

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM 10-K/A
(Amendment No. 1)**

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____

Commission File No.: 0-28312

First Federal Bancshares of Arkansas, Inc.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction
of incorporation or organization)

71-0785261

(I.R.S. Employer
Identification Number)

1401 Highway 62-65 North
Harrison, Arkansas

(Address)

72601

(Zip Code)

Registrant's telephone number, including area code: **(870) 741-7641**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock (par value \$.01 per share)

(Title of Class)

The Nasdaq Stock Market LLC

(Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

As of June 30, 2009, the aggregate value of the 4,037,386 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 809,399 shares held by directors and officers of the Registrant as a group, was approximately \$15.9 million. This figure is based on the last sales price of \$3.93 per share of the Registrant's Common Stock on June 30, 2009.

Number of shares of Common Stock outstanding as of July 20, 2010: 4,846,785

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated.

Explanatory Note

We are filing this Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2009 (the "Amendment"), originally filed with the Securities and Exchange Commission (the "SEC") on April 15, 2010, to restate our impaired loan footnote disclosure included in Note 5 to the Consolidated Financial Statements. Subsequent to the issuance of the Company's 2009 consolidated financial statements included in its Annual Report on Form 10-K, management identified an error in the disclosure of impaired loans. Impaired loans of \$20.5 million and \$16.1 million were omitted from the previously presented disclosure as of December 31, 2009 and 2008, respectively. These amounts primarily represent impaired non-homogeneous loans less than \$500,000 and borrower relationships less than \$1.0 million. The disclosed amounts of impaired loans without a valuation allowance and impaired loans with a valuation allowance previously presented have been restated to include these impaired loans. The previously omitted loans did not impact the consolidated statements of financial condition, operations or cash flows for the years ended December 31, 2009 or 2008.

This Amendment is solely limited to correcting the error described above.

The following items have been amended as a result of the restatement:

Part II – Item 8 – Financial Statements and Supplementary Data

Pursuant to the rules of the SEC, Item 15 of Part IV has also been amended to contain the currently dated certifications from the Company's Principal Executive Officer and Principal Financial Officer as required by Section 302 and 906 of the Sarbanes Oxley Act of 2002. The certifications of the Company's Principal Executive Officer and Principal Financial Officer are attached to this Amendment as Exhibits 31.1, 31.2, 32.1 and 32.2.

First Federal Bancshares of Arkansas, Inc.
Form 10-K/A
For the Year Ended December 31, 2009

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Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
First Federal Bancshares of Arkansas, Inc.
Harrison, AR

We have audited the accompanying consolidated statements of financial condition of First Federal Bancshares of Arkansas, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of First Federal Bancshares of Arkansas, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's significant operating losses in 2009, significant levels of criticized assets, and decline in capital levels raise substantial doubt about its ability to continue as a going concern. The Company has entered into a written agreement with the Office of Thrift Supervision (OTS) which requires the Company to meet certain minimum capital requirements by December 31, 2010. The Company plans to file a capital plan with the OTS by the agreed upon deadline of June 30, 2010. Failure to meet the capital requirements included in the capital plan would expose the Company to regulatory sanctions that may include further restrictions on operations and growth, mandatory asset dispositions and liquidation. Management's plans concerning these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 15, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Little Rock, AR

April 15, 2010, July 23, 2010 as to the effects of the restatement discussed in Note 5

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2009 AND 2008
(In thousands, except share data)**

ASSETS	<u>2009</u>	<u>2008</u>
Cash and cash equivalents:		
Cash and collection items	\$ 9,735	\$ 9,359
Interest bearing deposits with banks	<u>12,414</u>	<u>8</u>
Total cash and cash equivalents	22,149	9,367
Investment securities—		
Held to maturity, at amortized cost (fair value at December 31, 2009 and 2008, of \$132,509 and \$136,055, respectively)	135,531	136,412
Federal Home Loan Bank stock—at cost	3,125	4,825
Loans receivable, net of allowance at December 31, 2009 and 2008, of \$32,908 and \$6,441, respectively	481,542	566,537
Loans held for sale	1,012	1,586
Accrued interest receivable	4,229	6,701
Real estate owned - net	35,155	22,385
Office properties and equipment - net	23,567	24,694
Cash surrender value of life insurance	21,226	20,412
Prepaid expenses and other assets	<u>3,534</u>	<u>2,253</u>
TOTAL	<u><u>\$ 731,070</u></u>	<u><u>\$ 795,172</u></u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Interest bearing	\$ 598,968	\$ 590,465
Noninterest bearing	<u>25,656</u>	<u>27,538</u>
Total deposits	624,624	618,003
Other borrowings	59,546	92,212
Advance payments by borrowers for taxes and insurance	695	810
Other liabilities	<u>2,905</u>	<u>11,030</u>
Total liabilities	<u><u>\$ 687,770</u></u>	<u><u>\$ 722,055</u></u>
 STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, 5,000,000 shares authorized; Series A fixed rate cumulative perpetual; liquidation preference of \$1,000 per share; 16,500 shares issued and outstanding at December 31, 2009 and none outstanding at December 31, 2008	\$ 16,195	--
Common stock, \$.01 par value—20,000,000 shares authorized; 10,307,502 shares issued; 4,846,785 shares outstanding at December 31, 2009 and 2008	103	103
Additional paid-in capital	56,986	56,627
Retained earnings—substantially restricted	<u>40,634</u>	<u>87,005</u>
	113,918	143,735
Treasury stock—at cost; 5,460,717 shares at December 31, 2009 and 2008	<u>(70,618)</u>	<u>(70,618)</u>
Total stockholders' equity	<u><u>43,300</u></u>	<u><u>73,117</u></u>
TOTAL	<u><u>\$ 731,070</u></u>	<u><u>\$ 795,172</u></u>

See notes to consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
(In thousands, except earnings per share)

	2009	2008	2007
INTEREST INCOME:			
Loans receivable	\$ 29,491	\$ 36,799	\$ 45,473
Investment securities:			
Taxable	5,542	5,966	3,350
Nontaxable	990	794	721
Other	20	388	882
Total interest income	<u>36,043</u>	<u>43,947</u>	<u>50,426</u>
INTEREST EXPENSE:			
Deposits	13,272	18,549	23,873
Other borrowings	1,983	3,553	4,311
Total interest expense	<u>15,255</u>	<u>22,102</u>	<u>28,184</u>
NET INTEREST INCOME	20,788	21,845	22,242
PROVISION FOR LOAN LOSSES	44,365	5,710	4,028
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	<u>(23,577)</u>	<u>16,135</u>	<u>18,214</u>
NONINTEREST INCOME:			
Deposit fee income	5,293	5,413	4,989
Earnings on life insurance policies	814	1,962	763
Gain on sale of loans	597	354	823
Other	1,413	1,688	1,194
Total noninterest income	<u>8,117</u>	<u>9,417</u>	<u>7,769</u>
NONINTEREST EXPENSES:			
Salaries and employee benefits	11,495	12,770	13,231
Net occupancy expense	2,722	2,657	2,325
Real estate owned, net	8,367	1,946	1,162
FDIC insurance	1,690	374	76
Data processing	1,466	1,431	1,513
Professional fees	968	504	513
Advertising and public relations	385	900	1,145
Postage and supplies	713	804	857
Other	2,084	2,082	2,173
Total noninterest expenses	<u>29,890</u>	<u>23,468</u>	<u>22,995</u>
INCOME (LOSS) BEFORE INCOME TAXES	(45,350)	2,084	2,988
INCOME TAX PROVISION (BENEFIT)	148	(423)	345
NET INCOME (LOSS)	\$(45,498)	\$ 2,507	\$ 2,643
PREFERRED STOCK DIVIDENDS AND ACCRETION OF PREFERRED STOCK DISCOUNT	728	--	--
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	<u>\$(46,226)</u>	<u>\$ 2,507</u>	<u>\$ 2,643</u>
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	<u>\$ (9.54)</u>	<u>\$ 0.52</u>	<u>\$ 0.54</u>
Diluted	<u>\$ (9.54)</u>	<u>\$ 0.52</u>	<u>\$ 0.54</u>

See notes to consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007**

(In thousands, except share data)

	Issued Preferred Stock		Issued Common Stock		Additional Paid-In Capital	Employee Stock Benefit Plans	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
BALANCE – January 1, 2007	--	\$ --	10,307,502	\$ 103	\$ 56,617	\$ (72)	\$ 88,068	5,468,540	\$ (69,143)	\$ 75,573
Net income	--	--	--	--	--	--	2,643	--	--	2,643
Stock compensation expense	--	--	--	--	9	30	--	--	--	39
Tax effect of stock compensation plans	--	--	--	--	481	--	--	--	--	481
Purchase of treasury stock – at cost	--	--	--	--	--	--	--	101,542	(2,312)	(2,312)
Treasury shares reissued	--	--	--	--	(454)	--	--	(106,965)	804	350
Dividends paid (\$0.58 per share)	--	--	--	--	--	--	(3,111)	--	--	(3,111)
BALANCE – December 31, 2007	--	--	10,307,502	103	56,653	(42)	87,600	5,463,117	(70,651)	73,663
Net income	--	--	--	--	--	--	2,507	--	--	2,507
Stock compensation expense	--	--	--	--	(18)	42	--	1,600	(19)	5
Tax effect of stock compensation plans	--	--	--	--	(2)	--	--	--	--	(2)
Treasury shares reissued	--	--	--	--	(6)	--	--	(4,000)	52	46
Dividends paid (\$0.64 per share)	--	--	--	--	--	--	(3,102)	--	--	(3,102)
BALANCE – December 31, 2008	--	--	10,307,502	103	56,627	--	87,005	5,460,717	(70,618)	73,117
Net loss	--	--	--	--	--	--	(45,498)	--	--	(45,498)
Issuance of 16,500 shares of preferred stock and a warrant to purchase 321,847 shares of common stock	16,500	16,142	--	--	358	--	--	--	--	16,500
Preferred stock dividends	--	--	--	--	--	--	(675)	--	--	(675)
Accretion of preferred stock discount	--	53	--	--	--	--	(53)	--	--	--
Stock compensation expense	--	--	--	--	1	--	--	--	--	1
Dividends paid (\$0.03 per common share)	--	--	--	--	--	--	(145)	--	--	(145)
BALANCE – December 31, 2009	<u>16,500</u>	<u>\$ 16,195</u>	<u>10,307,502</u>	<u>\$ 103</u>	<u>\$ 56,986</u>	<u>\$ --</u>	<u>\$ 40,634</u>	<u>5,460,717</u>	<u>\$ (70,618)</u>	<u>\$ 43,300</u>

See notes to consolidated financial statements.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(In thousands)**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES:			
Net income (loss)	\$ (45,498)	\$ 2,507	\$ 2,643
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan losses	44,365	5,710	4,028
Provision for real estate losses	6,224	1,042	494
Deferred tax benefit	(16,545)	(657)	(1,585)
Deferred tax valuation allowance	18,124	--	--
Accretion of discounts on investment securities, net	(96)	(60)	(16)
Federal Home Loan Bank stock dividends	(11)	(131)	(303)
Gain on disposition of fixed assets, net	(2)	(18)	(3)
Loss on sale of repossessed assets, net	957	184	188
Originations of loans held for sale	(43,971)	(23,788)	(59,813)
Proceeds from sales of loans held for sale	45,142	25,388	58,903
Gain on sale of loans originated to sell	(597)	(354)	(823)
Depreciation	1,484	1,484	1,399
Amortization of deferred loan costs, net	388	366	435
Earnings on life insurance policies	(814)	(782)	(763)
Stock compensation expense	1	5	39
Changes in operating assets and liabilities:			
Accrued interest receivable	2,472	2,341	957
Prepaid expenses and other assets	(2,301)	620	699
Other liabilities	289	(12)	437
Net cash provided by operating activities	<u>9,611</u>	<u>13,845</u>	<u>6,916</u>
INVESTING ACTIVITIES:			
Purchases of investment securities, held to maturity	(130,367)	(119,353)	(41,488)
Proceeds from maturities/calls of investment securities, held to maturity	122,349	84,396	9,850
Federal Home Loan Bank stock purchased	(556)	(261)	--
Federal Home Loan Bank stock redeemed	2,267	--	2,959
Loan originations, net of repayments	21,248	8,843	76,070
Loan participations purchased	(4,110)	(4,880)	(4,763)
Loan participations sold	--	4,045	7,208
Proceeds from sales of real estate owned	3,046	3,073	3,740
Improvements to real estate owned	24	(724)	(763)
Proceeds from sales of office properties and equipment	2	30	10
Purchases of office properties and equipment	(357)	(1,927)	(2,637)
Net cash provided by (used in) investing activities	<u>13,546</u>	<u>(26,758)</u>	<u>50,186</u>

(Continued)

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(In thousands)**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	\$ 6,621	\$ (12,411)	\$(21,851)
Advances from Federal Home Loan Bank	--	174,955	25,200
Repayment of advances from Federal Home Loan Bank	(46,636)	(174,860)	(63,418)
Short-term FHLB advances, net	24,000	--	--
Net borrowings from Federal Reserve Bank	(10,030)	10,030	--
Net increase (decrease) in advance payments by borrowers for taxes and insurance	(115)	235	(91)
Proceeds from issuance of preferred stock and related common stock warrants	16,500	--	--
Purchase of treasury stock	--	--	(2,312)
Preferred dividends paid	(570)	--	--
Dividends paid, common shares	(145)	(3,102)	(3,111)
Stock options exercised	--	46	350
	<u>(10,375)</u>	<u>(5,107)</u>	<u>(65,233)</u>
Net cash used in financing activities			
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,782	(18,020)	(8,131)
CASH AND CASH EQUIVALENTS:			
Beginning of year	<u>9,367</u>	<u>27,387</u>	<u>35,518</u>
End of year	<u>\$ 22,149</u>	<u>\$ 9,367</u>	<u>\$ 27,387</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION—			
Cash paid for:			
Interest	<u>\$ 15,690</u>	<u>\$ 22,501</u>	<u>\$ 28,483</u>
Income taxes	<u>\$ 1,044</u>	<u>\$ --</u>	<u>\$ 1,157</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Real estate and other assets acquired in settlement of loans	<u>\$ 24,710</u>	<u>\$ 24,708</u>	<u>\$ 12,283</u>
Loans to facilitate sales of real estate owned	<u>\$ 2,011</u>	<u>\$ 6,905</u>	<u>\$ 1,689</u>
Investment securities purchased—not settled	<u>\$ --</u>	<u>\$ 8,995</u>	<u>\$ 3,190</u>
Transfer of real estate owned to office properties and equipment	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,648</u>
Preferred dividends accrued	<u>\$ 105</u>	<u>\$ --</u>	<u>\$ --</u>

See notes to consolidated financial statements.

(Concluded)

**FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation—First Federal Bancshares of Arkansas, Inc. (the “Company”) is a unitary holding company that owns all of the stock of First Federal Bank (the “Bank”). The Bank provides a broad line of financial products to individuals and small- to medium-sized businesses. The consolidated financial statements also include the accounts of the Bank’s wholly owned subsidiary, First Harrison Service Corporation (“FHSC”), which is inactive. Intercompany transactions have been eliminated in consolidation.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and such differences could be significant. Valuation of real estate owned and the allowance for loan losses are material estimates that are particularly susceptible to significant change in the near term.

Cash and Cash Equivalents—For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents includes cash on hand and amounts due from depository institutions, which includes interest bearing amounts available upon demand.

Investment Securities—The Company classifies investment securities into one of two categories: held to maturity or available for sale. The Company does not engage in trading activities. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at cost, adjusted for the amortization of premiums and the accretion of discounts.

Investment securities that the Company intends to hold for indefinite periods of time are classified as available for sale and are recorded at fair value. Unrealized holding gains and losses are excluded from earnings and reported net of tax in other comprehensive income. Investment securities in the available for sale portfolio may be used as part of the Company’s asset and liability management practices and may be sold in response to changes in interest rate risk, prepayment risk, or other economic factors. At December 31, 2009 and 2008, the Company did not own any investment securities classified as available for sale.

Premiums are amortized into interest income using the interest method to the earlier of maturity or call date. Discounts are accreted into interest income using the interest method over the period to maturity. The specific identification method of accounting is used to compute gains or losses on the sales of investment securities.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers independent price quotations and the financial condition of the issuer.

Loans Receivable—The Bank originates and maintains loans receivable that are substantially concentrated in its lending territory (primarily Northwest and Northcentral Arkansas). The majority of the Bank’s loans are residential mortgage loans and commercial real estate loans. The Bank’s policy calls for collateral or other forms of repayment assurance to be received from the borrower at the time of loan origination. Such collateral or other form of repayment assurance is subject to changes in economic value due to various factors beyond the control of the Bank.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are stated at unpaid principal balances adjusted for any charge-offs, the allowance for loan losses, and any deferred loan fees or costs. Deferred loan fees or costs and discounts on first mortgage loans are amortized or accreted to income using the level-yield method over the remaining period to contractual maturity.

Mortgage loans originated and committed for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Such loans are generally carried at cost due to the short period of time between funding and sale, generally two to three weeks.

The accrual of interest on loans is generally discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or when the loan becomes 90 days past due, whichever occurs first. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. The interest on these loans is accounted for on the cash basis until qualifying for return to accrual. Loans are generally returned to accrual status when payments are made to bring the loan less than 90 days past due and, in the opinion of management, collection of the remaining balance can be reasonably expected. The Company may continue to accrue interest on certain loans that are 90 days past due or more if such loans are in the process of collection and collection is reasonably assured.

Allowance for Loan Losses—The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes it is likely that a loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses represents management's estimate of incurred credit losses inherent in the Company's loan portfolio as of the balance sheet date. The estimation of the allowance is based on a variety of factors, including past loan loss experience, the current credit profile of the Company's borrowers, adverse situations that have occurred that may affect the borrowers' ability to repay, the estimated value of underlying collateral, and general economic conditions, including unemployment, bankruptcy trends, vacancy rates, and home sales. Losses are recognized when available information indicates that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or conditions change.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the short fall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Multifamily residential, commercial real estate, land and land development, and commercial loans that are delinquent or where the borrower's total loan relationship exceeds \$1 million are evaluated on a loan-by-loan basis at least annually. Nonaccrual loans and troubled debt restructurings ("TDRs") are also considered to be impaired loans.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans which are not on nonaccrual status or TDRs for impairment disclosures. Homogeneous loans are those that are considered to have common characteristics that provide for evaluation on an aggregate or pool basis. The Bank considers the characteristics of (1) one- to four-family residential mortgage loans; (2) unsecured consumer loans; and (3) collateralized consumer loans to permit consideration of the appropriateness of the allowance for losses of each group of loans on a pool basis. The primary methodology used to determine the appropriateness of the allowance for losses includes segregating certain specific, poorly performing loans based on their performance characteristics from the pools of loans as to type, valuing these loans, and then applying a loss factor to the remaining pool balance based on several factors including past loss experience, inherent risks, and economic conditions in the primary market areas.

Rate Lock Commitments—The Bank enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed rate commitments also considers the difference between current levels of interest rates and the committed rates.

Real Estate Owned, Net—Real estate owned represents foreclosed assets held for sale and is initially recorded at estimated fair value less estimated costs to sell, establishing a new cost basis. Subsequent to foreclosure, management periodically performs valuations and the assets are carried at the lower of carrying amount or fair value less costs to sell. Adjustments for estimated losses are charged to operations when any decline reduces the fair value to less than the carrying value. Costs and expenses related to major additions and improvements are capitalized while maintenance and repairs that do not extend the lives of the respective assets are expensed.

Office Properties and Equipment, Net—Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation and amortization. The Company computes depreciation using the straight-line method over the estimated useful lives of the individual assets, which range from 3 to 40 years.

Cash Surrender Value of Life Insurance—Cash surrender value of life insurance represents life insurance purchased by the Bank on a qualifying group of officers with the Bank designated as owner and beneficiary of the policies. The yield on these policies is used to offset a portion of employment benefit costs. The policies are recorded on the consolidated statements of financial condition at their cash surrender values with changes in cash surrender values reported in noninterest income. Death benefits in excess of the cash surrender value are recorded in noninterest income at the time of death.

Income Taxes—Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various statement of financial condition assets and liabilities and gives current recognition to changes in tax rates and laws.

Interest Rate Risk—The Bank's asset base is exposed to risk including the risk resulting from changes in interest rates and changes in the timing of cash flows. The Bank monitors the effect of such risks by considering the mismatch of the maturities of its assets and liabilities in the current interest rate environment and the sensitivity of assets and liabilities to changes in interest rates. The Bank's management has considered the effect of significant increases and decreases in interest rates and believes such changes, if they occurred, would be manageable and would not affect the ability of the Bank to hold its assets as planned. However, the Bank is exposed to significant market risk in the event of significant and prolonged interest rate changes.

Earnings Per Common Share—Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and warrants, and are determined using the treasury stock method.

Recent Accounting Pronouncements—On June 29, 2009, the Financial Accounting Standards Board ("FASB") issued *Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* which establishes the *FASB Accounting Standards Codification* ("ASC 105") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles. The Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009, for most entities. On the effective date, all non-SEC accounting and reporting standards were superseded. The Company adopted this Statement beginning with the quarterly period ended September 30, 2009, as required, and such adoption did not have a material impact on the consolidated financial statements of the Company.

In December 2007, the FASB issued ASC 810, formerly SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, an amendment of ARB No. 51. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement was effective for fiscal years beginning after January 1, 2009. The Company does not have any noncontrolling interests, therefore this Statement did not have an impact on us.

In December 2007, the FASB issued ASC 805-10, formerly SFAS No. 141R, *Business Combinations*. The objective of this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, this Statement establishes principles and requirements for how the acquirer:

- a. Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree
- b. Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase
- c. Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it

before that date. We adopted ASC 805-10 as of January 1, 2009. The adoption of this Statement did not have a material effect on the consolidated financial statements of the Company.

In March 2008, the FASB issued ASC 815-10, formerly SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, effective for financial statements issued for fiscal years beginning after November 15, 2008. The objective of this Statement is to provide enhanced disclosures about derivative instruments and related hedging items. We adopted ASC 815-10 as of January 1, 2009. The adoption of this Statement did not have a material effect on the consolidated financial statements of the Company.

We adopted ASC 855-10, formerly FASB Statement 165, *Subsequent Events*, effective for financial statements issued for periods ending after June 15, 2009. This Statement addresses events that occur after the balance sheet date but before the issuance of the financial statements, distinguishes which subsequent events that should be recognized in the financial statements, which nonrecognized events require disclosure and requires the disclosure of the date through which subsequent events were evaluated. See note 23 for disclosure.

On April 9, 2009, the FASB issued ASC 825-10, formerly FASB Staff Position FAS No. 107-1 and Accounting Principles Bulletin 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which amended FASB No. 107, *Disclosures about Fair Value of Financial Instruments* and is effective for financial statements issued for interim periods ending after June 15, 2009. The Statement was amended to require that the existing annual fair value disclosure requirements under *Disclosures about Fair Value of Financial Instruments* be expanded to interim periods. This Statement was adopted in the second quarter of 2009.

On April 9, 2009, the FASB issued ASC 320-10, formerly FSP FAS No. 115-2 and FAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, effective for financial statements issued for interim periods ending after June 15, 2009. The Statement was amended to make significant changes to the Other Than Temporary Impairment ("OTTI") assertions made related to debt securities. The FSP also provided for additional interim disclosures related to OTTI on debt securities. These Statements did not have a material effect on the consolidated financial statements of the Company.

On April 9, 2009, the FASB issued ASC 820-10, formerly FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4), effective for financial statements issued for interim periods ending after June 15, 2009. The FSP provides additional guidance on determining fair value in inactive markets for financial assets under *Fair Value Measurements*. This Statement did not have a material effect on the consolidated financial statements of the Company.

In June 2009, the FASB issued two standards which change the way entities account for securitizations and special-purpose entities: SFAS No. 166, *Accounting for Transfers of Financial Assets*, (ASC 860) and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, (ASC 810). SFAS No. 166 is a revision to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. This Statement eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities*, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. These new standards require a number of new disclosures. SFAS No. 167 requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. SFAS No. 166 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. These Statements will be effective at the beginning of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The Company adopted these Statements on January 1, 2010. The adoption of these Statements did not have a material effect on the consolidated financial statements of the Company.

In August 2009, the FASB issued ASU No. 2009-05, *"Fair Value Measurements and Disclosures, (ASC 820) – Measuring Liabilities at Fair Value"*. This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also

clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. The adoption of ASU 2009-05 on January 1, 2010 did not have a material effect on the consolidated financial statement of the Company.

2. GOING CONCERN

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. However, the events and circumstances described below create an uncertainty about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

The Company recorded a net loss of \$45.5 million in 2009, primarily due to the level of nonperforming assets, the provision for loan losses of \$44.4 million, real estate owned expenses of \$8.4 million, and FDIC insurance premiums of \$1.7 million. Our losses are largely a result of nonperforming loans and real estate owned. Our net loss also included the establishment of a valuation allowance against the realization of our deferred tax asset of \$18.1 million.

At December 31, 2009, the Company was below the regulatory minimum for total capital to risk weighted assets and above the regulatory minimums for tangible, core, and tier 1 risk based capital. On April 12, 2010, the Company and the Bank each consented to the terms of Cease and Desist Orders issued by the OTS (the "Bank Order" and the "Company Order" and, together, the "Orders"). The Orders impose certain operations restrictions on the Company and, to a greater extent, the Bank, including lending and dividend restrictions. The Orders also require the Company and the Bank to take certain actions, including the submission to the OTS of capital plans and business plans to, among other things, preserve and enhance the capital of the Company and the Bank and strengthen and improve the consolidated Company's operations, earnings and profitability. The Bank Order specifically requires the Bank to achieve and maintain, by December 31, 2010, a tier 1 (core) capital ratio of at least 8% and a total risk-based capital ratio of at least 12.0% and maintain these higher ratios for as long as the Bank Order is in effect. At December 31, 2009, the Bank's core and total risk-based capital ratios were 5.75% and 9.97%. Had the Bank been required to meet these capital requirements at December 31, 2009, it would have needed additional capital of approximately \$16.5 million.

Management has developed and will continue to refine capital and strategic plans which take into consideration available information in the development of future financial projections, which includes, but is not limited to, twelve months from the balance sheet date of December 31, 2009. The expected results of these plans, forecasts and strategic initiatives, which are based on multiple scenarios and stress tested cases, provide for the enhancement and preservation of capital. Management's plans to preserve and enhance its capital levels depend on various factors, some of which are outside the control of management. These factors include improvement in the economy, the ability to raise capital, the ability to reduce nonperforming assets, and the ability to maintain the Company's liquidity.

The Company is continuing to aggressively pursue various available alternatives to improve its capital ratios, including operating strategies designed to increase profitability, through, among others, a reduction of nonperforming assets and reduction of operating costs, shrinking the balance sheet, and raising capital. There can be no assurance that the economic conditions that caused the deterioration in loan quality, profits and capital will improve, and should the Bank's capital and related ratios continue to deteriorate, the OTS could impose more severe directives on the Bank. The projected results of operations in 2010 and balance sheet shrinkage will not be sufficient to comply with the Orders. Currently, the Company intends to raise capital in the third or fourth quarter to comply with the requirements of the Orders.

The Company's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside the Company's control. Accordingly, the Company cannot be certain of its ability to raise additional capital on acceptable terms. The Company's potential inability to raise capital and comply with the terms of the Order raises substantial doubt about its ability to continue as a going concern.

3. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

Based on the reserve requirements of the Federal Reserve Bank, the Bank is required to maintain average cash balances on hand or with the Federal Reserve Bank. At December 31, 2009 and 2008, these required reserves balances amounted to \$636,000 and \$575,000, respectively.

4. INVESTMENT SECURITIES

Investment securities consisted of the following at December 31 (in thousands):

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held To Maturity				
Municipal securities	\$ 25,480	\$ 247	\$ (269)	\$ 25,458
U.S. Government and Agency obligations	110,051	21	(3,021)	107,051
Total	\$ 135,531	\$ 268	\$ (3,290)	\$ 132,509
	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held To Maturity				
Municipal securities	\$ 19,565	\$ 75	\$ (599)	\$ 19,041
U.S. Government and Agency obligations	116,847	233	(66)	117,014
Total	\$ 136,412	\$ 308	\$ (665)	\$ 136,055

The following tables summarize the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in thousands), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009 and 2008:

	2009					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	\$ 5,156	\$ 92	\$ 2,453	\$ 177	\$ 7,609	\$ 269
U.S. Government and Agency obligations	100,142	2,908	2,888	113	103,030	3,021
	\$ 105,298	\$ 3,000	\$ 5,341	\$ 290	\$ 110,639	\$ 3,290
	2008					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	\$ 5,493	\$ 171	\$ 3,926	\$ 428	\$ 9,419	\$ 599
U.S. Government and Agency obligations	15,503	66	--	--	15,503	66
	\$ 20,996	\$ 237	\$ 3,926	\$ 428	\$ 24,922	\$ 665

On a quarterly basis, management conducts a formal review of securities for the presence of OTTI. Management assesses whether an OTTI is present when the fair value of a security is less than its amortized cost basis at the balance sheet date. For such securities, OTTI is considered to have occurred if the Company intends to sell the security, if it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis or if the present values of expected cash flows is not sufficient to recover the entire amortized cost.

The unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will

increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Additionally, the impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount.

The Company has pledged investment securities held to maturity with carrying values of approximately \$59.5 million and \$54.5 million at December 31, 2009 and 2008, respectively, as collateral for certain deposits in excess of \$250,000. In addition, the Company has pledged investment securities held to maturity with carrying values of approximately \$22.0 million at December 31, 2008 for borrowings outstanding at the FHLB and FRB. No securities were used as collateral for borrowings outstanding at December 31, 2009.

The scheduled maturities of debt securities at December 31, 2009, by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2009	
	Amortized Cost	Fair Value
Within one year	\$ 200	\$ 204
Due from one year to five years	2,100	2,075
Due from five years to ten years	9,147	9,054
Due after ten years	<u>124,084</u>	<u>121,176</u>
Total	<u>\$ 135,531</u>	<u>\$ 132,509</u>

As of December 31, 2009 and 2008, investments with carrying values of approximately \$127.6 million and \$135.8 million, respectively, have call options held by the issuer, of which approximately \$99.2 million and \$124.8 million, respectively, are or were callable within one year.

5. LOANS RECEIVABLE

Loans receivable consisted of the following at December 31 (in thousands):

	<u>2009</u>	<u>2008</u>
Mortgage loans:		
One- to four-family residences	\$ 235,990	\$ 241,735
Home equity and second mortgage	27,022	31,712
Commercial real estate	104,618	115,935
Multifamily	27,987	24,147
Land	41,405	50,510
Construction	49,295	77,316
	<u>486,317</u>	<u>541,355</u>
 Commercial loans	 <u>14,575</u>	 <u>21,922</u>
Consumer loans:		
Automobile	6,810	8,631
Other	11,052	12,291
	<u>17,862</u>	<u>20,922</u>
 Undisbursed loan funds	 (4,327)	 (11,750)
Unearned discounts and net deferred loan costs	23	529
Allowance for loan losses	(32,908)	(6,441)
	<u>(32,885)</u>	<u>(17,662)</u>
 Loans receivable—net	 <u>\$ 481,542</u>	 <u>\$ 566,537</u>

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of such loans at December 31, 2009 and 2008 were \$11.8 million and \$28.5 million, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and foreclosure processing. Servicing income for the years ended December 31, 2009, 2008, and 2007 was \$91,000, \$117,000, and \$110,000, respectively.

As of December 31, 2009 and 2008, qualifying loans collateralized by first lien one- to four-family mortgages with balances totaling approximately \$97.4 million and \$91.3 million, respectively, were pledged as collateral for FHLB advances.

In April 2008, based on the FHLB rating criteria, the Bank was notified of the replacement of our FHLB blanket lien with a restricted custody collateral arrangement, whereby the FHLB has custody and endorsement of the loans that collateralize our outstanding borrowings with the FHLB. Qualifying loans (i) must not be 90 days or more past due; (ii) must not have been in default within the most recent twelve-month period, unless such default has been cured in a manner acceptable to the FHLB; (iii) must relate to real property that is covered by fire and hazard insurance in an amount at least sufficient to discharge the mortgage loan in case of loss and as to which all real estate taxes are current; (iv) must not have been classified as substandard, doubtful, or loss by the Bank's regulatory authority or the Bank; and (v) must not secure the indebtedness to any director, officer, employee, attorney, or agent of the Bank or of any FHLB. The FHLB currently allows an aggregate collateral or lendable value on the qualifying loans of approximately 75% of the outstanding balance of the loans pledged to the FHLB.

As of December 31, 2009 and 2008, qualifying loans collateralized by commercial real estate with balances of \$46.1 million and \$37.5 million, respectively, were pledged as collateral for the Federal Reserve Bank discount window. In addition, at December 31, 2009, the loans may also be used to secure transaction settlements at the Federal Reserve Bank. In September 2008, a subordination agreement was secured with the FHLB based on its blanket lien of such loans. This agreement provides the Bank the ability to pledge commercial real estate loans to the Federal Reserve Bank discount window and to secure transaction settlements. The collateral was held by the Bank through the Federal Reserve Bank's Borrower in Custody of Collateral Program until December 2009, when the

Federal Reserve Bank notified the Bank that custody of the collateral must be transferred to the Federal Reserve Bank.

The Federal Reserve Bank will not accept loans that: (i) are 30 days or more past due; (ii) are classified as substandard, doubtful, or loss by the Bank's regulatory authority or the Bank; (iii) are illegal investments for the Bank; (iv) secure the indebtedness to any director, officer, employee, attorney, affiliate or agent of the Bank; or that (v) exhibit collateral and credit documentation deficiencies. The lendable value at December 31, 2009 was 57% of the fair market value of the loans as determined by the Federal Reserve Bank taking into consideration the rate and duration of the loans pledged.

Impaired loans consisted of the following as of the dates indicated (in thousands):

	December 31, 2009 (1)			December 31, 2008 (1)		
	Recorded Investment	Valuation Allowance	Carrying Value	Recorded Investment	Valuation Allowance	Carrying Value
Impaired loans without a valuation allowance	\$ 37,191	\$ --	\$ 37,191	\$ 18,482	\$ --	\$ 18,482
Impaired loans with a valuation allowance	24,095	7,476	16,619	8,830	2,916	5,914
Total impaired loans	<u>\$ 61,286</u>	<u>\$ 7,476</u>	<u>\$ 53,810</u>	<u>\$ 27,312</u>	<u>\$ 2,916</u>	<u>\$ 24,396</u>
Nonaccrual loans	<u>\$ 50,343</u>	<u>\$ 7,476</u>	<u>\$ 42,867</u>	<u>\$ 25,419</u>	<u>\$ 2,916</u>	<u>\$ 22,503</u>
Total loans past due 90 days or more and still accruing	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 8,961</u>	<u>\$ --</u>	<u>\$ 8,961</u>
Years Ended December 31			2009			2008
Average investment in impaired loans			<u>\$ 48,609</u>			<u>\$ 26,676</u>
Interest income recognized on impaired loans			<u>\$ 1,747</u>			<u>\$ 498</u>
Interest income recognized on a cash basis on impaired loans			<u>\$ 128</u>			<u>\$ 64</u>
Interest based on original terms			<u>\$ 4,355</u>			<u>\$ 1,920</u>

- (1) Subsequent to the issuance of the Company's 2009 consolidated financial statements included in its Annual Report on Form 10-K, filed on April 15, 2010, management identified an immaterial error in the disclosure of impaired loans in the table above. Impaired loans of \$20.5 million and \$16.1 million were omitted from the previously presented disclosure as of December 31, 2009 and 2008, respectively. These amounts primarily represent impaired non-homogeneous loans less than \$500,000 and borrower relationships less than \$1.0 million. The disclosed amounts of impaired loans without valuation allowance, impaired loans with a valuation allowance, average investment in impaired loans, interest income recognized on impaired loans, and interest income recognized on a cash basis on impaired loans previously presented have been restated to include these impaired loans. The previously omitted loans did not impact the consolidated statements of financial condition, operations or cash flows for the years ended December 31, 2009 or 2008.

The following is a summary of changes made to previously presented impaired loan disclosures (in thousands):

	December 31, 2009			December 31, 2008		
	As Previously Presented	Adjustment	As Restated	As Previously Presented	Adjustment	As Restated
Impaired loans without a valuation allowance	\$ 22,152	\$ 15,039	\$ 37,191	\$ 4,815	\$ 13,667	\$ 18,482
Impaired loans with a valuation allowance	11,197	5,422	16,619	3,529	2,385	5,914
Total impaired loans	<u>\$ 33,349</u>	<u>\$ 20,461</u>	<u>\$ 53,810</u>	<u>\$ 8,344</u>	<u>\$ 16,052</u>	<u>\$ 24,396</u>
Average investment in impaired loans	<u>\$ 29,171</u>	<u>\$ 19,438</u>	<u>\$ 48,609</u>	<u>\$ 11,165</u>	<u>\$ 15,511</u>	<u>\$ 26,676</u>
Interest income recognized on impaired loans	<u>\$ 1,001</u>	<u>\$ 746</u>	<u>\$ 1,747</u>	<u>\$ 56</u>	<u>\$ 442</u>	<u>\$ 498</u>
Interest income recognized on a cash basis on impaired loans	<u>\$ --</u>	<u>\$ 128</u>	<u>\$ 128</u>	<u>\$ --</u>	<u>\$ 64</u>	<u>\$ 64</u>

Interest income recorded during the years ended December 31, 2009, 2008, and 2007 for nonaccrual loans was \$1.1 million, \$415,000, and \$458,000, respectively. Under the original terms, these loans would have reported approximately \$3.7 million, \$1.8 million, and \$2.6 million, of interest income for the years ended December 31, 2009, 2008, and 2007, respectively.

6. ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consisted of the following at December 31 (in thousands):

	<u>2009</u>	<u>2008</u>
Loans	\$ 2,562	\$ 4,734
Investment securities	<u>1,667</u>	<u>1,967</u>
Total	<u>\$ 4,229</u>	<u>\$ 6,701</u>

7. ALLOWANCES FOR LOAN AND REAL ESTATE LOSSES

A summary of the activity in the allowances for loan and real estate losses is as follows for the years ended December 31 (in thousands):

	<u>2009</u>		<u>2008</u>		<u>2007</u>	
	<u>Loans</u>	<u>Real Estate</u>	<u>Loans</u>	<u>Real Estate</u>	<u>Loans</u>	<u>Real Estate</u>
Balance—beginning of year	\$ 6,441	\$ --	\$ 5,162	\$ --	\$ 2,572	\$ --
Provisions for estimated losses	44,365	6,224	5,710	1,042	4,028	494
Recoveries	866	--	483	--	181	--
Losses charged off	<u>(18,764)</u>	<u>(681)</u>	<u>(4,914)</u>	<u>(1,042)</u>	<u>(1,619)</u>	<u>(494)</u>
Balance—end of year(1)	<u>\$ 32,908</u>	<u>\$5,543</u>	<u>\$ 6,441</u>	<u>\$ --</u>	<u>\$ 5,162</u>	<u>\$ --</u>

(1) The allowance for loan losses at December 31, 2009, 2008, and 2007 is comprised of specific valuation allowances of \$7.5 million, \$2.9 million and \$2.9 million, respectively, and general valuation allowances of \$25.4 million, \$3.5 million and \$2.3 million, respectively.

8. OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment consisted of the following at December 31 (in thousands):

	<u>2009</u>	<u>2008</u>
Land and land improvements	\$ 5,937	\$ 5,937
Buildings and improvements	21,547	21,406
Furniture and equipment	7,240	7,073
Automobiles	472	484
Construction in progress	<u>143</u>	<u>107</u>
Total	35,339	35,007
Accumulated depreciation	<u>(11,772)</u>	<u>(10,313)</u>
Office properties and equipment—net	<u>\$ 23,567</u>	<u>\$ 24,694</u>

Depreciation expense for the years ended December 31, 2009, 2008, and 2007, amounted to approximately \$1.5 million, \$1.5 million, and \$1.4 million, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2009, pertaining to banking premises and equipment, future minimum rent commitments (in thousands) under various operating leases are as follows:

<u>Years Ending December 31</u>	
2010	\$ 198
2011	180
2012	180
2013	172
2014	160
2015 and thereafter	<u>507</u>
Total	<u>\$ 1,397</u>

The leases contain options to extend for periods from ten to twenty-five years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2009, 2008 and 2007 amounted to \$254,000, \$225,000, and \$96,000, respectively.

The Bank also leases certain of its banking premises to third parties under operating lease agreements. The following is a schedule by years of minimum future rentals on noncancelable operating leases (in thousands):

<u>Years Ending December 31</u>	
2010	\$ 63
2011	40
2012	39
2013	18
2014	3
2015 and thereafter	<u>--</u>
Total	<u>\$ 163</u>

The leases contain options to extend for periods from three to ten years. Such rentals are not included above. Total rental income for the years ended December 31, 2009, 2008 and 2007 amounted to \$74,000, \$35,000, and \$23,000, respectively.

9. DEPOSITS

Deposits are summarized as follows at December 31 (in thousands):

	<u>2009</u>	<u>2008</u>
Checking accounts, including noninterest bearing deposits of \$25,656 and \$27,538 in 2009 and 2008, respectively	\$ 166,707	\$ 163,468
Money market accounts	53,597	45,022
Savings accounts	24,983	23,019
Certificates of deposit	<u>379,337</u>	<u>386,494</u>
Total	<u>\$ 624,624</u>	<u>\$ 618,003</u>

Overdrafts of checking accounts of \$379,000 and \$483,000 at December 31, 2009 and 2008, respectively, have been reclassified for financial reporting and are reflected in net loans receivable on the consolidated statements of financial condition.

The aggregate amount of time deposits in denominations of \$100,000 or more was approximately \$133.7 million and \$123.3 million at December 31, 2009 and 2008, respectively.

At December 31, 2009, scheduled maturities of certificates of deposit are as follows (in thousands):

<u>Year Ending December 31</u>	
2010	\$ 253,007
2011	77,862
2012	29,682
2013	9,757
2014	3,226
2015 and thereafter	<u>5,803</u>
Total	<u>\$ 379,337</u>

Interest expense on deposits consisted of the following (in thousands):

	<u>Year Ended December 31</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest bearing checking accounts	\$ 1,231	\$ 1,730	\$ 1,877
Money market accounts	427	900	1,486
Savings and certificate accounts	11,676	15,988	20,608
Early withdrawal penalties	<u>(62)</u>	<u>(69)</u>	<u>(98)</u>
Total	<u>\$ 13,272</u>	<u>\$ 18,549</u>	<u>\$ 23,873</u>

Eligible deposits of the Bank are insured up to \$250,000 by the Deposit Insurance Fund of the FDIC.

Full FDIC deposit insurance coverage is provided through the Transaction Account Guarantee Program for noninterest bearing transaction deposit accounts, negotiable order of withdrawal ("NOW") accounts paying less than 0.5% interest per annum, and interest on lawyers trust accounts held at participating FDIC institutions. This program was set to expire June 30, 2010, but was recently extended to December 31, 2010. The extension applies to NOW accounts with a maximum interest rate of .25% effective July 1, 2010.

10. OTHER BORROWINGS

Federal Home Loan Bank. The Bank is a member of the Federal Home Loan Bank System. As a member of this system, it is required to maintain an investment in capital stock of the FHLB in an amount equal to the sum of 0.06% of total assets as of the previous December 31 and 4.10% of outstanding advances. No ready market exists for such stock and it has no quoted market value. The carrying value of the stock is its cost.

The Bank pledges as collateral for FHLB advances certain qualifying one- to four-family mortgage loans and certain qualifying investment securities. Pledged collateral is held in the custody of the FHLB. Based on the Bank's

restricted status with the FHLB, the Bank may only borrow short-term advances with maturities up to thirty days.

Advances at December 31, 2009 and 2008 consisted of the following (in thousands):

Amounts Maturing in Year Ending December 31	2009		2008	
	Weighted Average Rate	Amount	Weighted Average Rate	Amount
2009	--%	\$ --	3.55%	\$ 46,636
2010	1.46	41,353	3.37	17,353
2011	3.14	11,514	3.24	11,514
2012	2.23	3,570	2.36	3,570
2013	0.66	2,168	0.89	2,168
2014	4.16	114	4.16	114
Thereafter	4.35	827	4.35	827
Total	1.85%	\$ 59,546	3.36%	\$ 82,182

Federal Reserve Bank. At December 31, 2008, the Bank had \$10.0 million in overnight borrowings outstanding at a rate of 0.25% at the FRB. At December 31, 2009, the Bank did not have any outstanding borrowings with the FRB.

11. INCOME TAXES

The provisions (benefits) for income taxes are summarized as follows (in thousands):

	Year Ended December 31		
	2009	2008	2007
Income tax provision (benefit):			
Current:			
Federal	\$ (1,441)	\$ 251	\$ 1,800
State	10	(17)	130
Total current	(1,431)	234	1,930
Deferred:			
Federal	(13,548)	(525)	(1,328)
State	(2,997)	(132)	(257)
Valuation allowance	18,124	--	--
Total deferred	1,579	(657)	(1,585)
Total	\$ 148	\$ (423)	\$ 345

The reasons for the differences between the statutory federal income tax rates and the effective tax rates are summarized as follows (in thousands):

	Year Ended December 31					
	2009		2008		2007	
Taxes at statutory rate	\$ (15,419)	34.0%	\$ 709	34.0%	\$ 1,016	34.0%
Increase (decrease) resulting from:						
State income tax—net	(1,946)	4.3	(98)	(4.7)	(141)	(4.7)
Change in valuation allowance	18,124	(40.0)	--	--	--	--
Earnings on life insurance policies	(277)	0.6	(667)	(32.0)	(259)	(8.7)
Nontaxable investments	(317)	0.7	(243)	(11.7)	(203)	(6.8)
Other—net	(17)	--	(124)	(6.0)	(68)	(2.3)
Total	\$ 148	0.3%	\$ (423)	(20.3)%	\$ 345	11.5%

The Company's net deferred tax asset account was comprised of the following at December 31 (in thousands):

	<u>2009</u>	<u>2008</u>
Deferred tax assets:		
Allowance for loan losses	\$ 11,054	\$ 2,466
Real estate owned	3,426	360
Net operating loss carryforward	4,432	12
Other	190	2
	<u>19,102</u>	<u>2,840</u>
Total deferred tax assets	19,102	2,840
Valuation allowance	<u>(18,124)</u>	<u>--</u>
Deferred tax asset, net of allowance	<u>978</u>	<u>2,840</u>
Deferred tax liabilities:		
Office properties	(928)	(919)
Federal Home Loan Bank stock	(300)	(559)
Pension plan contribution	(94)	(106)
Prepaid expenses	<u>(130)</u>	<u>(151)</u>
	<u>(1,452)</u>	<u>(1,735)</u>
Total deferred tax liabilities	(1,452)	(1,735)
Net deferred tax asset (liability)	<u>\$ (474)</u>	<u>\$ 1,105</u>

A deferred tax asset or liability is recognized for the tax consequences of temporary differences in the recognition of revenue and expense, and unrealized gains and losses, for financial and tax reporting purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company conducted an analysis to assess the need for a valuation allowance at December 31, 2009. As part of this assessment, all available evidence, including both positive and negative, was considered to determine whether based on the weight of such evidence, a valuation allowance on the Company's deferred tax assets was needed. In accordance with ASC Topic 740-10, *Income Taxes* (ASC 740), a valuation allowance is deemed to be needed when, based on the weight of the available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of a deferred tax asset will not be realized. The future realization of the deferred tax asset depends on the existence of sufficient taxable income within the carryback and carryforward periods.

As part of its analysis, the Company considered the following positive evidence:

- The Company has a long history of earnings profitability.
- The Company is projecting future taxable income sufficient to utilize all net operating loss carryforwards prior to expiration.
- Future reversals of certain deferred tax liabilities.
- The Federal Reserve has indicated that the economy has exited the recession.

As part of its analysis, the Company considered the following negative evidence:

- The Company recorded a large net loss in 2009.
- The Company did not meet its financial goals in 2009.
- The Company may not meet its projections concerning future taxable income.

Since December 31, 2008, the Company's deferred tax asset has increased significantly, primarily due to additions to the allowance for loan losses and an increase in the net operating loss carryover. The 2009 federal NOL is expected to be carried back to the 2007 and 2008 tax years resulting in a refund receivable of approximately \$1.9 million. At December 31, 2009, we determined that a valuation allowance relating to both the federal and state portion of our deferred tax asset was necessary. This determination for the state deferred tax asset was based largely on the negative evidence represented by the level of state tax exempt interest income which reduces state taxable income to a level that makes it unlikely the Company will realize its state deferred tax asset. Therefore, valuation allowances of \$14.7 million and \$3.4 million at December 31, 2009 were recorded for a portion of the federal deferred tax asset and all of the state deferred tax asset, respectively.

Specifically exempted from deferred tax recognition requirements are bad debt reserves for tax purposes of U.S. savings and loans in the institution's base year, as defined. Base year reserves totaled approximately \$4.2 million.

Consequently, a deferred tax liability of approximately \$1.6 million related to such reserves was not provided for in the consolidated statements of financial condition at December 31, 2009 and December 31, 2008. Payment of dividends to shareholders out of retained earnings deemed to have been made out of earnings previously set aside as bad debt reserves may create taxable income to the Bank. No provision has been made for income tax on such a distribution as the Bank does not anticipate making such distributions.

The Company files income tax returns in the U.S. federal jurisdiction and the state of Arkansas. The Company is subject to U.S. federal and state income tax examinations by tax authorities for tax years ended December 31, 2006 and forward. The Company's 2007 federal income tax return was subject to a limited scope examination by the Internal Revenue Service during the first quarter of 2009. As a result of the examination, the Company was assessed approximately \$45,000, including interest, for the 2007 tax year. The Company recognizes interest and penalties on income taxes as a component of income tax expense.

12. STOCK BASED COMPENSATION

Stock Option Plan—The Stock Option Plan (“SOP”) provided for a committee of the Company’s Board of Directors to award incentive stock options, non-qualified or compensatory stock options and stock appreciation rights representing up to 1,030,750 shares of Company stock. One-fifth of the options granted vested immediately upon grant, with the balance vesting in equal amounts on the four subsequent anniversary dates of the grant. Options granted vest immediately in the event of retirement, disability, or death. Stock options granted expire in ten years unless grantee terminates employment, in which case the award expires five years after termination date or ten years after grant date, whichever comes first. The SOP expired during 2007, so no further option grants will be made. Compensation expense attributable to stock options during the years ended December 31, 2009, 2008 and 2007 totaled approximately \$1,000, \$4,000, and \$10,000, respectively.

Under the SOP, options have been granted to directors and key employees to purchase common stock of the Company. The exercise price in each case equals the fair market value of the Company’s stock at the date of grant. Options granted are summarized as follows:

Year Granted	Range of Exercise Prices	Options Outstanding December 31, 2009			Options Exercisable December 31, 2009		
		Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price Per Share	Number of Options Exercisable	Weighted Average Exercise Price Per Share	
2000	\$9.13	450	0.7 years	\$ 9.13	450	\$ 9.13	
2001	9.34 – 11.35	7,600	1.5 years	10.66	7,600	10.66	
2002	12.32	1,200	0.4 years	12.32	1,200	12.32	
2003	12.93 – 16.11	1,712	3.4 years	15.41	1,712	15.41	
2004	19.25 – 21.50	2,520	4.4 years	20.36	2,520	20.36	
2005	24.81	1,000	5.9 years	24.81	1,000	24.81	
2006	22.40 – 25.50	1,000	4.5 years	24.57	900	24.47	
		<u>15,482</u>	2.6 years	\$14.66	<u>15,382</u>	\$14.59	

A summary of the status of the Company's SOP as of December 31, 2009, 2008, and 2007, and changes during the years ending on those dates are presented below:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding—January 1, 2007	179,359	\$ 10.30
Exercised	(154,817)	9.80
Granted	(1,200)	8.53
Forfeited	(300)	25.50
Outstanding—December 31, 2007	<u>23,042</u>	\$ 13.59
Exercised	(4,000)	11.63
Expired	(1,600)	9.31
Forfeited	<u>(200)</u>	22.40
Outstanding—December 31, 2008	17,242	\$ 14.34
Expired	<u>(1,760)</u>	\$ 11.48
Outstanding—December 31, 2009	<u>15,482</u>	\$ 14.66

Management Recognition and Retention Plan—The Management Recognition Plan (“MRR Plan”) provided for a committee of the Company’s Board of Directors to award restricted stock to key officers as well as non-employee directors. The MRR Plan authorized the Company to grant up to 412,300 shares of the Company stock, of which 405,688 shares have been granted through December 31, 2009. The MRR Plan expired during 2007, so no further awards will be made. Compensation expense has been recognized over the vesting period based on the fair market value of the shares on the grant date. Shares granted will be deemed vested in the event of disability or death. Approximately \$2,000 and \$29,000 in compensation expense was recognized during each of the years ended December 31, 2008 and 2007. On October 31, 2008, 1,600 previously awarded yet unvested MRR Plan shares were canceled. There were no expenses incurred related to the MRR Plan during 2009.

13. EMPLOYEE BENEFIT PLANS

401(k) Plan — The Company has established a 401(k) Plan (the “Plan”) whereby substantially all employees participate in the Plan. Employees may contribute up to 75% of their salary subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 100% of the first 3% plus 50% of contributions between 3% and 5% of an employee’s compensation contributed to the Plan. Matching contributions vest immediately to the employee upon enrollment in the Plan. During the years ended December 31, 2009, 2008 and 2007, 401(k) Plan expense was approximately \$38,000, \$303,000, and \$309,000, respectively. Effective February 16, 2009, the Company suspended its matching contributions.

Other Postretirement Benefits—The Bank is a participant in a multi-employer retirement plan and therefore separate information is not available. The plan is noncontributory and covers substantially all employees. The plan provides a retirement benefit and a death benefit. Retirement benefits are payable in monthly installments for life and must begin not later than the first day of the month coincident with or the next month following the seventieth birthday or the participant may elect a lump-sum distribution. Death benefits are paid in a lump-sum distribution, the amount of which depends on years of service. Net pension expense was approximately \$343,000, \$518,000, and \$761,000 for the years ended December 31, 2009, 2008, and 2007, respectively.

14. PREFERRED STOCK

On March 6, 2009, as part of the Troubled Asset Relief Program (“TARP”) Capital Purchase Program, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with the United States Department of the Treasury (“Treasury”), pursuant to which the Company, for a purchase price of \$16.5 million in cash, (i) sold 16,500 shares of the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the “Series A Preferred Stock”) and (ii) issued a warrant (the “Warrant”) to purchase 321,847 shares of the Company’s common stock, par value \$1.00 per share (the “Common Stock”), at an exercise price of \$7.69 per share. The Series A Preferred Stock qualifies as Tier 1 capital and is entitled to cumulative dividends. The preferred stock dividend reduces earnings available to common shareholders and is computed at an annual rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series A Preferred Stock is non-voting, other than class voting

rights on certain matters that could adversely affect the Series A Preferred Stock. The Series A Preferred Stock may be redeemed by the Company with regulatory approval and when such preferred shares are redeemed, the Treasury shall liquidate the Warrant associated with such preferred shares. The Warrant has a 10-year term and was immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to \$7.69 per share of the Common Stock. Treasury has agreed not to exercise voting power with respect to any shares of Common Stock issued upon exercise of the Warrant that it holds.

Upon receipt of the aggregate consideration from the Treasury on March 6, 2009, the Company allocated the \$16.5 million proceeds on a pro rata basis to the Series A Preferred Stock and the Warrant based on relative fair values. In estimating the fair value of the Warrant, the Company utilized an option pricing model which includes assumptions regarding the Company's common stock prices, stock price volatility, dividend yield, the risk free interest rate and the estimated life of the Warrant. The fair value of the Series A Preferred Stock was determined using a discounted cash flow methodology and a discount rate of 12%. As a result, the Company assigned \$358,000 of the aggregate proceeds to the Warrant and \$16.1 million to the Series A Preferred Stock. The value assigned to the Series A Preferred Stock will be accreted up to the \$16.5 million liquidation value of such preferred stock, with the cost of such accretion being reported as additional preferred stock dividends. This results in a total dividend with a constant effective yield of 5.50% over a five-year period, which is the expected life of the Series A Preferred Stock. In addition, the Purchase Agreement (i) grants the holders of the Series A Preferred Stock, the Warrant and the Warrant Common Stock certain registration rights, (ii) subjects the Company to certain of the executive compensation limitations included in the EESA (which are discussed below) and (iii) allows the Treasury to unilaterally amend any of the terms of the Purchase Agreement to the extent required to comply with any changes after March 6, 2009 in applicable federal statutes. On April 2, 2009, the Company filed a "shelf" registration statement on Form S-3 with the Securities and Exchange Commission (the "Commission") for the purpose of registering the Warrant and the Warrant Common Stock in order to permit the sale of such securities by the U.S. Treasury at any time after effectiveness of the registration statement. On April 28, 2009, the Company was notified by the Commission that the "shelf" registration statement was deemed effective.

Immediately prior to the execution of the Purchase Agreement, the Company amended its compensation, bonus, incentive and other benefit plans, arrangements and agreements to the extent necessary to comply with the executive compensation and corporate governance requirements of Section 111(b) of the EESA and applicable guidance or regulations issued by the Treasury on or prior to March 6, 2009. The applicable executive compensation requirements apply to the compensation of the Company's chief executive officer, chief financial officer and three other most highly compensated executive officers (collectively, the "senior executive officers"). In addition, in connection with the closing of the Treasury's purchase of the Series A Preferred Stock each of the senior executive officers was required to execute a waiver of any claim against the United States or the Company for any changes to his or her compensation or benefits that are required in order to comply with the regulation issued by the Treasury as published in the Federal Register on October 20, 2008.

The Company's ability to repurchase its shares is restricted. Consent of the Treasury generally is required for the Company to make any stock repurchase until the third anniversary of the investment by Treasury unless all of the Series A Preferred Stock has been redeemed or transferred to a third party. Further, common, junior preferred or *pari passu* preferred shares may not be repurchased if the Company is in arrears on the Series A Preferred Stock dividends. Under the terms of the Purchase Agreement, the Company's ability to declare or pay dividends on any of its shares is restricted. Specifically, the Company may not declare dividend payments on common, junior preferred or *pari passu* preferred shares if it is in arrears on the dividends on the Series A Preferred Stock. In addition, the Company may not increase the dividends on its Common Stock above the amount of the last quarter cash dividend per share declared prior to October 14, 2008, which was \$0.16 per share, without the Treasury's approval until the third anniversary of the investment unless all of the Series A Preferred Stock has been redeemed or transferred to a third party.

As discussed more fully in Note 23 to the consolidated financial statements, the Company and the Bank are subject to a regulatory order which prohibits the Company and the Bank from paying dividends on any of its stock, including the Series A Preferred Stock, without prior written non-objection of the OTS. As a result, the Company will not be paying its Series A Preferred Stock dividends beginning with the dividend payment due February 15, 2010. However, the Company will continue to accrue these dividends and at December 31, 2009 dividends of approximately \$105,000 were accrued in other liabilities on the consolidated statement of financial condition related to dividend payment due on February 15, 2010.

15. EARNINGS PER SHARE

	Year Ended December 31, 2009		
	Income (Loss) (In Thousands) (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS—Income (loss) available to common stockholders	\$ (46,226)	4,846,785	\$(9.54)
Effect of dilutive securities	--	--	
Diluted EPS—Income (loss) available to common stockholders and assumed conversions	<u>\$ (46,226)</u>	<u>4,846,785</u>	\$(9.54)

The calculation of diluted earnings per share excludes 15,482 options outstanding for the year ended December 31, 2009, which were antidilutive. In addition, the calculation excludes the Warrant to purchase 321,847 shares of common stock outstanding for the year ended December 31, 2009, which was antidilutive.

	Year Ended December 31, 2008		
	Income (In Thousands) (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS—Income available to common stockholders	\$ 2,507	4,848,092	\$ 0.52
Effect of dilutive securities—Stock options	--	374	
Diluted EPS—Income available to common stockholders and assumed conversions	<u>\$ 2,507</u>	<u>4,848,466</u>	\$ 0.52

The incremental shares for the assumed exercise of the outstanding options were determined by application of the treasury stock method. The calculation of diluted earnings per share excludes 14,192 options outstanding for the year ended December 31, 2008, which were antidilutive.

	Year Ended December 31, 2007		
	Income (In Thousands) (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS—Income available to common stockholders	\$ 2,643	4,865,127	\$ 0.54
Effect of dilutive securities—Stock options	--	15,734	
Diluted EPS—Income available to common stockholders and assumed conversions	<u>\$ 2,643</u>	<u>4,880,861</u>	\$ 0.54

The incremental shares for the assumed exercise of the outstanding options were determined by application of the treasury stock method. The calculation of diluted earnings per share excludes 2,700 options outstanding for the year ended December 31, 2007, which were antidilutive.

16. OFF-BALANCE SHEET ARRANGEMENTS AND COMMITMENTS

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated statements of financial condition.

The Bank does not use financial instruments with off-balance sheet risk as part of its asset/liability management program or for trading purposes. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Such collateral consists primarily of residential properties. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The funding period for construction loans is generally six to eighteen months and commitments to originate mortgage loans are generally outstanding for 60 days or less.

The Company, in the normal course of business, makes commitments to buy or sell assets or to incur or fund liabilities. Commitments include, but are not limited to:

- the origination, purchase or sale of loans;
- the fulfillment of commitments under letters of credit, extensions of credit on home equity lines of credit, construction loans, and under predetermined overdraft protection limits; and
- the commitment to fund withdrawals of certificates of deposit at maturity.

At December 31, 2009, the Bank's off-balance sheet arrangements principally included lending commitments, which are described below. At December 31, 2009, the Company had no interests in non-consolidated special purpose entities.

At December 31, 2009, commitments included:

- total approved loan origination commitments outstanding amounting to \$2.1 million, including approximately \$1.3 of loans committed to sell;
- rate lock agreements with customers of \$3.9 million, all of which have been locked with an investor;
- funded mortgage loans committed to sell of \$1.0 million;
- unadvanced portion of construction loans of \$4.3 million;
- unused lines of credit of \$15.2 million;
- outstanding standby letters of credit of \$3.8 million;
- total predetermined overdraft protection limits of \$12.2 million; and
- certificates of deposit scheduled to mature in one year or less totaling \$253.0 million.

Total unfunded commitments to originate loans for sale and the related commitments to sell of \$3.9 million meet the definition of a derivative financial instrument. The related asset and liability are considered immaterial at December 31, 2009.

Historically, a very small percentage of predetermined overdraft limits have been used. At December 31, 2009, overdrafts of accounts with Bounce Protection™ represented usage of 3.11% of the limit.

Based on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank. Management anticipates that the Bank will continue to have sufficient funds, through repayments, deposits and borrowings, to meet our current commitments.

17. FAIR VALUE MEASUREMENTS

ASC 820 provides a framework for measuring fair value. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

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

Level 3 Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The following is a description of valuation methodologies used for significant assets measured at fair value on a non-recurring basis.

Loans Receivable

Loans which meet certain criteria are evaluated individually for impairment. A loan is considered impaired when, based upon current information and events, it is probable the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Substantially all of the Bank's impaired loans at December 31, 2009 are secured by real estate. These impaired loans are individually assessed to determine that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs. Fair value is estimated through current appraisals, real estate brokers or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. Impaired loans at December 31, 2009 were \$53.8 million, net of specific valuation allowances of \$7.5 million at December 31, 2009.

REO, net

REO represents real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at the lower of cost or fair value less estimated selling costs. Fair value is estimated through current appraisals, real estate brokers or listing prices. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. REO at December 31, 2009 was \$35.2 million. During the year ended December 31, 2009, charge-offs to the allowance for loan losses related to loans that were transferred to REO were \$5.0 million on transfers to REO of \$28.9 million. Write downs related to REO that were charged to expense were \$6.2 million for the year ended December 31, 2009.

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a non-recurring basis at December 31, 2009:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 53,810	\$ --	\$ --	\$ 53,810
REO, net (1)	36,285	--	--	36,285
	<u>\$ 90,095</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 90,095</u>

(1) The amounts listed reflect fair value measurements of the properties before deducting estimated costs to sell.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The estimated fair values of financial instruments are as follows (in thousands):

	December 31, 2009		December 31, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
ASSETS:				
Cash and cash equivalents	\$ 22,149	\$ 22,149	\$ 9,367	\$ 9,367
Investment securities—held to maturity	135,531	132,509	136,412	136,055
Federal Home Loan Bank stock	3,125	3,125	4,825	4,825
Loans receivable—net	481,542	483,127	566,537	579,627
Loans held for sale	1,012	1,012	1,586	1,586
Cash surrender value of life insurance	21,226	21,226	20,412	20,412
Accrued interest receivable	4,229	4,229	6,701	6,701
LIABILITIES:				
Deposits:				
Checking, money market and savings accounts	245,287	245,287	231,509	231,509
Certificates of deposit	379,337	383,187	386,494	390,638
Other borrowings	59,546	60,203	92,212	94,114
Accrued interest payable	474	474	910	910
Advance payments by borrowers for taxes and insurance	695	695	810	810

For cash and cash equivalents, Federal Home Loan Bank stock, cash surrender value of life insurance and accrued interest receivable, the carrying value is a reasonable estimate of fair value, primarily because of the short-term nature of the instruments or, as to Federal Home Loan Bank stock, the ability to sell the stock back to the Federal Home Loan Bank at cost. The fair value of investment securities is based on quoted market prices, dealer quotes and prices obtained from independent pricing services. The fair value of variable rate loans is based on repricing dates. Fixed rate loans were valued using discounted cash flows. The discount rates used to determine the present value of these loans were based on interest rates currently being charged by the Bank on comparable loans as to credit risk and term.

The fair value of checking accounts, savings accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit and Federal Home Loan Bank advances is estimated using the rates currently offered for deposits of similar terms and advances of similar remaining maturities at the reporting date. For advance payments by borrowers, for taxes and insurance and for accrued interest payable the carrying value is a reasonable estimate of fair value, primarily because of the short-term nature of the instruments.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2009 and 2008. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since the reporting date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

19. CONTINGENCIES

The Company is a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial statements of the Company.

20. RETAINED EARNINGS—SUBSTANTIALLY RESTRICTED

Upon conversion, the Company established a special liquidation account for the benefit of eligible account holders and the supplemental eligible account holders in an amount equal to the net worth of the Bank as of the date of its latest statement of financial condition contained in the final offering circular used in connection with the conversion. The liquidation account will be maintained for the benefit of eligible account holders and supplemental eligible account holders who continue to maintain their accounts in the Bank after conversion. In the event of a complete liquidation (and only in such event), each eligible and supplemental eligible account holder will be entitled to receive

a liquidation distribution from the liquidation account in an amount proportionate to the current adjusted qualifying balances for accounts then held.

The Company may not declare or pay cash dividends on its shares of common stock if the effect thereof would cause the Company's stockholders' equity to be reduced below applicable regulatory capital maintenance requirements for insured institutions or below the special liquidation account referred to above.

21. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the OTS. Failure to meet minimum capital requirements can initiate certain mandatory—and possible additional discretionary—actions by regulators that, if undertaken, could have a direct and material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of tangible capital (as defined) to tangible assets (as defined) and core capital (as defined) to adjusted tangible assets (as defined), and of total risk-based capital (as defined) to risk-weighted assets (as defined). Tier 1 (core) capital includes common stockholders' equity and qualifying preferred stock less certain other deductions. Total capital includes tier 1 capital plus the allowance for loan losses, subject to limitations.

As the following table indicates, at December 31, 2009, the Bank was below the regulatory minimum for total capital to risk weighted assets and above the regulatory adequacy minimums for tangible, core, and tier 1 risk-based capital. The Bank has historically been categorized as well-capitalized in periods prior to December 31, 2009.

As discussed in Note 23, on April 12, 2010, the Company and the Bank each consented to a Cease and Desist Order (collectively, the "Orders") issued by the OTS. The Orders became effective on April 14, 2010. The Bank's Order states that no later than December 31, 2010, the Bank shall achieve and maintain a Tier 1 (Core) capital ratio of at least 8% and a total risk-based capital ratio of at least 12%. The Bank had previously agreed with the OTS to maintain a core capital ratio of at least 5% and a total risk-based capital ratio of at least 10%. These are the ratios that were in effect at December 31, 2009 and such ratios were in excess of the ratios required under the capital adequacy requirements. The requirement to meet and maintain a specific capital level means that the Bank may not be deemed to be well-capitalized for the purposes of prompt corrective action.

The Order also states that by June 30, 2010, the Bank shall submit to the OTS a written capital plan to achieve and maintain the foregoing capital levels. At a minimum, the plan shall address: (i) the amount of additional capital that will be necessary to meet the foregoing capital levels under different, progressively stressed economic environments; (ii) the requirements and restrictions imposed by the Order and the Bank's most recent examination; (iii) the Bank's level of classified assets, allowance for loan and lease losses, earnings, asset concentrations, liquidity needs, and trends in this area; (iv) current and projected trends in real estate market conditions; (v) the Bank's capital preservation and enhancement strategies; and (vi) identify specific sources of additional capital and the timeframes and methods by which additional capital will be raised.

Under the regulatory framework for prompt corrective action, the Bank's capital status may preclude the Bank from access to borrowings from the Federal Reserve System through the discount window. Also, as required by the framework, the Bank must submit to the OTS a written capital plan as described above. The Bank believes it can attain these ratios by December 31, 2010 through improved operating results, shrinkage in asset size, potential branch sales, and raising capital in the third or fourth quarter of 2010. Management's plan is subject to economic conditions and assumes no significant deterioration of our loan portfolio.

The Bank's actual capital amounts (in thousands) and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To be Categorized as Adequately Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009:						
Tangible Capital to Tangible Assets	\$ 42,042	5.75%	\$ 10,965	1.50%	N/A	N/A
Core Capital to Adjusted Tangible Assets	42,042	5.75%	36,550	5.00%	\$ 36,550	5.00%
Total Capital to Risk-Weighted Assets	48,344	9.97%	48,512	10.00%	48,512	10.00%
Tier I Capital to Risk-Weighted Assets	42,042	8.67%	N/A	N/A	19,405	4.00%

	Actual		For Capital Adequacy Purposes		To be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008:						
Tangible Capital to Tangible Assets	\$ 70,703	8.89%	\$ 11,925	1.50%	N/A	N/A
Core Capital to Adjusted Tangible Assets	70,703	8.89%	31,799	4.00%	\$ 39,748	5.00%
Total Capital to Risk-Weighted Assets	74,144	13.35%	44,436	8.00%	55,545	10.00%
Tier I Capital to Risk-Weighted Assets	70,703	12.73%	N/A	N/A	33,327	6.00%

Dividend Restrictions. The principal source of the Company's revenues is dividends from the Bank. The Company's ability to pay dividends to our shareholders depends to a large extent upon the dividends we receive from the Bank. On November 19, 2009, the OTS issued written directives to the Company and the Bank which require the Company and the Bank to obtain prior written non-objection of the OTS in order to make or declare any dividends or payments on their outstanding securities.

22. RELATED PARTY TRANSACTIONS

In the normal course of business, the Bank has made loans to its directors, officers, and their related business interests. In the opinion of management, related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectibility. The aggregate dollar amount of loans outstanding to directors, officers, and their related business interests was approximately \$1.1 million at both December 31, 2009 and 2008.

Deposits from related parties held by the Bank at December 31, 2009 and 2008 amounted to \$4.2 million and \$5.2 million, respectively.

23. SUBSEQUENT EVENT

On April 12, 2010, the Company and the Bank each consented to the terms of Cease and Desist Orders issued by the OTS (the "Bank Order" and the "Company Order" and, together, the "Orders"). The Orders impose certain operations restrictions on the Company and, to a greater extent, the Bank, including lending and dividend restrictions. The Orders also require the Company the Bank to take certain actions, including the submission to the OTS of capital plans and business plans to, among other things, preserve and enhance the capital of the Company and the Bank and strengthen and improve the consolidated Company's operations, earnings and profitability. The Bank Order specifically requires the Bank to achieve and maintain, by December 31, 2010, a tier 1 (core) capital ratio of at least 8% and a total risk-based capital ratio of at least 12.0%.

Any material failure by the Company and the Bank to comply with the provisions of the Orders could result in further enforcement actions by the OTS. While the Company and the Bank intend to take such actions as may be necessary to comply with the requirements of the Orders, there can be no assurance that the Company or the Bank

will be able to comply fully with the Orders, or that efforts to comply with the Orders will not have adverse effects on the operations and financial condition of the Company or the Bank.

25. PARENT COMPANY ONLY FINANCIAL INFORMATION

The following condensed statements of financial condition, as of December 31, 2009 and 2008, and condensed statements of income and of cash flows for each of the three years in the period ended December 31, 2009, for First Federal Bancshares of Arkansas, Inc. should be read in conjunction with the consolidated financial statements and the notes herein.

**FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
(Parent Company Only)**

**CONDENSED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2009 AND 2008
(In thousands)**

ASSETS	2009	2008
Cash and cash equivalents (deposits in Bank)	\$ 99	\$ 97
Loan to Bank subsidiary	1,216	1,565
Investment in Bank	42,182	70,877
Other assets	475	673
TOTAL	\$ 43,972	\$ 73,212
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued expenses and other liabilities	\$ 672	\$ 95
Stockholders' equity	43,300	73,117
TOTAL	\$ 43,972	\$ 73,212

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
(Parent Company Only)

CONDENSED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
(In thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
INCOME:			
Dividends from the Bank	\$ --	\$ 5,000	\$ 5,000
Interest income—loan to the Bank	1	39	50
	<u>1</u>	<u>5,039</u>	<u>5,050</u>
EXPENSES:			
Management fees	66	66	66
Other operating expenses	425	263	290
	<u>491</u>	<u>329</u>	<u>356</u>
INCOME BEFORE INCOME TAX BENEFIT AND EQUITY IN UNDISTRIBUTED EARNINGS (LOSS) OF BANK SUBSIDIARY			
	(490)	4,710	4,694
INCOME TAX BENEFIT			
	<u>187</u>	<u>111</u>	<u>118</u>
INCOME BEFORE EQUITY IN UNDISTRIBUTED EARNINGS (LOSS) OF BANK SUBSIDIARY			
	(303)	4,821	4,812
EQUITY IN UNDISTRIBUTED EARNINGS (LOSS) OF BANK SUBSIDIARY			
	<u>(45,195)</u>	<u>(2,314)</u>	<u>(2,169)</u>
NET INCOME (LOSS)			
	<u>\$ (45,498)</u>	<u>\$ 2,507</u>	<u>\$ 2,643</u>

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.
(Parent Company Only)

CONDENSED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
(In thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES:			
Net income (loss)	\$ (45,498)	\$ 2,507	\$ 2,643
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net loss (earnings) of Bank	45,195	2,314	2,169
Stock compensation expense	1	5	39
Changes in operating assets and liabilities:			
Accrued interest receivable	--	3	4
Other assets	198	(386)	307
Accrued expenses and other liabilities	472	(58)	(156)
Net cash provided by operating activities	<u>368</u>	<u>4,385</u>	<u>5,006</u>
INVESTING ACTIVITIES—			
Investment in Bank	(16,500)	--	--
Loan to Bank, net of repayments	349	(1,329)	141
Net cash provided by (used in) investing activities	<u>(16,151)</u>	<u>(1,329)</u>	<u>141</u>
FINANCING ACTIVITIES:			
Purchase of preferred stock	16,500	--	--
Purchase of treasury stock	--	--	(2,312)
Dividends paid, preferred shares	(570)	--	--
Dividends paid, common shares	(145)	(3,102)	(3,111)
Stock options exercised	--	46	350
Net cash used in financing activities	<u>15,785</u>	<u>(3,056)</u>	<u>(5,073)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2	--	74
CASH AND CASH EQUIVALENTS:			
Beginning of period	<u>97</u>	<u>97</u>	<u>23</u>
End of period	<u>\$ 99</u>	<u>\$ 97</u>	<u>\$ 97</u>

**SELECTED QUARTERLY OPERATING RESULTS (UNAUDITED)
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)**

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
YEAR ENDED DECEMBER 31, 2009				
Interest income	\$ 9,036	\$ 8,692	\$ 9,193	\$ 9,122
Interest expense	3,218	3,551	4,060	4,426
Net interest income	5,818	5,141	5,133	4,696
Provision for loan losses	8,203	30,196	2,445	3,521
Net interest income after provision for loan losses	(2,385)	(25,055)	2,688	1,175
Noninterest income	2,062	2,109	2,039	1,907
Noninterest expense	7,590	9,895	6,556	5,849
Income (loss) before income taxes	(7,913)	(32,841)	(1,829)	(2,767)
Income tax provision (benefit)	11,918	(9,614)	(892)	(1,264)
Net income (loss)	(19,831)	(23,227)	(937)	(1,503)
Preferred stock dividend and discount accretion	222	222	222	62
Net income (loss) available to common shareholders	\$ (20,053)	\$ (23,449)	\$ (1,159)	\$ (1,565)
Earnings per share(1):				
Basic	\$ (4.14)	\$ (4.84)	\$ (0.24)	\$ (0.32)
Diluted	\$ (4.14)	\$ (4.84)	\$ (0.24)	\$ (0.32)
Selected Ratios (Annualized):				
Net interest margin	3.49%	2.94%	2.86%	2.65%
Return on average assets	(10.56)	(11.99)	(0.47)	(0.76)
Return on average equity	(123.95)	(106.70)	(4.24)	(7.70)
YEAR ENDED DECEMBER 31, 2008				
Interest income	\$ 10,493	\$ 10,451	\$ 11,467	\$ 11,536
Interest expense	4,818	5,155	5,658	6,471
Net interest income	5,675	5,296	5,809	5,065
Provision for loan losses	1,600	1,611	971	1,528
Net interest income after provision for loan losses	4,075	3,685	4,838	3,537
Noninterest income	1,952	2,213	2,048	3,204
Noninterest expense	5,983	5,766	5,648	6,071
Income before income taxes	44	132	1,238	670
Income tax provision	(149)	(86)	229	(417)
Net income	\$ 193	\$ 218	\$ 1,009	\$ 1,087
Earnings per share(1):				
Basic	\$ 0.04	\$ 0.05	\$ 0.21	\$ 0.22
Diluted	\$ 0.04	\$ 0.05	\$ 0.21	\$ 0.22
Selected Ratios (Annualized):				
Net interest margin	3.19%	2.92%	3.15%	2.78%
Return on average assets	0.10	0.11	0.49	0.54
Return on average equity	1.05	1.17	5.43	5.86

(1) Basic and diluted shares outstanding are summarized below.

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
YEAR ENDED DECEMBER 31, 2009				
Basic weighted - average shares	4,846,785	4,846,785	4,846,785	4,846,785
Effect of dilutive securities	--	--	--	--
Diluted weighted - average shares	4,846,785	4,846,785	4,846,785	4,846,785
YEAR ENDED DECEMBER 31, 2008				
Basic weighted - average shares	4,847,307	4,848,385	4,848,385	4,848,297
Effect of dilutive securities	--	--	1,091	2,338
Diluted weighted - average shares	4,847,307	4,848,385	4,849,476	4,850,635

Item 9A. Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are operating effectively.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT REPORT ON INTERNAL CONTROL

The management of First Federal Bancshares of Arkansas, Inc. and its subsidiary, First Federal Bank, (collectively referred to as the "Company") is responsible for the preparation, integrity, and fair presentation of its published financial statements and all other information presented in this annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, as such, include amounts based on informed judgments and estimates made by management.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for financial presentations in conformity with GAAP. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of its internal control over financial reporting for financial presentations in conformity with GAAP as of December 31, 2009 based on the control criteria established in a report entitled *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that the Company's internal control over financial reporting is effective as of December 31, 2009.

The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the Company's consolidated financial statements, has issued an attestation report on the Company's internal control over financial reporting.

Larry J. Brandt
President and
Chief Executive Officer

Sherri R. Billings
Executive Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
First Federal Bancshares of Arkansas, Inc.
Harrison, AR

We have audited the internal control over financial reporting of First Federal Bancshares of Arkansas, Inc. and subsidiaries (the "Company") as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2009 of the Company and our report dated April 15, 2010 (July 23, 2010 as to the restatement described in Note 5) expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's ability to continue as a going concern.

/s/ Deloitte & Touche LLP

Little Rock, AR
April 15, 2010

PART IV.

Item 15. Exhibits and Financial Statement Schedules.

(a) Documents Filed as Part of this Report

- (1) Financial statements have been included in Item 8.
- (2) All schedules for which provision is made in the applicable accounting regulation of the SEC are omitted because of the absence of conditions under which they are required or because the required information is included in the financial statements and related notes thereto.

(b) Exhibit Index.

2.1*	Plan of Conversion
3.1*	Articles of Incorporation of First Federal Bancshares of Arkansas, Inc.
3.2**	Amended and Restated Bylaws of First Federal Bancshares of Arkansas, Inc.
3.3***	Statement of Designations for the Preferred Stock
4.0****	Stock Certificate of First Federal Bancshares of Arkansas, Inc.
4.1***	Form of Certificate for the Preferred Stock
4.2***	Warrant for Purchase of Shares of Common Stock
10.1*****	Employment Agreement between the Company, the Bank and Larry J. Brandt as amended and restated
10.2*****	Employment Agreement between the Company, the Bank and Tommy W. Richardson as amended and restated
10.3*****	Employment Agreement between the Company, the Bank and Sherri R. Billings as amended and restated
10.4***	Letter Agreement, dated March 6, 2009, between First Federal Bancshares of Arkansas, Inc. and the U.S. Department of the Treasury
10.5***	ARRA Letter Agreement, dated March 6, 2009, between First Federal Bancshares of Arkansas, Inc. and the U.S. Department of the Treasury
10.6***	Form of Amendment to the Amended and Restated Employment Agreements among First Federal Bancshares of Arkansas, Inc., First Federal Bank and each of Larry J. Brandt, Tommy W. Richardson and Sherri R. Billings
10.7*****	Stipulation and Consent to Issuance of Order to Cease and Desist for Company
10.8*****	Company Cease and Desist Order
10.9*****	Stipulation and Consent to Issuance of Order to Cease and Desist for Bank
10.10*****	Bank Cease and Desist Order
21.0	Subsidiaries of the Registrant - Reference is made to "Item 1 Business - Subsidiaries" for the required information
23.0	Consent of Deloitte & Touche LLP
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Section 906 Certification of the CEO
32.2	Section 906 Certification of the CFO
99.1*****	Certification of Chief Executive Officer pursuant to TARP CPP
99.2*****	Certification of Chief Financial Officer pursuant to TARP CPP

(*) Incorporated herein by reference from the Company's Registration Statement on Form S-1 (File No. 333-612) filed with the SEC.

(**) Incorporated herein by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC.

(***) Incorporated herein by reference from the Company's Form 8-K filed with the SEC on March 6, 2009.

(****) Incorporated herein by reference from the Company's Registration Statement on Form 8-A filed with the SEC.

(*****) Incorporated herein by reference from the Company's Form 8-K filed with the SEC on December 20, 2007.

(******) Incorporated herein by reference from the Company's Form 10-K filed with the SEC on April 15, 2010.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST FEDERAL BANCSHARES OF ARKANSAS, INC.

By: /s/ Larry J. Brandt
Larry J. Brandt
President and Chief Executive Officer

July 23, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>/s/ Larry J. Brandt</u> Larry J. Brandt President and Chief Executive Officer	July 23, 2010
<u>/s/ John P. Hammerschmidt</u> John P. Hammerschmidt Chairman	July 23, 2010
<u>/s/ Jeff Brandt</u> Jeff Brandt Director	July 23, 2010
<u>/s/ Kenneth C. Savells</u> Kenneth C. Savells Director	July 23, 2010
<u>/s/ Frank Conner</u> Frank Conner Director	July 23, 2010
<u>/s/ Sherri R. Billings</u> Sherri R. Billings Executive Vice President and Chief Financial and Accounting Officer	July 23, 2010

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-135402 on Form S-8 of our report dated April 15, 2010 (July 23, 2010 as to the restatement described in Note 5), relating to the consolidated financial statements of First Federal Bancshares of Arkansas, Inc. which includes an explanatory paragraph regarding the Company's ability to continue as a going concern, and our report dated April 15, 2010 relating to the effectiveness of First Federal Bancshares of Arkansas, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of First Federal Bancshares of Arkansas, Inc. for the year ended December 31, 2009.

/s/ Deloitte & Touche LLP

Little Rock, AR
July 23, 2010

**PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER**

I, Larry J. Brandt, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K/A of First Federal Bancshares of Arkansas, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 23, 2010

/s/ Larry J. Brandt

Larry J. Brandt
Chief Executive Officer

**PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Sherri R. Billings, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K/A of First Federal Bancshares of Arkansas, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: July 23, 2010

/s/ Sherri R. Billings

Sherri R. Billings
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with the Amendment No. 1 to the Annual Report of First Federal Bancshares of Arkansas, Inc. (the "Registrant") on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission (the "Report"), the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant as of and for the period covered by the Report.

Date: July 23, 2010

/s/ Larry J. Brandt

Larry J. Brandt
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with the Amendment No. 1 to the Annual Report of First Federal Bancshares of Arkansas, Inc. (the "Registrant") on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission (the "Report"), the undersigned certifies, pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

- a) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant as of and for the period covered by the Report.

Date: July 23, 2010

/s/ Sherri R. Billings

Sherri R. Billings
Chief Financial Officer