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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from _____ to _____

Commission file number: **0-51296**

COMMUNITY FINANCIAL SHARES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-4387843
(I.R.S. Employer
Identification No.)

357 Roosevelt Road
Glen Ellyn, Illinois
(Address of principal executive offices)

60137
(Zip Code)

(630) 545-0900
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition 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 (Do not check if a smaller reporting company)

Smaller Reporting Company

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

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

<u>Class</u>	<u>Outstanding at August 10, 2010</u>
Common Stock, no par value per share	1,245,267 shares

Form 10-Q Quarterly Report

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

COMMUNITY FINANCIAL SHARES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	(Unaudited)	
ASSETS		
Cash and due from banks	\$ 7,596	\$ 7,186
Interest-bearing deposits	17,046	18,662
Cash and cash equivalents	24,642	25,848
Interest-bearing time deposits	2,988	618
Securities available for sale	41,512	44,544
Loans held for sale	1,534	1,698
Loans, less allowance for loan losses of \$4,374 and \$4,812 at June 30, 2010 and December 31, 2009, respectively	226,010	232,972
Foreclosed assets, net	3,356	2,396
Real estate held for investment	3,010	—
Prepaid FDIC assessment	1,835	2,160
Federal Home Loan Bank stock	5,398	5,398
Premises and equipment, net	15,610	15,864
Cash value of life insurance	5,819	5,700
Interest receivable and other assets	5,958	4,332
Total assets	<u>\$ 337,672</u>	<u>\$ 341,530</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$ 296,671	\$ 298,311
Federal Home Loan Bank advances	13,000	13,000
Other borrowings	1,600	1,800
Subordinated debentures	3,609	3,609
Interest payable and other liabilities	2,346	2,103
Total liabilities	317,226	318,823
Commitments and contingent liabilities		
Shareholders' equity		
Common stock—no par value, 5,000,000 shares authorized; 1,245,267 shares issued and outstanding	—	—
Preferred stock—\$1.00 par value, 1,000,000 shares authorized; 7,319 shares issued and outstanding	7	7
Paid-in capital	11,917	11,877
Retained earnings	8,268	11,064
Accumulated other comprehensive income (loss)	254	(241)
Total shareholders' equity	<u>20,446</u>	<u>22,707</u>
Total liabilities and shareholders' equity	<u>\$ 337,672</u>	<u>\$ 341,530</u>

See Notes to Condensed Consolidated Financial Statements

COMMUNITY FINANCIAL SHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Six Months Ended June 30, 2010 and 2009
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest and dividend income				
Interest and fees on loans	\$ 2,922	\$ 3,126	\$ 6,054	\$ 6,190
Securities:				
Taxable	307	250	636	477
Exempt from federal income tax	138	123	279	248
Other interest income	21	16	37	28
Total interest and dividend income	<u>3,388</u>	<u>3,515</u>	<u>7,006</u>	<u>6,943</u>
Interest expense				
Deposits	746	1,172	1,582	2,419
Federal Home Loan Bank advances and other borrowed funds	127	149	254	282
Subordinated debentures	17	26	34	58
Total interest expense	<u>890</u>	<u>1,347</u>	<u>1,870</u>	<u>2,759</u>
Net interest income	2,498	2,168	5,136	4,184
Provision for loan losses	4,425	870	4,665	960
Net interest income after provision for loan losses	(1,927)	1,298	471	3,224
Non-interest income				
Service charges on deposit accounts	133	162	262	320
Gain on sale of loans	184	337	350	570
Gain on sale of securities	—	—	—	50
Write-down on other real estate owned	(185)	—	(185)	—
Gain (loss) on sale of foreclosed assets	(12)	8	4	(54)
Other non-interest income	176	193	347	342
Total non-interest income	<u>296</u>	<u>700</u>	<u>778</u>	<u>1,228</u>
Non-interest expense				
Salaries and employee benefits	1,310	1,389	2,721	2,677
Net occupancy and equipment expense	324	336	672	712
Data processing expense	277	226	545	441
Advertising and promotions	71	73	134	139
Professional fees	267	185	444	300
Other real estate owned expenses	128	—	229	—
FDIC insurance premiums	186	285	370	369
Other operating expenses	315	245	591	528
Total non-interest expense	<u>2,878</u>	<u>2,739</u>	<u>5,706</u>	<u>5,166</u>
Loss before income taxes	(4,509)	(741)	(4,457)	(714)
Benefit for income taxes	(1,824)	(351)	(1,882)	(406)
Net loss	(2,685)	(390)	(2,575)	(308)
Preferred stock dividend and accretion	(110)	(56)	(220)	(56)
Net loss available to common shareholders	<u>\$ (2,795)</u>	<u>\$ (446)</u>	<u>\$ (2,795)</u>	<u>\$ (364)</u>
Loss per share				
Basic	\$ (2.24)	\$ (0.36)	\$ (2.24)	\$ (0.29)
Diluted	\$ (2.24)	\$ (0.36)	\$ (2.24)	\$ (0.29)
Average shares outstanding basic	1,245,267	1,245,267	1,245,267	1,245,267
Average shares outstanding diluted	1,245,267	1,245,295	1,245,267	1,245,320
Dividends per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

See Notes to Condensed Consolidated Financial Statements

COMMUNITY FINANCIAL SHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Six Months Ended June 30, 2010 and 2009
(In thousands, except share and per share data)
(Unaudited)

	Number of Common Shares	Preferred Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total Shareholders' Equity
Balance at January 1, 2010	1,245,267	\$ 7	\$11,877	\$11,064	\$ (241)	\$ 22,707
Net loss	—	—	—	(2,575)	—	(2,575)
Change in unrealized net loss on securities available for sale, net of tax effects	—	—	—	—	495	495
Total comprehensive loss	—	—	—	—	—	(2,079)
Preferred stock dividends (5%)	—	—	—	(190)	—	(190)
Discount on preferred stock	—	—	31	(31)	—	—
Stock option expense	—	—	9	—	—	9
Balance at June 30, 2010	<u>1,245,267</u>	<u>\$ 7</u>	<u>\$11,917</u>	<u>\$ 8,268</u>	<u>\$ 254</u>	<u>\$ 20,446</u>
Balance at January 1, 2009	1,245,267	—	\$ 4,866	\$12,201	\$ (454)	\$ 16,613
Net loss	—	—	—	(308)	—	(308)
Change in unrealized net loss on securities available for sale, net of reclassification adjustment of \$50 and tax effects	—	—	—	—	(125)	(125)
Total comprehensive loss	—	—	—	—	—	(433)
Preferred stock issued	—	7	6,963	—	—	6,970
Discount on preferred stock	—	—	9	(9)	—	—
Stock option expense	—	—	8	—	—	8
Balance at June 30, 2009	<u>1,245,267</u>	<u>\$ 7</u>	<u>\$11,846</u>	<u>\$11,884</u>	<u>\$ (579)</u>	<u>\$ 23,158</u>

See Notes to Condensed Consolidated Financial Statements

COMMUNITY FINANCIAL SHARES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended June 30, 2010 and 2009
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (2,575)	\$ (308)
Adjustments to reconcile net loss to net cash from operating activities		
Amortization on securities, net	64	43
Depreciation	328	326
Provision for loan losses	4,665	960
Gain on sale of securities	—	(50)
Writedown of other real estate owned	185	—
(Gain) loss on sale of foreclosed assets	(4)	54
Gain on sale of loans	(350)	(570)
Originations of loans for sale	(19,253)	(31,420)
Proceeds from sales of loans	19,603	31,989
Compensation cost of stock options	9	8
Change in cash value of life insurance	(119)	(114)
Change in interest receivable and other assets	(4,625)	(441)
Change in interest payable and other liabilities	243	234
Net cash from (used in) operating activities	(1,829)	711
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(10,492)	(24,668)
Proceeds from maturities and calls of securities available for sale	11,899	8,049
Proceeds from sales of securities available for sale	—	3,054
Proceeds from sale other real estate owned	1,821	—
Net change in loans	(501)	(10,014)
Property and equipment expenditures, net	(74)	(176)
Net cash from (used in) investing activities	2,653	(23,755)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in:		
Non-interest bearing and interest bearing demand deposits and savings	11,215	14,846
Certificates and other time deposits	(12,855)	(404)
Proceeds of borrowings	6,500	4,000
Repayments of borrowings	(6,700)	(4,000)
Proceeds from issuance of preferred stock	—	6,970
Dividends paid on preferred stock	(190)	—
Net cash from (used in) financing activities	(2,030)	21,412
Change in cash and cash equivalents	(1,206)	(1,632)
Cash and cash equivalents at beginning of period	25,848	15,825
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 24,642	\$ 14,193
Supplemental disclosures		
Interest paid	\$ 2,012	\$ 2,803
Income taxes paid	—	—
Transfers from loans to foreclosed assets and real estate held for investment	5,942	880

See Notes to Condensed Consolidated Financial Statements

COMMUNITY FINANCIAL SHARES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands)
June 30, 2010 and 2009

NOTE 1 – BASIS OF PRESENTATION

The accounting policies followed in the preparation of the interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q are consistent with those used in the preparation of annual consolidated financial statements. The interim condensed consolidated financial statements reflect all normal and recurring adjustments, which are necessary, in the opinion of management of Community Financial Shares, Inc. (the “Company”), for a fair statement of results for the interim periods presented. Results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 or any other period.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for the interim financial period and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009, which was filed with the U.S. Securities and Exchange Commission on March 31, 2010. The condensed consolidated balance sheet of the Company as of December 31, 2009 has been derived from the audited consolidated balance sheet as of that date.

NOTE 2 – EARNINGS PER SHARE

The number of shares used to compute basic and diluted earnings per share were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
(in thousands)				
Net loss	\$ (2,685)	\$ (390)	\$ (2,575)	\$ (308)
Less: Accretion of discount on preferred stock	(15)	(9)	(30)	(9)
Dividends on preferred stock	(95)	(47)	(190)	(47)
Loss available to common shareholders	<u>\$ (2,795)</u>	<u>\$ (446)</u>	<u>\$ (2,795)</u>	<u>\$ (364)</u>
Weighted Average Shares outstanding	1,245,267	1,245,267	1,245,267	1,245,267
Effect of dilutive securities:				
Stock options	—	—	—	—
Shares used to compute diluted loss per share	<u>1,245,267</u>	<u>1,245,295</u>	<u>1,245,267</u>	<u>1,245,320</u>
Loss per share:				
Basic	\$ (2.24)	\$ (0.36)	\$ (2.24)	\$ (0.29)
Diluted	(2.24)	(0.36)	(2.24)	(0.29)

There were 36,330 and 32,630 anti-dilutive shares at June 30, 2010 and 2009, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Table dollars in thousands)
June 30, 2010 and 2009

NOTE 3 – CAPITAL RATIOS

At the dates indicated, the capital ratios of Community Bank-Wheaton/Glen Ellyn, the Company's wholly owned subsidiary (the "Bank"), were as follows:

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Total capital (to risk-weighted assets)	\$24,426	10.0%	\$28,647	11.5%
Tier I capital (to risk-weighted assets)	21,383	8.8%	25,532	10.3%
Tier I capital (to average assets)	21,383	6.3%	25,532	7.7%

Without prior approval, current regulations allow the Bank to pay dividends to the Company not exceeding net profits (as defined in such regulations) for the current year plus those for the previous two years. The Bank normally restricts dividends to a lesser amount because of the need to maintain an adequate capital structure. At June 30, 2010, regulatory approval is required for all dividend declarations by both the Bank and the Company. As a result of informal discussions with the Bank's regulators, management has agreed to maintain a ratio of total capital to risk-weighted assets of 11.5%. As a result of the net loss for the six months ended June 30, 2010, the Bank did not meet this ratio.

At both June 30, 2010 and December 31, 2009, the Bank was categorized by its regulators as well capitalized in accordance with all regulatory capital requirements.

NOTE 4 – SECURITIES AVAILABLE FOR SALE

The fair value of securities available for sale at June 30, 2010 and December 31, 2009 are as follows:

	<u>June 30, 2010</u>		
	<u>Fair Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
U. S. government agencies	\$15,014	\$ 80	\$ —
State and political subdivisions	15,185	366	(320)
Mortgage-backed securities – Government sponsored entities	10,997	302	(4)
Preferred stock	8	—	(7)
SBA guaranteed	308	1	(3)
	<u>\$41,512</u>	<u>\$ 749</u>	<u>\$ (334)</u>
	<u>December 31, 2009</u>		
	<u>Fair Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
U. S. government agencies	\$17,691	\$ 21	\$ (326)
State and political subdivisions	15,339	213	(425)
Mortgage-backed securities – Government sponsored entities	11,131	136	(17)
Preferred stock	20	5	—
SBA guaranteed	363	1	(2)
	<u>\$44,544</u>	<u>\$ 376</u>	<u>\$ (770)</u>

Securities classified as U. S. government agencies include notes issued by government-sponsored enterprises such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank. The SBA-guaranteed securities are pools of loans guaranteed by the Small Business Administration.

The following tables show gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2010 and December 31, 2009:

Description of Securities	Less than 12 Months		June 30, 2010 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
State and political subdivisions	2,979	(52)	4,207	(268)	7,186	(320)
Mortgage-backed securities – Government sponsored entities	1,359	(4)	—	—	1,359	(4)
Preferred stock - FHLMC	8	(7)	—	—	8	(7)
SBA guaranteed	141	(1)	118	(2)	259	(3)
Total temporarily impaired securities	<u>\$ 4,487</u>	<u>\$ (64)</u>	<u>\$ 4,325</u>	<u>\$ (270)</u>	<u>\$ 8,812</u>	<u>\$ (334)</u>

Description of Securities	Less than 12 Months		December 31, 2009 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 12,665	\$ (326)	\$ —	\$ —	\$ 12,665	\$ (326)
State and political subdivisions	4,456	(85)	4,558	(340)	9,014	(425)
Mortgage-backed securities – Government sponsored entities	3,315	(16)	99	(1)	3,414	(17)
SBA guaranteed	—	—	164	(2)	164	(2)
Total temporarily impaired securities	<u>\$ 20,436</u>	<u>\$ (427)</u>	<u>\$ 4,821</u>	<u>\$ (343)</u>	<u>\$ 25,257</u>	<u>\$ (770)</u>

U.S. Government Agencies

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies as of December 31, 2009 were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments.

State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2010.

Unrealized gains and losses within the investment portfolio are determined to be temporary. The Company has performed an evaluation of its investments for other than temporary impairment and there was no impairment identified during the second quarter of 2010. The entire portfolio is classified as available for sale, however, management has no specific intent to sell any securities, and it is more likely than not that the Company will not have to sell any security before recovery of its amortized cost basis.

The fair values of securities available for sale at June 30, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity are shown separately.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 128	\$ 129
Due after one year through five years	2,648	2,702
Due after five years through ten years	7,020	7,031
Due after ten years	20,276	20,337
Mortgage-backed securities	10,699	10,997
Preferred stock	15	8
SBA guaranteed	311	308
	<u>\$ 41,097</u>	<u>\$ 41,512</u>

Securities with a carrying value of approximately \$13.2 million at June 30, 2010 were pledged to secure public deposits, Federal Home Loan Bank advances and for other purposes as required or permitted by law.

NOTE 5 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income components and related taxes for the six months ended June 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Net unrealized gains (losses) on securities available for sale	\$415	\$(895)
Tax expense (benefit)	161	(316)
Accumulated other comprehensive income (loss)	<u>\$254</u>	<u>\$(579)</u>

NOTE 6 – DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

The Company measures fair value according to the Financial Accounting Standards Board Accounting Standards Codification (ASC) *Fair Value Measurements and Disclosures* (ASC 820-10). ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs used in valuation techniques, but not the valuation techniques themselves. The fair value hierarchy is designed to indicate the relative reliability of the fair value measure. The highest priority given to quoted prices in active markets and the lowest to unobservable data such as the Company's internal information. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs into the fair value hierarchy (Level 1 being the highest priority and Level 3 being the lowest priority):

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

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

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

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available for Sale Securities

If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include certain collateralized mortgage and debt obligations and certain municipal securities. Third party vendors compile prices from various sources and may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather on the investment securities' relationship to other benchmark quoted investment securities. The following tables are as of June 30, 2010 and December 31, 2009, respectively:

	Fair Value	At June 30, 2010		
		Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Available for sale securities:				
U.S. government agencies	\$15,014		\$ 15,014	
State and political subdivisions	15,185		15,185	
Mortgage-backed securities – Government sponsored entities	10,997		10,997	
Preferred stock	8		8	
SBA guaranteed	308		308	
Total available for sale securities	<u>\$41,512</u>	—	<u>\$ 41,512</u>	—

	Fair Value	At December 31, 2009		
		Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Available for sale securities:				
U.S. government agencies	\$17,691		\$ 17,691	
State and political subdivisions	15,339		15,339	
Mortgage-backed securities – Government sponsored entities	11,131		11,131	
Preferred stock	20		20	
SBA guaranteed	363		363	
Total available for sale securities	<u>\$44,544</u>	—	<u>\$ 44,544</u>	—

The following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying June 30, 2010 and December 31, 2009 balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

Loan impairment is reported when scheduled payments under contractual terms are deemed uncollectible. Impaired loans are carried at fair value as estimated using current and prior appraisals, discounting factors, the borrower's financial ability to repay, estimated cash flows from the property and other relevant factors. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. Adjustments to the estimated fair value of impaired loans may result in increases or decreases to the provision for loan losses recorded in current earnings. The following tables are as of June 30, 2010 and December 31, 2009, respectively:

	Fair Value	At June 30, 2010		
		Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Impaired loans	\$13,877	—	—	\$ 13,877
Other real estate owned	1,350	—	—	1,350

	Fair Value	At December 31, 2009		
		Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Impaired loans	\$5,965	—	—	\$ 5,965

The carrying amount and estimated fair value of financial instruments at June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	\$ 24,642	\$ 24,642	\$ 25,848	\$ 25,848
Interest bearing time deposits	2,988	2,988	618	618
Securities available for sale	41,512	41,512	44,544	44,544
Loans held for sale	1,534	1,534	1,698	1,698
Loans receivable, net	226,010	225,931	232,972	233,261
Federal Home Loan Bank stock	5,398	5,398	5,398	5,398
Interest receivable	1,147	1,147	1,266	1,266
Financial liabilities				
Deposits	296,671	300,348	298,311	299,075
Federal Home Loan Bank advances	13,000	13,204	13,000	13,209
Other borrowings	1,600	1,600	1,800	1,800
Subordinated debentures	3,609	1,150	3,609	1,138
Interest payable	295	295	403	403

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest-bearing time deposits, loans held for sale, Federal Home Loan Bank stock, interest receivable and payable, deposits due on demand, variable rate loans and other borrowings. For fixed rate loans and time deposits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. The fair value of fixed rate Federal Home Loan Bank advances and subordinated debentures are based on current rates for similar financing. The fair value of off-balance-sheet items, which is based on the current fees or cost that would be charged to enter into or terminate such arrangements, is immaterial.

While the above estimates are based on management's judgment of the most appropriate factors, there is no assurance that were the Company to have disposed of these items on the respective dates, the fair values would have been achieved, because the market value may differ depending on the circumstances. The estimated fair values at year end should not necessarily be considered to apply at subsequent dates.

Other assets and liabilities that are not financial instruments, such as premises and equipment, are not included in the above disclosures. Also, nonfinancial instruments typically not recognized on the balance sheet may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposits, the trained workforce, customer goodwill, and similar items.

NOTE 7 – TARP CAPITAL PURCHASE PROGRAM

On May 15, 2009, the Company entered into a Letter Agreement and the related Securities Purchase Agreement, with the United States Department of the Treasury (the "Department of Treasury") in accordance with the terms of the Department of Treasury's TARP Capital Purchase Program. Pursuant to the Letter Agreement and Securities Purchase Agreement, the Company issued 6,970 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, and a warrant for the purchase of 349 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, to the Department of Treasury for an aggregate purchase price of \$6,970,000 in cash.

The Series A preferred stock qualifies as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum until February 15, 2014. Beginning February 16, 2014, the dividend rate will increase to 9% per annum. The Series A preferred stock may be redeemed, in whole or in part, at any time from time to time, at the option of the Company, subject to consultation with the Company's primary federal banking regulator, provided that any partial redemption must be for at least 25% of the issue price of the Series A preferred stock.

As part of the transaction, the Department of Treasury exercised the Warrant and received 349 shares of Series B preferred stock. The Series B preferred stock will pay cumulative dividends at a rate of 9% per annum. The Series B preferred stock may also be redeemed, in whole or in part, at any time from time to time, at the option of the Company, subject to consultation with the Company's primary federal regulator, provided that any partial redemption must be for at least 25% of the liquidation value of the Series B preferred stock. The Series B preferred stock cannot be redeemed until all of the outstanding shares of Series A preferred stock have been redeemed.

The Purchase Agreement also subjects the Company to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (EESA), as modified by the American Recovery and Reinvestment Act of 2009. The Company will take all necessary action to ensure that its benefit plans with respect to senior executive officers continue to comply with Section 111(b) of the EESA and has agreed to not adopt any benefit plans with respect to, or which cover, its senior executive officers that do not comply with the EESA, and the applicable executives have consented to the foregoing.

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued new a new standard regarding accounting for transfers and servicing of financial assets and extinguishments of liabilities. The new standard 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. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures.

At the same time, the FASB also issued another new standard regarding consolidation of variable interest entities, which 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.

The new standards will require a number of new disclosures. The first 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. The second will require 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.

The Federal Reserve is reviewing regulatory capital requirements associated with the adoption of the new accounting standards by financial institutions. In conducting this review, the Federal Reserve is considering a broad range of factors including the maintenance of prudent capital levels, the record of recent bank experiences with off-balance sheet vehicles, and the results of the recent Supervisory Capital Assessment Program (SCAP). As part of the SCAP, participating banking organizations' capital adequacy was assessed using assumptions consistent with standards ultimately included in these two new standards.

The two new standards discussed above are effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity. Early application is not permitted. The Company is currently evaluating the potential impact, if any, of the adoption of these two statements on the Company.

In January 2010, the FASB issued an accounting standard providing additional guidance relating to fair value measurement disclosures. Specifically, companies will be required to separately disclose significant transfers into and out of Level 1 and Level 2 measurements in the fair value hierarchy including when such transfers were recognized and the reasons for those transfers. For Level 3 fair value measurements, the new guidance requires presentation of separate information about purchases, sales, issuances and settlements. Additionally, the FASB also clarified existing fair value measurement disclosure requirements relating to the level of disaggregation, inputs, and valuation techniques. This accounting standard will be effective at the beginning of 2010, except for the detailed Level 3 disclosures, which will be effective at the beginning of 2011. The Company is currently evaluating the impact of this standard on its financial statements.

In April 2010, the FASB issued an update (ASU) No. 2010-18, *Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset*. This update provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition, do not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. This update becomes effective for the Company for the interim reporting period ending after July 15, 2010 and is not expected to have a material impact on the statements taken as a whole.

In July 2010, the FASB issued an updated (ASU) No. 2010-20, *Receivables (Topic 310): Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This update provides guidance to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. This update becomes effective for the Company for first interim or annual reporting period ending on or after December 15, 2010 and is not expected to have a material impact on the statements taken as a whole.

NOTE 9 – SUBSEQUENT EVENT

On July 15, 2010, the Bank was notified by the FDIC that, based upon preliminary findings, the Bank is considered to be in “troubled condition” and, as a result, is subject to specified operating restrictions. The operating restrictions include, among other things, that: (i) the Bank may not engage in any transaction that would materially change its balance sheet composition, including growth in assets of five percent or more or any significant changes in funding sources, without the non-objection of the FDIC; (ii) the Bank must obtain the non-objection of the FDIC before paying any dividends; (iii) the Bank may not accept, renew or roll over any brokered deposit; (iv) the Bank may not solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in the Bank’s normal market area or in the market area in which such deposits are being solicited; (v) the Bank must notify the FDIC in writing at least 30 days prior to making certain changes in management or to the Bank’s board directors; (vi) the Bank’s ability to enter into certain severance agreements or make certain severance payments is limited by 12 C.F.R. Part 359; and (vii) any issuance by the Bank of guaranteed debt under the FDIC’s Temporary Liquidity Guarantee Program must be approved by the FDIC.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended as a review of significant factors affecting the financial condition and results of operations of the Company for the periods indicated. The discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes included in this Form 10-Q. In addition to historical information, the following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. The Company’s actual results could differ significantly from those anticipated in these forward-looking statements as a result of certain factors discussed elsewhere in this report.

Safe Harbor Statement

This report (including information incorporated herein by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such as defined term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company’s management and on information currently available to management, are generally identifiable by the use of words such as “believe,” “expect,” “anticipate,” “plan,” “intend,” “estimate,” “may,” “will,” “would,” “could,” “should” or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries include, but are not limited to, the following:

- the strength of the United States economy in general and the strength of the local economies in which the Company conducts its operations which may be less favorable than expected and may result in, among other things, a deterioration in the credit quality and value of the Company’s assets;
- the potential impact of the Company’s participation in the U.S. Department of Treasury’s Troubled Asset Relief Program’s Capital Purchase Program;
- the economic impact of past and any future terrorist attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks;

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- the effects of, and changes in, federal, state and local laws, regulations and policies affecting banking, securities, insurance and monetary and financial matters;
 - the failure of assumptions underlying the establishment of our allowance for loan losses, that may prove to be materially incorrect or may not be borne out by subsequent events;
 - the success and timing of our business strategies and our ability to effectively carry out our business plan;
 - increased loan delinquencies;
 - an escalation in problem assets and foreclosures;
 - a reduction in the value of the collateral for loans made by us, especially real estate, which, in turn would likely reduce our customers' borrowing power and the value of assets and collateral associated with our existing loans;
 - a reduction in the value of certain assets held by us;
 - an inability to meet our liquidity needs;
 - the effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the Securities and Exchange Commission, or the SEC, the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setters;
 - the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System ("FRB"), inflation, interest rate, market and monetary fluctuations;
 - the risks of changes in interest rates on the level and composition of deposits, loan demand and the values of loan collateral, securities and interest sensitive assets and liabilities;
 - the imposition of enforcement action by bank regulatory authorities upon the Bank or the Company;
 - further governmental action as a result of our inability to comply with regulatory agreements;
 - unanticipated regulatory or judicial proceedings;
 - changes in consumer spending and savings habits;
 - the effects of terrorism and efforts to combat it;
 - our ability to effectively manage market risk, credit risk and operational risk;
 - the ability of the Company to compete with other financial institutions as effectively as the Company currently intends due to increases in competitive pressures in the financial services sector;
 - the inability of the Company to obtain new customers and to retain existing customers;
 - the timely development and acceptance of products and services, including products and services offered through alternative delivery channels such as the Internet;

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- technological changes implemented by the Company and by other parties, including third party vendors, which may be more difficult or more expensive than anticipated or which may have unforeseen consequences to the Company and its customers;
 - the ability of the Company to develop and maintain secure and reliable electronic systems;
 - the ability of the Company to retain key executives and employees and the difficulty that the Company may experience in replacing key executives and employees in an effective manner;
 - consumer spending and saving habits which may change in a manner that affects the Company's business adversely;
 - business combinations and the integration of acquired businesses which may be more difficult or expensive than expected;
 - the costs, effects and outcomes of existing or future litigation;
 - the ability of the Company to manage the risks associated with the foregoing as well as anticipated;

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Additional information concerning the Company and its business, including other factors that could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

Overview

Community Financial Shares, Inc. (the "Company") is the holding company for Community Bank- Wheaton/Glen Ellyn (the "Bank"). The Company is headquartered in Glen Ellyn, Illinois and operates four offices in its primary market area, which is comprised of Glen Ellyn, Illinois and Wheaton, Illinois. One location is in Glen Ellyn and three are located in Wheaton.

The Company's principal business is conducted by the Bank and consists of offering a full range of community-based financial services, including commercial and retail banking services. The profitability of the Company's operations depends primarily on its net interest income, provision for loan losses, other income, and other expenses. Net interest income is the difference between the income the Company receives on its loan and securities portfolios and its cost of funds, which consists of interest paid on deposits and borrowings. The provision for loan losses reflects the cost of credit risk in the Company's loan portfolio. Other income consists of service charges on deposit accounts, gains on loan sales, securities gains (losses), and other income. Other expenses include salaries and employee benefits expenses, as well as occupancy and equipment expenses and other noninterest expenses.

Net interest income is dependent on the amounts and yields of interest-earning assets as compared to the amounts and rates of interest-bearing liabilities. Net interest income is sensitive to changes in market rates of interest and the Company's asset/liability management procedures in coping with such changes. The provision for loan losses is dependent upon management's assessment of the collectibility of the loan portfolio under current economic conditions.

Comparison of Financial Condition at June 30, 2010 and December 31, 2009

Total assets at June 30, 2010 were \$337.7 million, which represented a decrease of \$3.9 million, or 1.1%, compared to \$341.5 million at December 31, 2009. The decrease in total assets was primarily due to decreases in loans receivable, investment securities and cash and cash equivalents. These decreases were partially offset by increases in real estate held for investment, interest-bearing time deposits and other real estate owned. Loans receivable decreased \$7.0 million, or 3.1%, to \$226.0 million at June 30, 2010 from \$233.0 million at December 31, 2009 and investment securities decreased \$3.0 million, or 6.8%, to \$41.5 million at June 30, 2010 from \$44.5 million at December 31, 2009. In addition, cash and cash equivalents decreased \$1.2 million, or 4.7%, to \$24.6 million at June 30, 2010 from \$25.8 million at December 31, 2009. Real estate held for investment increased to \$3.0 million at June 30, 2010 from zero at December 31, 2009. Interest-bearing time deposits increased \$2.4 million to \$3.0 million at June 30, 2010 from \$618,000 at December 31, 2009. Other real estate owned increased \$1.0 million, or 40.1%, to \$3.4 million at June 30, 2010 from \$2.4 million at December 31, 2009. The decrease in loans and increases in other real estate owned and real estate held for investment during the six months ended June 30, 2010 is primarily due to the Bank (1) taking possession of four properties through foreclosure and transferring them to other real estate owned and (2) accepting a deed in lieu of foreclosure on another property, which has been leased. Included in other real estate owned are two one-to-four family residences, two multi-unit condominium buildings, two mixed use commercial/residential properties and one commercial property. In addition, the decrease in loans receivable was partially due to the write-off of \$3.7 million in balances. Investment securities decreased primarily due to \$5.0 million of agency securities being called in June 2010.

Total liabilities at June 30, 2010 were \$317.2 million, which represented a decrease of \$1.6 million, or 0.50%, compared to \$318.8 million at December 31, 2009. Deposits decreased \$1.6 million, or 0.6%, to \$296.7 million at June 30, 2010 from \$298.3 million at December 31, 2009. This decrease primarily consists of decreases in: (1) interest bearing demand deposit accounts of \$280,000, or 0.4%, to \$77.2 million at June 30, 2010 from \$77.5 million at December 31, 2009; (2) money market accounts of \$8.7 million, or 20.4%, to \$34.2 million at June 30, 2010 from \$42.9 million at December 31, 2009; and (3) certificates of deposit of \$12.9 million, or 10.6%, to \$108.9 million at June 30, 2010 from \$121.8 million at December 31, 2009. These decreases were partially offset by an increase in regular savings accounts of \$20.9 million, or 80.0%, to \$47.1 million at June 30, 2010 from \$26.1 million at December 31, 2009. The increase in regular savings accounts is partially due to the introduction of a high rate savings account by the Bank in November 2009. The percentage of regular savings accounts to total deposits increased to 16.3% at June 30, 2010 from 8.7% at December 31, 2009 and the percentage of certificates of deposit to total deposits decreased to 36.5% at June 30, 2010 from 40.5% at December 31, 2009. Borrowed money, consisting of Federal Home Loan Bank advances and other borrowings, decreased \$200,000, or 1.4%, to \$14.6 million at June 30, 2010 from \$14.8 million at December 31, 2009.

Stockholders' equity decreased \$2.3 million, or 10.0%, to \$20.4 million at June 30, 2010 from \$22.7 million at December 31, 2009. The decrease in stockholders' equity for the six months ended June 30, 2010 was primarily due to the net loss for the six months ended June 30, 2010. The loss was partially offset by an increase of \$495,000 in the Company's accumulated other comprehensive income relating to the change in fair value of its available-for-sale investment portfolio. As of June 30, 2010 there were 1,245,267 shares of Company common stock outstanding, resulting in a tangible book value of \$10.62 per share at that date.

Comparison of Operating Results for the Three Months Ended June 30, 2010 and 2009

General. The Company's net loss increased \$2.3 million to a loss of \$2.7 million for the three months ended June 30, 2010, from a loss of \$390,000 for the three months ended June 30, 2009. Due to the effect of preferred stock dividends, net loss available to common shareholders totaled \$2.8 million for the three months ended June 30, 2010. This represents basic and diluted loss per share of \$2.24 for the three months ended June 30, 2010 compared to a basic and diluted loss per share of \$0.36 for the three months ended June 30, 2009. The increase in net loss during the second quarter of 2010 is the result of the combined effect of a \$3.6 million increase in provision for loan loss, a \$404,000 decrease in noninterest income, and a \$139,000 increase in noninterest expenses partially offset by a \$330,000 increase in net interest income.

Net interest income. The following table summarizes interest and dividend income and interest expense for the three months ended June 30, 2010 and 2009.

	Three Months Ended June 30,			
	2010	2009	\$ Change	% Change
(Dollars in thousands)				
Interest and dividend income:				
Interest and fees on loans	\$2,922	\$3,126	\$ (204)	(6.53)%
Securities:				
Taxable	307	250	57	22.80
Exempt from federal tax	138	123	15	12.20
Other interest income	21	16	5	31.25
Total interest and dividend income	<u>3,388</u>	<u>3,515</u>	<u>(127)</u>	<u>(3.61)</u>
Interest expense:				
Deposits	746	1,172	(426)	(36.35)
Federal Home Loan Bank advances and other borrowings	127	149	(22)	(14.77)
Subordinated debentures	17	26	(9)	(34.62)
Total interest expense	890	1,347	(457)	(33.93)
Net interest income	<u>\$2,498</u>	<u>\$2,168</u>	<u>\$ 330</u>	<u>15.22</u>

The following table summarizes average balances and annualized average yields or costs for the three months ended June 30, 2010 and 2009.

	Three Months Ended June 30,					
	2010			2009		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
(Dollars in thousands)						
Interest-earning assets:						
Taxable securities	\$ 32,110	\$ 307	3.83%	\$ 22,454	\$ 250	4.46%
Tax-exempt securities	12,743	138	4.34	11,520	123	4.29
Loan receivables	233,579	2,922	5.02	222,367	3,126	5.64
Interest-bearing deposits	22,140	21	0.38	22,108	16	0.30
FHLB stock	5,398	—	0.00	5,398	—	0.00
Total interest-earning assets	<u>305,970</u>	<u>3,388</u>	<u>4.44</u>	<u>283,847</u>	<u>3,515</u>	<u>4.97</u>
Interest-bearing liabilities:						
NOW accounts	77,069	119	0.62	68,327	186	1.09
Regular savings	44,355	63	0.57	26,415	10	0.15
Money market accounts	36,068	58	0.64	38,970	162	1.66
Certificates of deposit	111,202	506	1.83	107,346	814	3.04
FHLB advances and other	14,699	127	3.46	19,000	149	3.16
Subordinated debentures	3,609	17	1.88	3,609	26	2.87
Total interest-bearing deposits	<u>\$287,002</u>	<u>890</u>	<u>1.24</u>	<u>\$263,667</u>	<u>1,347</u>	<u>2.05</u>
Net interest income		<u>\$2,498</u>			<u>\$2,168</u>	
Net interest spread			<u>3.20%</u>			<u>2.92%</u>
Net interest income to average interest-earning assets			<u>3.27%</u>			<u>3.06%</u>

Interest Income. Interest income decreased \$127,000, or 3.6%, to \$3.4 million for the three months ended June 30, 2010, compared to \$3.5 million for the same period in 2009. This decrease resulted primarily from a decrease in the average yield on earning assets of 53 basis points to 4.44% for the three months ended June 30, 2010 from 4.97% for the three months ended June 30, 2009.

Loan interest income decreased \$204,000, or 6.5%, to \$2.9 million for the three months ended June 30, 2010, compared to \$3.1 million for the comparable prior year period. This decrease resulted from a decrease in the average loan yield of 62 basis points to 5.02% for the three months ended June 30, 2010 from 5.64% for the comparable prior year period. Loan interest income of \$254,000 was reversed for the three months ended June 30, 2010 as a result of loans placed on nonaccrual status. Partially offsetting this decrease was an increase in the average balance of loans of \$11.2 million to \$233.6 million for the three months ended June 30, 2010 from \$222.4 million for the comparable prior year period. In addition, interest on taxable securities increased \$57,000 for the three months ended June 30, 2010 compared to the comparable prior year period. This increase is primarily due to an increase in the average balance of taxable securities of \$9.6 million to \$32.1 million for the three months ended June 30, 2010 from \$22.5 million for the three months ended June 30, 2009. Partially offsetting the increase in the average balance of taxable securities was a decrease in the average yield on taxable securities of 63 basis points to 3.83% for the three months ended June 30, 2010 from 4.46% for the comparable prior year period.

Interest Expense. Interest expense decreased by \$457,000, or 33.9%, to \$890,000 for the three months ended June 30, 2010, from \$1.3 million for the three months ended June 30, 2009. This decrease resulted from a decrease in the average rate paid on interest bearing liabilities of 81 basis points to 1.24% for the three months ended June 30, 2010 from 2.05% for the comparable prior year period. This decrease was partially offset by an increase in the average balance of interest bearing liabilities of \$23.3 million to \$287.0 million for the three months ended June 30, 2010 from \$263.7 million for the three months ended June 30, 2009. Interest expense resulting from Federal Home Loan Bank advances, subordinated debentures and other borrowings decreased \$31,000 during the three months ended June 30, 2010. The average balance on these borrowings decreased \$4.3 million to \$18.3 million for the three months ended June 30, 2010 from \$22.6 million for the comparable prior year period. Partially offsetting this decrease was an increase in the average cost on these borrowings of 5 basis points to 3.16% for the three months ended June 30, 2010 from 3.11% for the comparable period in 2009.

Net Interest Income before Provision for Loan Losses. Net interest income before provision for loan losses increased \$330,000, or 15.2%, to \$2.5 million for the three months ended June 30, 2010 compared to \$2.2 million for the comparable period in 2009. The Company's net interest margin expressed as a percentage of average earning assets increased to 3.27% for the three months ended June 30, 2010 as compared to 3.06% for the three months ended June 30, 2009. The yield on average earning assets decreased 53 basis points to 4.44% for the three months ended June 30, 2010 from 4.97% for the comparable period ended June 30, 2009. This decrease in the yield on average earning assets was primarily due to an increase in nonperforming loans of \$17.0 million. The yield on average loans decreased to 5.02% for the three months ended June 30, 2010 from 5.64% for the three months ended June 30, 2009. In addition, there was an 81 basis point decrease in the cost of average interest-bearing liabilities to 1.24% for the three months ended June 30, 2010 as compared to 2.05% for the comparable 2009 period.

Provision for Loan Losses. The Bank's provision for loan losses increased to \$4.4 million for the three months ended June 30, 2010 from \$870,000 for the comparable period in 2009. The \$3.6 million increase in the provision was the result of management's quarterly analysis of the allowance for loan loss. At June 30, 2010, December 31, 2009 and June 30, 2009, nonperforming loans totaled \$21.6 million, \$15.0 million and \$4.6 million, respectively. At June 30, 2010, the ratio of the allowance for loan losses to nonperforming loans was 20.3% compared to 32.0% at December 31, 2009 and 86.6% at June 30, 2009. The ratio of the allowance to total loans was 1.90%, 2.02% and 1.73%, at June 30, 2010, December 31, 2009 and June 30, 2009, respectively. The decline is primarily due to reserves established in prior periods on loans which were charged off during the three months ended June 30, 2010.

Nonperforming loans increased \$6.6 million, or 44.0%, to \$21.6 million at June 30, 2010 from \$15.0 million at December 31, 2009. The largest component of nonperforming loans is residential real estate, which increased \$5.8 million, or 182.8%, to \$8.9 million at June 30, 2010, or 41.3% of total nonperforming loans, from \$3.1 million at December 31, 2009. Nonperforming real estate construction loans increased \$1.7 million, or 46.2%, to \$5.6 million at June 30, 2010 from \$3.9 million at December 31, 2009. These increases were partially offset by a decrease in nonperforming commercial real estate loans, which decreased \$838,000, or 17.9%, to \$3.8 million at June 30, 2010 from \$4.7 million at December 31, 2009 and now represent 17.9% of total nonperforming loans. Charge-offs, net of recoveries, totaled \$4.9 million for the three months ended June 30, 2010 compared to \$44,000 for the three months ended June 30, 2009. Management continues to take aggressive actions in identifying and disposing of problem credits.

The amounts of the provision and allowance for loan losses are influenced by a number of factors, including current economic conditions, actual loss experience, industry trends and other factors, including real estate values in the Company's market area and management's assessment of current collection risks within the loan portfolio. Should the local economic climate continue to deteriorate, borrowers may experience increased difficulties paying off loans and the level of non-performing loans, charge-offs, and delinquencies could continue to rise, which would require us to further increase the provision. The allowance for loan losses represents management's estimate of probable incurred losses based on information available as of the date of the financial statements. The allowance for loan losses is based on management's evaluation of the collectibility of the loan portfolio, including past loan loss experience, known and inherent risks in the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, and economic conditions. Management believes that, based on information available at June 30, 2010, the Bank's allowance for loan losses was adequate to cover probable incurred losses inherent in its loan portfolio at that time. However, no assurances can be given that the Bank's level of allowance for loan losses will be sufficient to cover loan losses incurred by the Bank or that future adjustments to the allowance will not be necessary if economic or other conditions differ substantially from the economic and other conditions used by management to determine the current level of the allowance. In addition, the FDIC as an integral part of its examination processes, periodically reviews the Bank's allowance for loan losses and may require the Bank to make additional provisions for estimated loan losses based upon judgments different from those of management. The FDIC examines the Bank periodically and, accordingly, as part of this examination the allowance is reviewed utilizing specific guidelines. Based upon its review, the FDIC may accordingly from time to time require reserves in addition to those previously provided.

Noninterest Income

	Three Months Ended June 30,			
	2010	2009	\$ Change	% Change
(Dollars in thousands)				
Non-interest income:				
Service charges on deposit accounts	\$ 133	\$162	\$ (29)	(17.90)%
Gain on sale of loans	184	337	(153)	(45.40)
Write-down on other real estate owned	(185)	—	(185)	—
Gain (loss) on sale of foreclosed assets	(12)	8	(20)	(250.00)
Other non-interest income	176	193	(17)	(8.81)
Total non-interest income	<u>\$ 296</u>	<u>\$700</u>	<u>\$ (404)</u>	<u>(57.77)</u>

Noninterest income totaled \$296,000 and \$700,000 for the three months ended June 30, 2010 and 2009, respectively. Gain on sale of loans decreased \$153,000 to \$184,000 for the three months ended June 30, 2010 from \$337,000 for the comparable prior year period primarily due to the fact that the Bank's mortgage department experienced an increase in loan applications during the second quarter of 2009 due to the lower interest rate environment for mortgage loans. In addition, write-downs on other real estate owned properties totaled \$185,000 for the three months ended June 30, 2010 compared to zero for the prior year period.

Noninterest Expense

	Three Months Ended June 30,			
	2010	2009	\$ Change	% Change
(Dollars in thousands)				
Non-interest expenses:				
Salaries and employee benefits	\$1,310	\$1,389	\$ (79)	(5.69)%
Net occupancy and equipment expense	324	336	(12)	(3.57)
Data processing expense	277	226	51	22.57
Advertising and promotions	71	73	(2)	(2.74)
FDIC insurance premiums	186	285	(99)	(34.74)
Professional fees	267	185	82	44.32
Other real estate owned expenses	128	—	128	—
Other operating expenses	315	245	70	28.57
Total non-interest expenses	<u>\$2,878</u>	<u>\$2,739</u>	<u>\$ 139</u>	<u>5.08</u>

Noninterest expense increased by \$139,000 to \$2.9 million for the three months ended June 30, 2010 from \$2.7 million for the comparable prior year period. Salaries and employee benefits expenses decreased by \$79,000, or 5.7%, to \$1.3 million for the three months ended June 30, 2010. This decrease is primarily the result of lower incentive payments for the first six months of 2010. Professional fees, including legal expenses, increased by \$82,000 to \$267,000 for the three months ended June 30, 2010. This increase is primarily due to higher legal fees associated with foreclosure actions. In addition, other real estate owned expenses increased to \$128,000 for the three months ended June 30, 2010 compared to zero for the prior year period. Other operating expenses, including occupancy, data processing, and marketing and advertising expenses, increased by a net \$37,000, or 5.8%, to \$672,000 for the three months ended June 30, 2010 from \$635,000 for the prior year period. Of this increase, \$51,000 is related to increases in data processing expense, which is primarily due to increased volume resulting from deposit account growth. This increase was partially offset by lower advertising and promotion expenses, which decreased \$2,000 from the prior year period and lower occupancy expenses, which decreased \$12,000 due to a successful petition to lower the real estate tax assessments on two Bank properties. Management continues to emphasize the importance of expense management and control in order to continue to provide expanded banking services to a growing market base.

Income Tax Expense. Income tax benefit totaled \$1.8 million and \$351,000 for the three months ended June 30, 2010 and 2009, respectively.

Comparison of Operating Results for the Six Months Ended June 30, 2010 and 2009

General. The Company's net loss increased \$2.3 million to a loss of \$2.6 million for the six months ended June 30, 2010, from a loss of \$308,000 for the three months ended June 30, 2009. Due to the effect of preferred stock dividends, net loss available to common shareholders totaled \$2.8 million for the six months ended June 30, 2010. This represents basic and diluted loss per share of \$2.24 for the six months ended June 30, 2010 compared to a basic and diluted loss per share of \$0.29 for the six months ended June 30, 2009. The increase in net loss during the second quarter of 2010 is the result of the combined effect of a \$3.7 million increase in provision for loan loss, a \$450,000 decrease in noninterest income, and a \$540,000 increase in noninterest expenses partially offset by a \$952,000 increase in net interest income.

Net interest income. The following table summarizes interest and dividend income and interest expense for the six months ended June 30, 2010 and 2009.

	Six Months Ended June 30,			
	2010	2009	\$ Change	% Change
(Dollars in thousands)				
Interest and dividend income:				
Interest and fees on loans	\$6,054	\$6,190	\$ (136)	(2.20)%
Securities:				
Taxable	636	477	159	33.33
Exempt from federal tax	279	248	31	12.50
Other interest income	37	28	9	32.14
Total interest and dividend income	<u>7,006</u>	<u>6,943</u>	<u>63</u>	<u>0.91</u>
Interest expense:				
Deposits	1,582	2,419	(837)	(34.60)
Federal Home Loan Bank advances and other borrowings	254	282	(28)	(9.93)
Subordinated debentures	34	58	(24)	(41.38)
Total interest expense	<u>1,870</u>	<u>2,759</u>	<u>(889)</u>	<u>(32.22)</u>
Net interest income	<u>\$5,136</u>	<u>\$4,184</u>	<u>\$ 952</u>	<u>22.75</u>

The following table summarizes average balances and annualized average yields or costs for the six months ended June 30, 2010 and 2009.

	Six Months Ended June 30,					
	2010			2009		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
	(Dollars in thousands)					
Interest-earning assets:						
Taxable securities	\$ 32,112	\$ 636	3.99%	\$ 19,636	\$ 477	4.90%
Tax-exempt securities	12,869	279	4.38	11,515	248	4.35
Loan receivables	234,877	6,054	5.20	221,882	6,190	5.63
Interest-bearing deposits	21,357	37	0.35	20,135	28	0.28
FHLB stock	5,398	—	0.00	5,398	—	0.00
Total interest-earning assets	306,613	7,006	4.61	278,566	6,943	5.03
Interest-bearing liabilities:						
NOW accounts	76,776	245	0.64	63,815	351	1.11
Regular savings	38,501	98	0.51	25,385	19	0.15
Money market accounts	38,003	122	0.65	38,909	318	1.65
Certificates of deposit	114,372	1,117	1.97	109,061	1,731	3.20
FHLB advances and other	14,749	254	3.48	19,000	282	2.99
Subordinated debentures	3,609	34	1.88	3,609	58	3.21
Total interest-bearing deposits	\$286,010	1,870	1.32	\$259,779	2,759	2.14
Net interest income		<u>\$5,136</u>			<u>\$4,184</u>	
Net interest spread			<u>3.29%</u>			<u>2.89%</u>
Net interest income to average interest-earning assets			<u>3.38%</u>			<u>3.03%</u>

Interest Income. Interest income increased \$63,000, or 1.0%, to \$7.0 million for the six months ended June 30, 2010, compared to \$6.9 million for the same period in 2009. This decrease resulted primarily from a decrease in the average yield on earning assets of 42 basis points to 4.61% for the six months ended June 30, 2010 from 5.03% for the six months ended June 30, 2009.

Loan interest income decreased \$136,000, or 2.2%, to \$6.1 million for the six months ended June 30, 2010, compared to \$6.2 million for the comparable prior year period. This decrease resulted from a decrease in the average loan yield of 43 basis points to 5.20% for the six months ended June 30, 2010 from 5.63% for the comparable prior year period. Loan interest income of \$287,000 was reversed for the six months ended June 30, 2010 as a result of loans placed on nonaccrual status. Partially offsetting this decrease was an increase in the average balance of loans of \$13.0 million to \$234.9 million for the six months ended June 30, 2010 from \$221.9 million for the comparable prior year period. In addition, interest on taxable securities increased \$159,000 for the six months ended June 30, 2010 compared to the comparable prior year period. This increase is primarily due to an increase in the average balance of taxable securities of \$12.5 million to \$32.1 million for the six months ended June 30, 2010 from \$19.6 million for the six months ended June 30, 2009. Partially offsetting the increase in the average balance of taxable securities was a decrease in the average yield on taxable securities of 91 basis points to 3.99% for the six months ended June 30, 2010 from 4.90% for the comparable prior year period.

Interest Expense. Interest expense decreased by \$889,000, or 32.2%, to \$1.9 million for the six months ended June 30, 2010, from \$2.8 million for the six months ended June 30, 2009. This decrease resulted from a decrease in the average rate paid on interest bearing liabilities of 82 basis points to 1.32% for the six months ended June 30, 2010 from 2.14% for the comparable prior year period. This decrease was partially offset by an increase in the average balance of interest bearing liabilities of \$26.2 million to \$286.0 million for the six months ended June 30, 2010 from \$259.8 million for the six months ended June 30, 2009. Interest expense resulting from Federal

Home Loan Bank advances, subordinated debentures and other borrowings decreased \$52,000 during the six months ended June 30, 2010. The average balance on these borrowings decreased \$4.2 million to \$18.4 million for the six months ended June 30, 2010 from \$22.6 million for the comparable prior year period. Partially offsetting this decrease was an increase in the average cost on these borrowings of 13 basis points to 3.14% for the six months ended June 30, 2010 from 3.01% for the comparable period in 2009.

Net Interest Income before Provision for Loan Losses. Net interest income before provision for loan losses increased \$952,000, or 22.8%, to \$5.1 million for the six months ended June 30, 2010 compared to \$4.2 million for the comparable period in 2009. The Company's net interest margin expressed as a percentage of average earning assets increased to 3.38% for the six months ended June 30, 2010 as compared to 3.03% for the six months ended June 30, 2009. The yield on average earning assets decreased 42 basis points to 4.61% for the six months ended June 30, 2010 from 5.03% for the comparable period ended June 30, 2009. This decrease in the yield on average earning assets was primarily due to an increase in nonperforming loans of \$17.0 million. The yield on average loans decreased to 5.20% for the six months ended June 30, 2010 from 5.63% for the six months ended June 30, 2009. In addition, there was an 82 basis point decrease in the cost of average interest-bearing liabilities to 1.32% for the six months ended June 30, 2010 as compared to 2.14% for the comparable 2009 period.

Provision for Loan Losses. The Bank's provision for loan losses increased to \$4.7 million for the six months ended June 30, 2010 from \$960,000 for the comparable period in 2009. The \$3.7 million increase in the provision was the result of management's quarterly analysis of the allowance for loan loss. At June 30, 2010, December 31, 2009 and June 30, 2009, nonperforming loans totaled \$21.6 million, \$15.0 million and \$4.6 million, respectively. At June 30, 2010, the ratio of the allowance for loan losses to non-performing loans was 20.3% compared to 32.0% at December 31, 2009 and 86.6% at June 30, 2009. The ratio of the allowance to total loans was 1.90%, 2.02% and 1.73%, at June 30, 2010, December 31, 2009 and June 30, 2009, respectively. The decline is primarily due to reserves established in prior periods on loans which were charged off during the six months ended June 30, 2010.

Nonperforming loans increased \$6.6 million, or 44.0%, to \$21.6 million at June 30, 2010 from \$15.0 million at December 31, 2009. The largest component of nonperforming loans is residential real estate, which increased \$5.8 million, or 182.8%, to \$8.9 million at June 30, 2010, or 41.3% of total nonperforming loans, from \$3.1 million at December 31, 2009. Nonperforming real estate construction loans increased \$1.7 million, or 46.2%, to \$5.6 million at June 30, 2010 from \$3.9 million at December 31, 2009. These increases were partially offset by a decrease in nonperforming commercial real estate loans, which decreased \$838,000, or 17.9%, to \$3.8 million at June 30, 2010 from \$4.7 million at December 31, 2009 and now represent 17.9% of total nonperforming loans. Charge-offs, net of recoveries, totaled \$5.1 million for the six months ended June 30, 2010 compared to \$265,000 for the six months ended June 30, 2009. Management continues to take aggressive actions in identifying and disposing of problem credits.

Noninterest Income

	Six Months Ended June 30,			
	2010	2009	\$ Change	% Change
	(Dollars in thousands)			
Non-interest income:				
Service charges on deposit accounts	\$ 262	\$ 320	\$ (58)	(18.13)%
Gain on sale of loans	350	570	(220)	(38.60)
Gain on sale of securities	—	50	(50)	(100.00)
Write-down on other real estate owned	(185)	—	(185)	—
Gain (loss) on sale of foreclosed assets	4	(54)	58	174.41
Other non-interest income	347	342	5	1.46
Total non-interest income	<u>\$ 778</u>	<u>\$1,228</u>	<u>\$ (450)</u>	(36.65)

Noninterest income totaled \$778,000 and \$1.2 million for the six months ended June 30, 2010 and 2009, respectively. Gain on sale of loans decreased \$220,000 to \$350,000 for the six months ended June 30, 2010 from \$570,000 for the comparable prior year period, primarily due to the fact that the Bank's mortgage department experienced an increase in loan applications during the first six months of 2009 due to the lower interest rate environment for mortgage loans. In addition, write-downs on other real estate owned properties totaled \$185,000 for the six months ended June 30, 2010 compared to zero for the prior year period.

Noninterest Expense

	Six Months Ended June 30,			
	2010	2009	\$ Change	% Change
	(Dollars in thousands)			
Non-interest expenses:				
Salaries and employee benefits	\$2,721	\$2,677	\$ 44	1.64%
Net occupancy and equipment expense	672	712	(40)	(5.62)
Data processing expense	545	441	104	23.58
Advertising and promotions	134	139	(5)	(3.60)
FDIC insurance premiums	370	369	1	0.27
Professional fees	444	300	144	48.00
Other real estate owned expenses	229	—	229	—
Other operating expenses	591	528	63	11.93
Total non-interest expenses	<u>\$5,706</u>	<u>\$5,166</u>	<u>\$ 540</u>	10.45

Noninterest expense increased by \$540,000 to \$5.7 million for the six months ended June 30, 2010 from \$5.2 million for the comparable prior year period. Salaries and employee benefits expenses increased by \$44,000, or 1.6%, to \$2.7 million for the six months ended June 30, 2010. This increase is primarily the result of higher health insurance premiums. Professional fees, including legal expenses, increased by \$144,000 to \$444,000 for the six months ended June 30, 2010. This increase is primarily due to higher legal fees associated with foreclosure actions. In addition, other real estate owned expenses increased to \$229,000 for the six months ended June 30, 2010 compared to zero for the prior year period. Other operating expenses, including occupancy, data processing, and marketing and advertising expenses, increased by a net \$59,000, or 4.6%, to \$1.4 million for the six months ended June 30, 2010 from \$1.3 million for the prior year period. Of this increase, \$104,000 is related to increases in data processing expense, which is primarily due to increased volume resulting from an increased number of deposit accounts. This increase was partially offset by lower advertising and promotion expenses, which decreased \$5,000 from the prior year period and lower occupancy expenses, which decreased \$40,000 due to a successful petition to lower the real estate tax assessments on two Bank properties. Management continues to emphasize the importance of expense management and control in order to continue to provide expanded banking services to a growing market base.

Income Tax Expense. Income tax benefit totaled \$1.9 million and \$406,000 for the six months ended June 30, 2010 and 2009, respectively.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The Company's significant accounting policies are described in detail in the notes to the consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2009, which was filed with the U.S. Securities and Exchange Commission on March 31, 2010. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results, and they require management to make estimates that are difficult, subjective, or complex.

Allowance for Credit Losses. The allowance for credit losses provides coverage for probable losses inherent in the Company's loan portfolio. Management evaluates the adequacy of the allowance for credit losses each quarter based on changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, regulatory guidance and economic factors. This evaluation is inherently subjective, as it requires the use of significant management estimates. Many factors can affect management's estimates of specific and expected losses, including volatility of default probabilities, rating migrations, loss severity and economic and political conditions. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

The Company determines the amount of the allowance based on relative risk characteristics of the loan portfolio. The allowance recorded for commercial loans is based on reviews of individual credit relationships and an analysis of the migration of commercial loans and actual loss experience. The allowance recorded for homogeneous consumer loans is based on an analysis of loan mix, risk characteristics of the portfolio, fraud loss and bankruptcy experiences, and historical losses, adjusted for current trends, for each homogeneous category or group of loans. The allowance for credit losses relating to impaired loans is based on the loan's observable market price, the collateral for certain collateral-dependent loans, or the discounted cash flows using the loan's effective interest rate.

Regardless of the extent of the Company's analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses are probable within the loan portfolio. This is due to several factors including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions, the judgmental nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger non-homogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogenous groups of loans are among other factors. The Company estimates a range of inherent losses related to the existence of these exposures. The estimates are based upon the Company's evaluation of imprecision risk associated with the commercial and consumer allowance levels and the estimated impact of the current economic environment.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, FHLB advances, and proceeds from principal and interest payments on loans and securities. While maturities, and scheduled amortization of loans and securities, and calls of securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, and competition. The Company generally manages the pricing of its deposits to be competitive and to increase core deposit relationships.

Liquidity management is both a daily and long-term responsibility of management. The Company adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-earning deposits and securities, and (iv) the objectives of its asset/liability management program. Excess liquid assets are invested generally in interest-earning overnight deposits and short- and intermediate-term U.S. government and agency obligations.

The Company's most liquid assets are cash and short-term investments. The levels of these assets are dependent on the Company's operating, financing, lending, and investing activities during any given year. The Company has other sources of liquidity if a need for additional funds arises, including securities maturing within one year and the repayment of loans. The Company may also utilize the sale of securities available for sale, federal funds lines of credit from correspondent banks, and borrowings from the Federal Home Loan Bank of Chicago and M&I Bank.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders. The Company's primary source of funds is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company is generally restricted under applicable law to net profits in the current year plus those for the previous two years. At June 30, 2010, the Company had liquid assets of \$2.2 million.

Contractual Obligations

The following table discloses contractual obligations of the Company as of June 30, 2010:

(Dollars in Thousands)	2010	2011	2012	2013	2014	2015 and after	Total
Federal Home Loan Bank advances	\$4,500	\$2,000	\$2,000	\$4,500	\$ —	\$ —	\$13,000
Other borrowing	—	—	—	—	1,600	—	1,600
Subordinated debentures	—	—	—	—	—	3,609	3,609
Data Processing (1), (2)	281	581	601	—	—	—	1,463
Total	\$4,781	\$2,581	\$2,601	\$4,500	\$1,600	\$ 3,609	\$19,672

- (1) Estimated contract amount based on transaction volume. Actual expense was \$590,000 and \$551,000 in 2009 and 2008, respectively.
- (2) Contract expires September 30, 2012.

Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit. For information about our loan commitments and unused lines of credit, see Note 16 of the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC on March 31, 2010. We currently have no plans to engage in hedging activities in the future. For the year ended December 31, 2009 and for the six months ended June 30, 2010, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on the operations of the Company is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

For a discussion of the potential impact of interest rate changes upon the market value of the Company's portfolio equity, see Item 7A in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Management, as part of its regular practices, performs periodic reviews of the impact of interest rate changes upon net interest income and the market value of the Company's portfolio equity. Based on, among other factors, such reviews, management believes that there have been no material changes in the market risk of the Company's asset and liability position since December 31, 2009.

ITEM 4(T): CONTROLS AND PROCEDURES

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, no change in the Company's internal control over financial reporting occurred during the six months ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company or its subsidiaries are a party other than ordinary routine litigation incidental to their respective businesses.

ITEM 1A. RISK FACTORS

Except as described below, there are no material changes to the risk factors disclosed in the Company's Form 10-K for the year ended December 31, 2009.

Recently enacted regulatory reform legislation may have a material impact on our operations.

On July 21, 2010, the President signed into law The Dodd-Frank Wall Street Reform and Consumer Protection Act, which restructures the regulation of depository institutions. The legislation contains several provisions that will have a direct impact on our operations. The legislation creates a new federal agency, the Consumer Financial Protection Bureau, that will be dedicated to administering fair lending and consumer compliance laws with respect to financial products and services, which could result in new regulatory requirements and increased regulatory costs for us. The legislation also contains changes to the laws governing, among other things, FDIC assessments, mortgage originations, holding company capital requirements and risk retention requirements for securitized loans. Much of the legislation requires implementation through regulations and, accordingly, a complete assessment of its impact on the Company and the Bank are not yet possible since such regulations have not yet been issued. However, the enactment of the legislation is likely to increase regulatory burdens and costs for us and have a material impact on our operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

COMMUNITY FINANCIAL SHARES, INC.
(Registrant)

/s/ Scott W. Hamer

Scott W. Hamer

Dated: August 16, 2010

President and Chief Executive Officer
(Principal Executive Officer)

/s/ Eric J. Wedeen

Eric J. Wedeen

Dated: August 16, 2010

Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CEO PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, Scott W. Hamer, Chief Executive Officer, certify that:

1. I have reviewed this Form 10-Q for the period ending June 30, 2010 of Community Financial Shares, Inc.;
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 annual report;
4. The registrant's other certifying officer 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)) 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 in 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 most recent 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 officer 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 function):

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

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: August 16, 2010

By /s/ Scott W. Hamer, CEO
(Signature and Title)

**CERTIFICATION OF CFO PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002**

I, Eric J. Wedeen, Chief Financial Officer, certify that:

1. I have reviewed this Form 10-Q for the period ending June 30, 2010 of Community Financial Shares, Inc.;
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 annual report;
4. The registrant's other certifying officer 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)) 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 in 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 most recent 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 officer 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 function):

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

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: August 16, 2010

By /s/ Eric J. Wedeen, CFO
(Signature and Title)

**CERTIFICATION OF CEO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Community Financial Shares, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott W. Hamer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Scott W. Hamer, CEO

Scott W. Hamer
Chief Executive Officer
August 16, 2010

**CERTIFICATION OF CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Community Financial Shares, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric J. Wedeen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eric J. Wedeen, CFO

Eric J. Wedeen

Chief Financial Officer

August 16, 2010