TRANSFER FRAUD** Insuring Agreements;

(v) loss resulting directly or indirectly by the Insured having transferred or delivered Funds, Certificated Securities or Uncertificated Securities in reliance on an instruction received through a Telefacsimile Device, unless covered under the **TELEFACSIMILE TRANSFER FRAUD** Insuring Agreement;

(vi) loss resulting directly or indirectly from theft of confidential information;

(vii) loss resulting directly or indirectly from the assumption of liability by the Insured by contract unless the liability arises from a loss covered by this rider and would be imposed on the Insured regardless of the existence of the contract;

(viii) the cost of duplication of Electronic Data or Computer Programs, unless covered under the **DESTRUCTION OF DATA OR PROGRAMS BY HACKER** or **DESTRUCTION OF DATA OR PROGRAMS BY VIRUS** Insuring Agreements;

(ix) loss involving a Voice Computer System, unless covered under the **VOICE COMPUTER SYSTEM FRAUD** Insuring Agreement;

(x) loss resulting directly or indirectly from:

(1) written instructions or advices, or

(2) telegraphic or cable instructions or advices;

unless the instructions or advices are Tested and the loss is covered under the **COMPUTER SYSTEMS FRAUD** or **DATA PROCESSING SERVICE OPERATIONS** Insuring Agreements;

(xi) loss resulting directly or indirectly from negotiable instruments, securities, documents or other written instruments which bear a forged signature, or are counterfeit, altered or otherwise fraudulent and which are used as source documentation in the preparation of Electronic

Data or manually keyed into a data terminal;

(xii) loss resulting directly or indirectly from the fraudulent preparation, or fraudulent modification of Computer Programs unless covered under the **COMPUTER SYSTEMS FRAUD** or **DATA PROCESSING SERVICE OPERATIONS** Insuring Agreements;

- (xiii) loss resulting directly or indirectly from:
 - a. mechanical failure, faulty construction, error in design, latent defect, fire, wear or tear, gradual deterioration, electrical disturbance or electrical surge which affects a Computer System; or
 - b. failure or breakdown of electronic data processing media; or
 - c. error or omission in programming or processing;

- (xiv) loss as a result of a threat to Computer System operations;

- (xv) loss resulting directly or indirectly from the use of a telephone credit, debit, charge, identification or similar card to gain access to the Insured's Voice Computer System;

- (xvi) loss resulting directly or indirectly from the input of Electronic Data into a Computer System terminal device either on the premises of a customer of the Insured or under the control of such customer by a person who had authorized access to the customer's authentication mechanism.

- (xvii) loss resulting directly or indirectly from payments made or withdrawals from a depositor's account involving items of deposit which are not finally paid for any reason;

- (xviii) loss of potential income, including but not limited to interest and dividends;

- (xix) loss of any type for which the Insured is legally liable, except compensatory damages, but not multiples thereof, arising directly from a loss covered under this policy;

- (xx) any fees, costs and expenses incurred by the Insured;

- (xxi) indirect or consequential loss of any nature;

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(xxii) loss involving automated mechanical devices which on behalf of the Insured, disburse money, accept deposits, cash checks, drafts or similar written instruments, or make credit card loans;

(xxiii) loss due to riot or civil commotion or loss due to military, naval or usurped power, war or insurrection;

(xxiv) loss resulting directly or indirectly from the effects of nuclear fission or fusion or radioactivity; provided, however, that this exclusion shall not apply to loss resulting from industrial uses of nuclear energy; and

(xxv) loss as a result of a threat

- 1) to do bodily harm to any person;
- 2) to do damage to the premises or property of the Insured; or
- 3) to Computer Systems operations;

9. Solely for the coverage provided by this rider, Section 5. NOTICE/PROOF - LEGAL PROCEEDINGS AGAINST UNDERWRITER of the CONDITIONS AND LIMITATIONS section is hereby amended by adding the following section to the end thereof:

(g) Proof of loss for claim under the Voice Initiated Transfer Fraud Insuring Agreement must include electronic recordings of such voice instructions and the verification call-back, if such call-back was required.

(h) Proof of loss for claim under the Telefacsimile Transfer Fraud Insuring Agreement must include a copy of the document reproduced by the Telefacsimile Device.

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

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AUTHORIZED REPRESENTATIVE

8/23/10 to 8/23/11 FIDELITY BOND

Total premium \$30,787.00

Fund Name	SEC Number	Gross Assets at 6/30/10	Minimum Bond Required
FPA Capital Fund, Inc.	811-1596	\$ 998,846,018	\$ 1,000,000
FPA Funds Trust s FPA Crescent Fund	811-8544	\$ 3,694,218,459	\$ 2,300,000
FPA New Income, Inc.	811-1735	\$ 4,229,377,743	\$ 2,500,000
FPA Paramount Fund, Inc.	811-0852	\$ 217,707,544	\$ 600,000
FPA Perennial Fund, Inc.	811-3896	\$ 223,856,333	\$ 600,000
Source Capital, Inc.	811-1731	\$ 466,884,008	\$ 750,000
Total			\$ 7,750,000

CERTIFICATE OF SECRETARY

SOURCE CAPITAL, INC.

The undersigned, Sherry Sasaki, hereby certifies (i) that she is the duly elected, qualified and acting Secretary of Source Capital, Inc. (Company), a Delaware corporation; (ii) that the attached resolutions represent a full, true and correct copy of resolutions duly adopted by the Board of Directors of said Company at a meeting held on November 8, 2010, at which a quorum was present at all times; (iii) that passage of said resolutions was in all respects legal; and (iv) that said resolutions have not been modified or rescinded and are in full force and effect as of the date hereof.

IN WITNESS WHEREOF, I have hereunto signed my name this 2nd day of December, 2010, in Los Angeles, California.

/s/ SHERRY SASAKI

Sherry Sasaki, Secretary

RESOLVED, that the officers of this Company are hereby directed, authorized and empowered to provide and maintain for the Company a fidelity bond issued by National Union Fire Insurance Company in a minimum amount of \$8,100,000 in the form of the Investment Company Blanket Bond, it being understood that said bond protects the Company, FPA Capital Fund, Inc., FPA Funds Trust, FPA New Income, Inc., FPA Paramount Fund, Inc., and FPA Perennial Fund, Inc., against larceny and embezzlement by their respective officers and employees, or other officers and employees of their investment adviser or underwriter in the course of their duties in providing external management services to the Company;

RESOLVED FURTHER, that this Board of Directors hereby determines that the form of bond should protect the Company against larceny and embezzlement, covering each officer and employee of the Company, and each officer and employee of its investment adviser who may singly, or jointly with others, have access to the securities or the funds of the Company either directly or through authority to draw upon such funds or direct generally the disposition of such securities;

RESOLVED FURTHER, that a majority of the Directors of this Company, including all of the Directors who are not interested persons, as defined in the Investment Company Act of 1940 (Act), hereby determine, with due consideration to (a) the value of the aggregate assets of the Company to which any such officer or employee may have access, (b) the type and terms of the arrangements made for the custody and safekeeping of such assets, and (c) the nature of securities in the portfolio, that \$8,100,000 is a reasonable amount for such bond;

RESOLVED FURTHER, that in the event any loss exceeds the \$8,100,000 coverage and if recovery under the fidelity bond must be divided between the Company and another named insured, the Company shall receive a portion of the recovery at least equal to the amount which it would have received had it maintained its own single fidelity bond in the amount required by Rule 17g-1;

RESOLVED FURTHER, that the Secretary of the Company is hereby designated to make the filings and give the notices required by Paragraph (g) of Rule 17g-1 under the Act; and

RESOLVED FURTHER, that upon agreement with the above named insureds, 7.8% of the premium shall be paid by the Company.

FIDELITY BOND COVERAGE AGREEMENT

This Agreement is made as of the 9th day of November, 2010, by and between First Pacific Advisors, LLC, a registered investment adviser; FPA Fund Distributors, Inc., a registered broker-dealer; and FPA Capital Fund, Inc., FPA Funds Trust, FPA New Income, Inc., FPA Paramount Fund, Inc., FPA Perennial Fund, Inc., and Source Capital, Inc., all of which are registered management investment companies.

WHEREAS, each of the above named parties are named insureds under a joint insured fidelity bond in the form of the Investment Company Blanket Bond issued by National Union Fire Insurance Company, Bond No. 5618242 (Bond), which Bond is of the type required by Rule 17g-1 under the Investment Company Act of 1940;

WHEREAS, an agreement respecting the allocation of proceeds should a loss result under the Bond is required by paragraph (f) of Rule 17g-1; and

WHEREAS, the parties hereto desire to enter into an agreement respecting such proceeds;

NOW, THEREFORE, it is agreed as follows:

It is agreed by each of the parties hereto that in the event of a recovery under the Bond as a result of a loss sustained by more than one of the named insureds, the amount received by each shall be an equitable and proportionate share of the recovery, provided, however, that such share shall at least be equal to the amount which each named insured would have received had it provided and maintained a single insured fidelity bond of the type required by Rule 17g-1 with the minimum coverage required by paragraph (d)(1) of Rule 17g-1.

IN WITNESS WHEREOF, the parties hereto have set their hands.

FIRST PACIFIC ADVISORS, LLC

FPA NEW INCOME, INC.

By: /s/ J. RICHARD ATWOOD
J. Richard Atwood, Partner & COO

By: /s/ J. RICHARD ATWOOD
J. Richard Atwood, Treasurer

FPA FUND DISTRIBUTORS, INC.

FPA PARAMOUNT FUND, INC.

By: /s/ J. RICHARD ATWOOD
J. Richard Atwood, President & CEO

By: /s/ J. RICHARD ATWOOD
J. Richard Atwood, Treasurer

FPA CAPITAL FUND, INC.

FPA PERENNIAL FUND, INC.

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By: /s/ J. RICHARD ATWOOD
J. Richard Atwood, Treasurer

By: /s/ J. RICHARD ATWOOD
J. Richard Atwood, Treasurer

FPA FUNDS TRUST

SOURCE CAPITAL, INC.

By: /s/ J. RICHARD ATWOOD
J. Richard Atwood, Treasurer

By: /s/ J. RICHARD ATWOOD
J. Richard Atwood, Treasurer
