

SOUTHERN MISSOURI BANCORP INC
Form 10-Q
February 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2007

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 0-23406

Southern Missouri Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Missouri
(State or jurisdiction of incorporation)

43-1665523
(IRS employer id. no.)

531 Vine Street Poplar Bluff, MO 63901
(Address of principal executive offices) (Zip code)

(573) 778-1800
Registrant's telephone number, including area code

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 is a shell corporation (as defined in Rule 12 b-2 of the Exchange Act)

Yes No

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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 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 _____ Smaller reporting company
 X

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

| Class | Outstanding at February 12, 2008 |
|-----------------------------------------|----------------------------------|
| Common Stock, Par Value \$.01 Shares | 2,234,633 |

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PART I: Item 1: Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND JUNE 30, 2007

| | December 31, 2007 (unaudited) | June 30, 2007 |
|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------|
| Cash and cash equivalents | \$ 9,119,182 | \$ 7,330,966 |
| Available for sale securities | 38,144,022 | 34,883,588 |
| Stock in FHLB of Des Moines | 3,058,400 | 3,070,600 |
| Loans receivable, net of allowance for loan losses of \$2,851,624 and \$2,537,659 at December 31, 2007 and June 30, 2007, respectively | 319,671,660 | 312,062,967 |
| Accrued interest receivable | 2,755,270 | 2,248,064 |
| Premises and equipment, net | 8,422,236 | 8,650,673 |
| Bank owned life insurance – cash surrender value | 7,136,297 | 6,998,565 |
| Intangible assets, net | 1,965,531 | 2,093,160 |
| Prepaid expenses and other assets | 2,352,758 | 2,588,212 |
| Total assets | \$ 392,625,356 | \$ 379,926,795 |
| Deposits | \$ 274,146,495 | \$ 270,088,096 |
| Securities sold under agreements to repurchase | 22,807,504 | 17,758,364 |
| Advances from FHLB of Des Moines | 56,500,000 | 54,000,000 |
| Accounts payable and other liabilities | 765,511 | 742,816 |
| Accrued interest payable | 1,458,132 | 1,406,280 |
| Subordinated debt | 7,217,000 | 7,217,000 |
| Total liabilities | 362,894,642 | 351,212,556 |
| Commitments and contingencies | - | - |
| Preferred stock, \$.01 par value; 500,000 shares authorized; none issued or outstanding | - | - |
| Common stock, \$.01 par value; 4,000,000 shares authorized; 2,957,226 shares issued | 29,572 | 29,572 |
| Additional paid-in capital | 17,425,959 | 17,389,156 |
| Retained earnings | 25,880,996 | 24,634,854 |
| Treasury stock of 790,044 shares at December 31, 2007, and 743,250 shares at June 30, 2007, at cost | (13,685,841) | (12,990,541) |
| Accumulated other comprehensive income (loss) | 80,028 | (348,802) |
| Total stockholders' equity | 29,730,714 | 28,714,239 |
| Total liabilities and stockholders' equity | \$ 392,625,356 | \$ 379,926,795 |

See Notes to Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIODS ENDED DECEMBER 31, 2007 AND 2006 (Unaudited)

| | Three months ended December 31, | | Six months ended December 31, | |
|------------------------------------------------------------------|------------------------------------|------------------|----------------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| INTEREST INCOME: | | | | |
| Loans | \$ 5,919,541 | \$ 5,342,768 | \$ 11,830,850 | \$ 10,554,246 |
| Investment securities | 289,080 | 303,952 | 578,567 | 617,635 |
| Mortgage-backed securities | 156,160 | 141,820 | 281,226 | 292,042 |
| Other interest-earning assets | 12,460 | 13,678 | 19,228 | 24,580 |
| Total interest income | 6,377,241 | 5,802,218 | 12,709,871 | 11,488,503 |
| INTEREST EXPENSE: | | | | |
| Deposits | 2,476,505 | 2,259,681 | 5,002,636 | 4,401,013 |
| Securities sold under agreements to repurchase | 207,435 | 123,283 | 399,986 | 247,054 |
| Advances from FHLB of Des Moines | 768,463 | 855,501 | 1,600,462 | 1,637,528 |
| Subordinated debt | 153,627 | 150,045 | 304,142 | 300,264 |
| Total interest expense | 3,606,030 | 3,388,510 | 7,307,226 | 6,585,859 |
| NET INTEREST INCOME | 2,771,211 | 2,413,708 | 5,402,645 | 4,902,644 |
| PROVISION FOR LOAN LOSSES | 90,000 | 95,000 | 200,000 | 220,000 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 2,681,211 | 2,318,708 | 5,202,645 | 4,682,644 |
| NONINTEREST INCOME: | | | | |
| Customer service charges | 318,479 | 298,602 | 622,070 | 614,753 |
| Late charges on loans | 32,471 | 31,344 | 65,895 | 62,578 |
| Increase in cash surrender value of bank owned life insurance | 69,181 | 65,723 | 137,732 | 130,323 |
| Gain on sale of available for sale securities | 6,084 | - | 6,084 | - |
| Other | 175,822 | 152,802 | 357,815 | 317,998 |
| Total noninterest income | 602,037 | 548,471 | 1,189,596 | 1,125,652 |
| NONINTEREST EXPENSE: | | | | |
| Compensation and benefits | 1,083,434 | 1,002,550 | 2,148,840 | 1,987,830 |
| Occupancy and equipment, net | 378,058 | 332,007 | 751,026 | 672,982 |
| DIF deposit insurance premium | 7,790 | 7,879 | 15,016 | 15,947 |
| Professional fees | 90,119 | 44,970 | 129,410 | 85,494 |
| Advertising | 52,159 | 64,854 | 99,382 | 122,133 |
| Postage and office supplies | 65,176 | 78,556 | 137,188 | 147,789 |
| Amortization of intangible assets | 63,814 | 63,814 | 127,628 | 127,629 |
| Other | 237,392 | 208,193 | 465,779 | 439,989 |
| Total noninterest expense | 1,977,942 | 1,802,823 | 3,874,269 | 3,599,793 |
| INCOME BEFORE INCOME TAXES | 1,305,306 | 1,064,356 | 2,517,972 | 2,208,503 |

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| | | | | |
|---------------------------------------------------------------------------|--------------|------------|--------------|--------------|
| INCOME TAXES | 432,441 | 340,753 | 831,921 | 745,153 |
| NET INCOME | 872,865 | 723,603 | 1,686,051 | 1,463,350 |
| OTHER COMPREHENSIVE INCOME, NET OF TAX: | | | | |
| Unrealized gains on available for sale securities, net of income taxes | 260,727 | 125,935 | 428,830 | 401,241 |
| Adjustment for gains included in net income | (6,084) | - | (6,084) | - |
| Total other comprehensive income | 254,643 | 125,935 | 422,746 | 401,241 |
| COMPREHENSIVE INCOME | \$ 1,127,508 | \$ 849,538 | \$ 2,108,797 | \$ 1,864,591 |
| Basic earnings per common share | \$ 0.40 | \$ 0.32 | \$ 0.77 | \$ 0.66 |
| Diluted earnings per common share | \$ 0.39 | \$ 0.32 | \$ 0.76 | \$ 0.65 |
| Dividends per common share | \$ 0.10 | \$ 0.09 | \$ 0.20 | \$ 0.18 |

See Notes to Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTH PERIODS ENDED DECEMBER 31, 2007 AND 2006 (Unaudited)

| | Six months ended December 31, | |
|---------------------------------------------------------------------------|----------------------------------|---------------|
| | 2007 | 2006 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 1,686,051 | \$ 1,463,350 |
| Items not requiring (providing) cash: | | |
| Depreciation | 335,722 | 332,140 |
| MRP and SOP expense | 36,803 | 32,126 |
| Net realized gains on sale of available for sale securities | (6,084) | - |
| (Gain) on sale of foreclosed assets | (20,203) | (3,116) |
| Amortization of intangible assets | 127,629 | 127,629 |
| Increase in cash surrender value of bank owned life insurance | (137,732) | (130,323) |
| Provision for loan losses | 200,000 | 220,000 |
| Net amortization (accretion) of premiums and discounts on securities | (8,075) | (3,749) |
| Deferred income taxes | (39,000) | (35,000) |
| Changes in: | | |
| Accrued interest receivable | (507,206) | (164,496) |
| Prepaid expenses and other assets | 17,451 | 12,649 |
| Accounts payable and other liabilities | 22,695 | 915,432 |
| Accrued interest payable | 51,852 | 406,692 |
| Net cash provided by operating activities | 1,759,903 | 3,173,334 |
| Cash flows from investing activities: | | |
| Net increase in loans | (8,152,812) | (12,698,283) |
| Proceeds from sales of available for sale securities | 233,500 | - |
| Proceeds from maturities of available for sale securities | 9,454,374 | 3,970,143 |
| Net redemptions (purchases) of Federal Home Loan Bank stock | 12,200 | (688,700) |
| Purchases of available-for-sale securities | (12,253,467) | (2,123,500) |
| Purchases of premises and equipment | (107,285) | (134,368) |
| Proceeds from sale of foreclosed assets | 369,472 | 18,663 |
| Net cash used in investing activities | (10,444,018) | (11,656,045) |
| Cash flows from financing activities: | | |
| Net decrease in demand deposits and savings accounts | (5,316,531) | (6,955,031) |
| Net increase in certificates of deposits | 9,374,930 | 331,724 |
| Net increase (decrease) in securities sold under agreements to repurchase | 5,049,140 | (1,161,460) |
| Proceeds from Federal Home Loan Bank advances | 304,500,000 | 122,075,000 |
| Repayments of Federal Home Loan Bank advances | (302,000,000) | (102,525,000) |
| Dividends paid on common stock | (439,908) | (402,540) |
| Purchases of treasury stock | (695,300) | - |
| Net cash provided by financing activities | 10,472,331 | 11,362,693 |
| Increase in cash and cash equivalents | 1,788,216 | 2,879,982 |
| Cash and cash equivalents at beginning of period | 7,330,966 | 6,366,608 |

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| | | | | |
|--------------------------------------------|----|-----------|----|-----------|
| Cash and cash equivalents at end of period | \$ | 9,119,182 | \$ | 9,246,590 |
|--------------------------------------------|----|-----------|----|-----------|

Supplemental disclosures of cash flow information:

Noncash investing and financing activities:

| | | | | |
|-----------------------------------------------|----|---------|----|---------|
| Conversion of loans to foreclosed real estate | \$ | 303,369 | \$ | 251,949 |
| Conversion of loans to other equipment | | 40,750 | | 18,128 |

Cash paid during the period for:

| | | | | |
|-------------------------------------|----|-----------|----|-----------|
| Interest (net of interest credited) | \$ | 2,831,530 | \$ | 2,666,092 |
| Income taxes | | 915,683 | | 732,391 |

See Notes to Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission (SEC) Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated balance sheet of the Company as of June 30, 2007, has been derived from the audited consolidated balance sheet of the Company as of that date. Operating results for the six-month period ended December 31, 2007, are not necessarily indicative of the results that may be expected for the entire fiscal year. For additional information, refer to the Company's June 30, 2007, Form 10-K, which was filed with the SEC and the Company's annual report, which contains the audited consolidated financial statements for the fiscal years ended June 30, 2007 and 2006.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Southern Missouri Bank & Trust Co. (SMBT or Bank). All significant intercompany accounts and transactions have been eliminated in consolidation.

Note 2: Securities

Available for sale securities are summarized as follows at estimated fair value:

| | December 31, 2007 | | | |
|--------------------------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Investment Securities: | | | | |
| U.S. government and federal agency obligation | \$ 14,235,023 | \$ 96,528 | \$ (2,107) | \$ 14,329,444 |
| Obligations of state and political subdivisions | 2,611,700 | 15,868 | (10,758) | 2,616,810 |
| Other securities | 1,891,323 | 66 | (9,403) | 1,881,986 |
| Mortgage-backed securities | 19,278,978 | 123,690 | (86,886) | 19,315,782 |
| Total investments and mortgage-backed securities | \$ 38,017,024 | \$ 236,152 | \$ (109,154) | \$ 38,144,022 |

| | June 30, 2007 | | | |
|-------------------------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Investment Securities: | | | | |
| U.S. government and federal agency obligation | \$ 21,709,953 | \$ - | \$ (220,616) | \$ 21,489,337 |
| Obligations of state and political subdivisions | 2,015,783 | 24,276 | (24,550) | 2,015,509 |

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| | | | | |
|--------------------------------------------------|---------------|-----------|--------------|---------------|
| Other securities | 661,025 | - | (5,000) | 656,025 |
| Mortgage-backed securities | 11,050,510 | 3,845 | (331,638) | 10,722,717 |
| Total investments and mortgage-backed securities | \$ 35,437,271 | \$ 28,121 | \$ (581,804) | \$ 34,883,588 |

The following table shows our investments' 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 December 31, 2007.

| | Less than 12 months | | More than 12 months | | Totals | |
|--------------------------------------------------|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| Investment Securities: | | | | | | |
| U.S. government and federal agency obligations | \$ - | \$ - | \$ 1,988,303 | \$ (2,107) | \$ 1,988,303 | \$ (2,107) |
| Obligations of state and political subdivisions | 492,580 | (7,420) | 258,440 | (3,338) | 751,020 | (10,758) |
| Obligations of state and political subdivisions | 492,580 | (7,420) | 258,440 | (3,338) | 751,020 | (10,758) |
| Other securities | 1,440,000 | (9,403) | - | - | 1,440,000 | (9,403) |
| Mortgage-backed securities | 1,782,213 | (1,746) | 4,303,242 | (85,140) | 6,085,455 | (86,886) |
| Total investments and mortgage-backed securities | \$ 3,714,793 | \$ (18,569) | \$ 6,549,985 | \$ (90,585) | \$ 10,264,778 | \$ (109,154) |

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The following table shows our investments' 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, 2007.

| | Less than 12 months | | More than 12 months | | Totals | |
|--------------------------------------------------|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| Investment Securities: | | | | | | |
| U.S. government and federal agency obligations | \$ 2,949,308 | \$ (27,978) | \$ 18,540,030 | \$ (192,638) | \$ 21,489,338 | \$ (220,616) |
| Obligations of state and political subdivisions | 988,269 | (16,152) | 253,913 | (8,398) | 1,242,182 | (24,550) |
| Obligations of state and political subdivisions | 988,269 | (16,152) | 253,913 | (8,398) | 1,242,182 | (24,550) |
| Other securities | 495,000 | (5,000) | - | - | 495,000 | (5,000) |
| Mortgage-backed securities | 2,125,963 | (27,702) | 7,760,000 | (303,936) | 9,885,963 | (331,638) |
| Total investments and mortgage-backed securities | \$ 6,558,540 | \$ (76,832) | \$ 26,553,943 | \$ (504,972) | \$ 33,112,483 | \$ (581,804) |

Note 3: Loans

Loans are summarized as follows:

| | December 31, 2007 | June 30, 2007 |
|---------------------------|-------------------|----------------|
| Real Estate Loans: | | |
| Conventional | \$ 142,248,552 | \$ 135,287,992 |
| Construction | 13,383,356 | 7,981,390 |
| Commercial | 82,310,646 | 77,723,332 |
| Consumer loans | 19,732,522 | 19,416,309 |
| Commercial loans | 72,519,972 | 76,053,308 |
| | 330,195,048 | 316,462,331 |
| Loans in process | (7,738,611) | (1,913,191) |
| Deferred loan fees, net | 66,847 | 51,486 |
| Allowance for loan losses | (2,851,624) | (2,537,659) |
| Total loans | \$ 319,671,660 | \$ 312,062,967 |

Note 4: Deposits

Deposits are summarized as follows:

| | December 31, 2007 | June 30, 2007 |
|-------------------------------|-------------------|----------------|
| Non-interest bearing accounts | \$ 21,852,455 | \$ 22,275,977 |
| NOW accounts | 31,643,050 | 31,122,878 |
| Money market deposit accounts | 5,189,022 | 7,211,517 |
| Savings accounts | 75,517,665 | 78,908,351 |
| Certificates | 139,944,303 | 130,569,373 |
| Total deposits | \$ 274,146,495 | \$ 270,088,096 |

Note 5: Earnings Per Share

Basic and diluted earnings per share are based upon the weighted-average shares outstanding. The following table summarizes basic and diluted earnings per common share for the three month periods ended December 31, 2007 and 2006.

| | Three months ended December 31, | | Six months ended December 31, | |
|--------------------------------------------|------------------------------------|------------|----------------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 872,865 | \$ 723,603 | \$ 1,686,051 | \$ 1,463,350 |
| Average Common shares – outstanding basic | 2,170,191 | 2,228,353 | 2,184,623 | 2,228,304 |
| Stock options under treasury stock method | 40,394 | 40,832 | 40,574 | 40,420 |
| Average Common share – outstanding diluted | 2,210,585 | 2,269,185 | 2,225,197 | 2,268,724 |
| Basic earnings per common share | \$ 0.40 | \$ 0.32 | \$ 0.77 | \$ 0.66 |
| Diluted earnings per common share | \$ 0.39 | \$ 0.32 | \$ 0.76 | \$ 0.65 |

Note 6: Stock Option Plans

Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment," requires that compensation costs related to share-based payment transactions be recognized in financial statements. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity instruments issued. Compensation cost is recognized over the vesting period during which an employee provides service in exchange for the award.

Note 7: Employee Stock Ownership Plan

The Bank established a tax-qualified ESOP in April 1994. The plan covers substantially all employees who have attained the age of 21 and completed one year of service. The Company's intent is to continue the ESOP for fiscal 2008. The Company has been accruing \$50,000 per quarter for ESOP benefit expenses during this fiscal year and intends to contribute cash to the plan to allow the purchase of shares for allocation to participants at some point during fiscal 2008.

Note 8: Corporate Obligated Floating Rate Trust Preferred Securities

Southern Missouri Statutory Trust I issued \$7.0 million of Floating Rate Capital Securities (the "Trust Preferred Securities") in March, 2004, with a liquidation value of \$1,000 per share. The securities are due in 30 years, redeemable after five years and bear interest at a floating rate based on LIBOR. The securities represent undivided beneficial interests in the trust, which was established by the Company for the purpose of issuing the securities. The Trust Preferred Securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended (the "Act") and have not been registered under the Act. The securities may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Southern Missouri Statutory Trust I used the proceeds from the sale of the Trust Preferred Securities to purchase Junior Subordinated Debentures of the Company. The Company has used its net proceeds for working capital and investment in its subsidiary.

Note 9: Authorized Share Repurchase Program

In June, 2007, the Board of Directors authorized and announced the open-market or privately-negotiated stock repurchase of up to 110,000 shares of the Company's outstanding stock. As of December 31, 2007, a total of 46,800 shares have been repurchased. The number of shares, as of December 31, 2007, held as treasury stock was 790,044.

Note 10: Newly Adopted Accounting Pronouncements

The Company adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," on July 1, 2007. Implementation of the new Standard did not have a material impact on the Company's financial statements. The Company files income tax returns in the U.S. federal jurisdiction and the state of Missouri. As of February 12, 2008, the open tax years under FIN 48 are 2006, 2005, and 2004. These tax years correspond to our fiscal years ended 2007, 2006, and 2005.

PART I: Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations
SOUTHERN MISSOURI BANCORP, INC.

General

Southern Missouri Bancorp, Inc. (Southern Missouri or Company) is a Missouri corporation and owns all of the outstanding stock of Southern Missouri Bank & Trust Co. (SMBT or the Bank). The Company's earnings are primarily dependent on the operations of the Bank. As a result, the following discussion relates primarily to the operations of the Bank. The Bank's deposit accounts are generally insured up to a maximum of \$100,000 (certain retirement accounts are insured up to \$250,000) by the Deposit Insurance Fund (DIF), which is administered by the Federal Deposit Insurance Corporation (FDIC). The Bank currently conducts its business through its home office located in Poplar Bluff and eight full service branch facilities in Poplar Bluff (2), Van Buren, Dexter, Kennett, Doniphan, Sikeston, and Qulin, Missouri.

The significant accounting policies followed by Southern Missouri Bancorp, Inc. and its wholly-owned subsidiary for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments, which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported, have been included in the accompanying consolidated condensed financial statements.

The consolidated balance sheet of the Company as of June 30, 2007, has been derived from the audited consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report filed with the Securities and Exchange Commission.

Management's discussion and analysis of financial condition and results of operations is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited consolidated financial statements and accompanying notes. The following discussion reviews the Company's consolidated financial condition at December 31, 2007, and the results of operations for the three- and six-month periods ended December 31, 2007 and 2006, respectively.

Forward Looking Statements

This document, including information incorporated by reference, contains forward-looking statements about the Company and its subsidiaries which we believe are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities, interest rates, cost savings and funding advantages expected or anticipated to be realized by management. Words such as "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements by the Company and its management are based on beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions of management and are not guarantees of future performance. The important factors we discuss below, as well as other factors discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and identified in our filings with the SEC and those presented elsewhere by our management from time to time, could cause actual results to differ materially from those indicated by the forward-looking statements made in this document:

- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;

- the strength of the real estate market in the local economies in which we conduct operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
 - inflation, interest rate, market and monetary fluctuations;
- the timely development of and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
 - the willingness of users to substitute our products and services for products and services of our competitors;
- the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance);
 - the impact of technological changes;
 - acquisitions;

- changes in consumer spending and saving habits; and
- our success at managing the risks involved in the foregoing.

The Company disclaims any obligation to update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information, or otherwise.

Critical Accounting Policies

Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of the Company must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of the Company's significant accounting policies, see "Notes to the Consolidated Financial Statements" in the Company's 2007 Annual Report. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit Committee of the Company's Board of Directors. For a discussion of applying critical accounting policies, see "Critical Accounting Policies" beginning on page 11 in the Company's 2007 Annual Report.

Executive Summary

Our results of operations depend primarily on our net interest margin, which is directly impacted by the interest rate environment. The net interest margin represents interest income earned on interest-earning assets (primarily mortgage loans, commercial loans and the investment portfolio), less interest expense paid on interest-bearing liabilities (primarily certificates of deposit, savings, interest-bearing demand accounts and borrowed funds), as a percentage of average interest-earning assets. Net interest margin is directly impacted by the spread between long-term interest rates and short-term interest rates, as our interest-earning assets, particularly those with initial terms to maturity or repricing greater than one year, generally price off longer term rates while our interest-bearing liabilities generally price off shorter term interest rates.

Our net interest income is also impacted by the shape of the market yield curve. A steep yield curve – in which the difference in interest rates between short term and long term periods is relatively large – could be beneficial to our net interest income, as the interest rate spread between our additional interest-earning assets and interest-bearing liabilities would be larger. Conversely, a flat or flattening yield curve, in which the difference in rates between short term and long term periods is relatively small or shrinking, or an inverted yield curve, in which short term rates exceed long term rates, could have an adverse impact on our net interest income, as our interest rate spread could decrease.

Our results of operations may also be affected significantly by general and local economic and competitive conditions, particularly those with respect to changes in market interest rates, government policies and actions of regulatory authorities.

During the first six months of fiscal 2008, we grew our balance sheet by \$12.7 million, which was consistent with the Company's growth strategies. This additional growth reflected a \$7.6 million increase in total net loans, a \$3.3 million increase in investments, a \$4.1 million increase in deposits, and a \$7.5 million increase in borrowed funds. The growth in loans was primarily due to residential and commercial real estate loan originations. The increase in borrowed funds was primarily in the form of securities sold under agreements to repurchase, and was used primarily to fund loan and investment growth.

Our net income for the second quarter of fiscal 2008 increased 20.6% to \$873,000, as compared to \$724,000 earned during the same period of the prior year. The increase in net income compared to the year-ago period was primarily due to a 14.8% increase in net interest income and a 9.8% increase in non-interest income, partially offset by a 9.7%

increase in non-interest expense. Diluted earnings per share for the second quarter of fiscal 2008 were \$0.39, as compared to \$0.32 for the second quarter of fiscal 2007. For the first six months of fiscal 2008, net income increased 15.2% to \$1.69 million, as compared to \$1.46 million earned during the same period of the prior year. The increase in net income compared to the year-ago period was primarily due to a 10.2% increase in net interest income and a 5.7% increase in non-interest income, partially offset by a 7.6% increase in non-interest expense. For both the three- and six-month periods ended December 31, 2007, our growth in net interest income was derived primarily from growth in our average balances of interest-earning assets, and secondarily from an increased net interest margin.

Short-term market interest rates declined during the first six months of fiscal 2008, following increases during the previous two fiscal years. After two years of increases left the overnight lending rate at 5.25% in June 2006, the Federal Open Market Committee of the Federal Reserve Bank (FOMC) held the rate steady until September 2007, when it cut rates by 50 basis points, to 4.75%, and then followed with 25 basis point cuts at its October and December meetings. From July 1 to December 31, 2007, rates on short term treasuries declined based on investor expectations regarding short-term monetary policy. At July 1, 2007, the six-month treasury bill, two-year treasury note, and ten-year treasury bond each yielded about 5%; six months later, the yield was off approximately 150 basis points on the six-month bill, and 200 basis points on the two-year note, while the ten-

year bond yield had declined about 100 basis points. The result was a generally steepened yield curve. In this rate environment, our net interest margin increased 20 basis points when comparing the second quarter of fiscal 2008 with the corresponding period in fiscal 2007; comparing the first six months of fiscal 2008 to the corresponding period in fiscal 2007, our margin increased eight basis points. Subsequent to the quarter end, the FOMC cut rates by 125 basis points in two separate actions during the month of January. The Company expects rate cuts to date to have a positive impact on our results of operations, but additional rate cuts may bring the short end of the yield curve to a point at which we cannot maintain our historical pricing margins on deposit products, which may have a negative impact on operating results.

The Company's net income is also affected by the level of non-interest income and operating expenses. Non-interest income consists primarily of service charges, ATM and loan fees, and other general operating income. Operating expenses consist primarily of salaries and employee benefits, occupancy-related expenses, postage, insurance, advertising, professional fees, office expenses, and other general operating expenses. During the three- and six-month periods ended December 31, 2007, non-interest income increased 9.8% and 5.7%, respectively, compared to the same periods of the prior fiscal year, primarily due to increased debit card and ATM transaction fee income, loan fee collections, and income from NSF charges. Non-interest expense increased during the three- and six-month periods ended December 31, 2007, by 9.7% and 7.6%, respectively, compared to the same periods of the prior fiscal year, primarily in the categories of compensation and benefits, occupancy expenses, accounting services, and ATM network expenses, as well as charges to amortize the Company's investments in tax credits, partially offset by lower advertising and supplies expenses.

We expect to continue to grow our assets modestly through the origination and occasional purchase of loans, and purchases of investment securities. The primary funding for our asset growth is expected to come from retail deposits, short- and long-term FHLB borrowings, and, as needed, brokered certificates of deposit. We intend to grow deposits by offering desirable deposit products for our existing customers and by attracting new depository relationships. We will continue to explore branch expansion opportunities in market areas that we believe present attractive opportunities for our strategic business model.

Comparison of Financial Condition at December 31, 2007, and June 30, 2007

The Company's total assets increased by \$12.7 million, or 3.3%, to \$392.6 million at December 31, 2007, as compared to \$379.9 million at June 30, 2007. Loans, net of the allowance for loan losses, increased \$7.6 million, or 2.4%, to \$319.7 million, as compared to \$312.1 million at June 30, 2007. Residential real estate loans grew by \$7.0 million. The Company continues to focus on origination of commercial loans. Commercial real estate loan balances grew by \$4.6 million, while commercial operating lines were down \$3.5 million, due mostly to seasonal agricultural loan paydowns. Investment balances increased by \$3.2 million, or 9.3%, to \$38.1 million, as compared to \$34.9 million at June 30, 2007. Cash and cash equivalent balances increased \$1.8 million, or 24.4%, to \$9.1 million, as compared to \$7.3 million at June 30, 2007.

Asset growth during the first six months of fiscal 2008 has been funded primarily with securities sold under agreements to repurchase. At December 31, 2007, repurchase agreements totaled \$22.8 million, an increase of \$5.0 million, or 28.4%, compared to \$17.8 million at June 30, 2007. The increase was attributed primarily to a single significant relationship, and growth was not expected to continue for the remainder of the fiscal year. FHLB advances totaled \$56.5 million at December 31, 2007, compared to \$54.0 million at June 30, 2007, an increase of \$2.5 million, or 4.6%. Deposits increased \$4.1 million, or 1.5%, to \$274.1 million at December 31, 2007, as compared to \$270.1 million at June 30, 2007. The increase in deposits was primarily due to a \$9.4 million increase in certificate of deposit balances, partially offset by a combined \$4.9 million decrease in money market savings and money market deposit accounts.

Total stockholders' equity increased \$1.0 million, or 3.5%, to \$29.7 million at December 31, 2007, as compared to \$28.7 million at June 30, 2007. The increase was primarily due to retention of net income and an increase in the market value of the available-for-sale investment portfolio, partially offset by purchases of treasury stock and cash dividends paid.

Average Balance Sheet for the Three and Six Months Ended December 31, 2007 and 2006

The tables on the following pages present certain information regarding Southern Missouri Bancorp, Inc.'s financial condition and net interest income for the three- and six-month periods ending December 31, 2007 and 2006. The tables present the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. Yields on tax-exempt obligations were not computed on a tax equivalent basis.

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| | Three months ended December 31, 2007 | | | Three months ended December 31, 2006 | | |
|------------------------------------------------------|-----------------------------------------|---------------------------|--------------------|-----------------------------------------|---------------------------|--------------------|
| | Average Balance | Interest and Dividends | Yield/ Cost (%) | Average Balance | Interest and Dividends | Yield/ Cost (%) |
| Interest earning assets: | | | | | | |
| Mortgage loans (1) | \$ 232,410,132 | \$ 4,150,302 | 7.14 | \$ 205,827,925 | \$ 3,575,735 | 6.95 |
| Other loans (1) | 86,354,079 | 1,769,239 | 8.20 | 87,000,795 | 1,767,033 | 8.12 |
| Total net loans | 318,764,211 | 5,919,541 | 7.43 | 292,828,720 | 5,342,768 | 7.30 |
| Mortgage-backed securities | 13,919,968 | 156,160 | 4.49 | 12,933,578 | 141,820 | 4.39 |
| Investment securities (2) | 25,771,074 | 289,080 | 4.49 | 28,527,927 | 308,464 | 4.33 |
| Other interest earning assets | 4,016,624 | 12,460 | 1.24 | 3,595,502 | 9,166 | 1.02 |
| Total interest earning assets (1) | 362,471,877 | 6,377,241 | 7.04 | 337,885,727 | 5,802,218 | 6.87 |
| Other noninterest earning assets (3) | 24,582,025 | - | | 22,102,058 | - | |
| Total assets | \$ 387,053,902 | \$ 6,377,241 | | \$ 359,987,785 | \$ 5,802,218 | |
| Interest bearing liabilities: | | | | | | |
| Savings accounts | \$ 76,479,426 | \$ 690,995 | 3.61 | \$ 69,325,040 | \$ 648,563 | 3.74 |
| NOW accounts | 31,154,693 | 107,129 | 1.38 | 29,966,964 | 94,418 | 1.26 |
| Money market deposit accounts | 5,720,047 | 27,237 | 1.90 | 7,179,340 | 35,534 | 1.98 |
| Certificates of deposit | 138,039,043 | 1,651,144 | 4.78 | 125,086,392 | 1,481,166 | 4.74 |
| Total interest bearing deposits | 251,393,209 | 2,476,505 | 3.94 | 231,557,736 | 2,259,681 | 3.90 |
| Borrowings: | | | | | | |
| Securities sold under agreements to repurchase | 19,408,098 | 207,435 | 4.28 | 10,016,108 | 123,283 | 4.92 |
| FHLB advances | 57,270,121 | 768,463 | 5.37 | 63,375,272 | 855,501 | 5.40 |
| Subordinated debt | 7,217,000 | 153,627 | 8.51 | 7,217,000 | 150,045 | 8.32 |
| Total interest bearing liabilities | 335,288,428 | 3,606,030 | 4.30 | 312,166,116 | 3,388,510 | 4.34 |
| Noninterest bearing demand deposits | 19,996,122 | - | | 17,893,678 | - | |
| Other noninterest bearing liabilities | 2,328,759 | - | | 2,228,475 | - | |
| Total liabilities | 357,613,309 | 3,606,030 | | 332,288,269 | 3,388,510 | |
| Stockholders' equity | 29,440,593 | - | | 27,699,516 | - | |
| Total liabilities and stockholders' equity | \$ 387,053,902 | \$ 3,606,030 | | \$ 359,987,785 | \$ 3,388,510 | |
| Net interest income | | \$ 2,771,211 | | | 2,413,708 | |
| Interest rate spread (4) | | | 2.74 | | | 2.53 |
| Net interest margin (5) | | | 3.06 | | | 2.86 |

| | | |
|-------------------------------------------------------------------------------------------|---------|---------|
| Ratio of average interest-earning assets to average interest-bearing liabilities | 108.11% | 108.24% |
|-------------------------------------------------------------------------------------------|---------|---------|

- (1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Non-accrual loans are included in average loans.
- (2) Includes FHLB stock and related cash dividends.
- (3) Includes average balances for fixed assets and BOLI of \$8.5 million and \$7.1 million, respectively, for the three-month period ending December 31, 2007, as compared to \$8.7 million and \$6.8 million for the same period of the prior year.
- (4) Interest rate spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.