SOUTHERN MISSOURI BANCORP INC
Form 10-Q
February 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 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 0-23406

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

Missouri	43-1665523
(State or jurisdiction of incorporation)	(IRS employer id. no.)
531 Vine Street Poplar Bluff, MO	63901
(Address of principal executive offices)	(Zip code)

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 X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the proceeding 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 shell corporation (as defined in Rule 12 b-2 of the Exchange Act)

Yes No X

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 14, 2011
Common Stock, Par Value $.01	2,097,976 Shares

SOUTHERN MISSOURI BANCORP, INC.
FORM 10-Q

INDEX

PART I.	Financial Information	PAGE NO.
Item 1.	Condensed Consolidated Financial Statements	
	- Condensed Consolidated Balance Sheets	3
	- Condensed Consolidated Statements of Income	4
	- Condensed Consolidated Statements of Cash Flows	5
	- Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	28
Item 4.	Controls and Procedures	30
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	31
Item 1a.	Risk Factors	31
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3.	Defaults upon Senior Securities	31
Item 4.	Submission of Matters to a Vote of Security Holders	31
Item 5.	Other Information	31
Item 6.	Exhibits	31
	- Signature Page	32
	- Certifications	33

2

PART I: Item 1: Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010, AND JUNE 30, 2010

	December 31, 2010 (unaudited)	June 30, 2010
Assets		
Cash and cash equivalents	$29,094,325	$33,383,278
Interest-bearing time deposits	891,000	1,089,000
Total cash equivalents	29,985,325	34,472,278
Available for sale securities	69,195,978	66,965,413
Stock in FHLB of Des Moines	2,945,200	2,621,600
Stock in Federal Reserve Bank of St. Louis	583,100	583,100
Loans receivable, net of allowance for loan losses of $5,299,824 and $4,508,611 at December 31, 2010, and June 30, 2010, respectively	559,816,626	418,682,927
Accrued interest receivable	4,501,659	3,043,324
Premises and equipment, net	7,890,583	7,650,244
Bank owned life insurance – cash surrender value	7,975,695	7,836,929
Intangible assets, net	2,083,254	1,604,372
Prepaid expenses and other assets	3,273,897	8,623,520
Total assets	$688,251,317	$552,083,707
Liabilities and Stockholders' Equity		
Deposits	$560,993,018	$422,892,907
Securities sold under agreements to repurchase	31,813,604	30,368,748
Advances from FHLB of Des Moines	33,500,000	43,500,000
Accounts payable and other liabilities	2,733,761	1,598,436
Accrued interest payable	979,266	857,418
Subordinated debt	7,217,000	7,217,000
Total liabilities	637,236,649	506,434,509
Commitments and contingencies	-	-
Preferred stock, $.01 par value, $1,000 liquidation value; 500,000 shares authorized; 9,550 shares issued and outstanding	9,438,246	9,421,321
Common stock, $.01 par value; 4,000,000 shares authorized; 2,957,226 shares issued	29,572	29,572
Warrants to acquire common stock	176,790	176,790
Additional paid-in capital	16,381,080	16,367,698
Retained earnings	39,182,680	33,060,723
Treasury stock of 869,250 shares at December 31, 2010, and June 30, 2010, at cost	(13,994,870)	(13,994,870)
Accumulated other comprehensive income (loss)	(198,830)	587,964
Total stockholders' equity	51,014,668	45,649,198
Total liabilities and stockholders' equity	$688,251,317	$552,083,707

See Notes to Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE- AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2010 AND 2009 (Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
INTEREST INCOME:				
Loans	$6,832,334	$6,136,721	$13,391,340	$12,334,845
Investment securities	315,935	279,077	634,227	509,963
Mortgage-backed securities	356,998	452,432	746,719	901,288
Other interest-earning assets	34,063	25,570	61,873	43,865
Total interest income	7,539,330	6,893,800	14,834,159	13,789,961
INTEREST EXPENSE:				
Deposits	2,252,760	2,005,338	4,418,323	3,860,885
Securities sold under agreements to repurchase	71,252	53,028	134,672	103,253
Advances from FHLB of Des Moines	395,695	734,900	886,630	1,592,500
Subordinated debt	56,099	56,010	116,065	117,160
Total interest expense	2,775,806	2,849,276	5,555,690	5,673,798
NET INTEREST INCOME	4,763,524	4,044,524	9,278,469	8,116,163
PROVISION FOR LOAN LOSSES	273,528	259,604	916,209	469,604
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,489,996	3,784,920	8,362,260	7,646,559
NONINTEREST INCOME:				
Customer service charges	391,369	350,476	774,134	690,483
Loan late charges	59,416	51,325	115,951	101,585
Increase in cash surrender value of bank owned life insurance	69,561	68,819	138,766	137,634
Bargain purchase gain on acquisition	6,996,750	-	6,996,750	-
Other	349,686	320,494	660,740	565,586
Total noninterest income	7,866,782	791,114	8,686,341	1,495,288
NONINTEREST EXPENSE:				
Compensation and benefits	1,852,860	1,623,026	3,521,303	3,122,919
Occupancy and equipment, net	715,499	441,967	1,162,941	919,409
DIF deposit insurance premium	152,202	147,925	303,057	268,959
Professional fees	251,693	91,759	324,199	175,721
Advertising	47,536	66,075	99,806	142,924
Postage and office supplies	93,638	95,935	168,551	201,439
Amortization of intangible assets	73,035	73,035	146,070	142,996
Other	592,780	445,258	998,904	1,193,311
Total noninterest expense	3,779,243	2,984,980	6,724,831	6,167,678

INCOME BEFORE INCOME TAXES	8,577,535	1,591,054	10,323,770	2,974,169
INCOME TAXES	3,001,381	427,900	3,445,024	621,300
NET INCOME	5,576,154	1,163,154	6,878,746	2,352,869
Less: dividend and discount accretion on preferred shares	127,895	127,445	255,713	254,783
Net income available to common shareholders	5,448,259	1,035,709	6,623,033	2,098,086
Basic earnings per common share	$2.61	$0.50	$3.18	$1.01
Diluted earnings per common share	$2.56	$0.50	$3.11	$1.01
Dividends per common share	$0.12	$0.12	$0.24	$0.24

See Notes to Condensed Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2010 AND 2009 (Unaudited)

	Six months ended December 31,	
	2010	2009
Cash Flows From Operating Activities:		
Net income	$6,878,746	$2,352,869
Items not requiring (providing) cash:		
Depreciation	358,575	367,339
MRP and SOP expense	13,381	10,652
Gain on sale of foreclosed assets	(15,321)	(2,858)
Amortization of intangible assets	146,070	142,996
Increase in cash surrender value of bank owned life insurance	(138,766)	(137,634)
Provision for loan losses and off-balance sheet credit exposures	916,209	469,604
Net amortization of premiums and discounts on securities	152,718	106,094
Bargain purchase gain on acquisition	(6,996,750)	-
Deferred income taxes	2,623,781	(328,000)
Changes in:		
Accrued interest receivable	(601,199)	(246,646)
Prepaid expenses and other assets	3,248,886	(1,633,332)
Accounts payable and other liabilities	756,362	(220,986)
Accrued interest payable	37,681	(191,723)
Net cash provided by operating activities	7,380,373	688,375
Cash flows from investing activities:		
Net increase in loans	(27,180,007)	(19,706,225)
Net cash received in acquisitions	38,249,286	9,713,304
Proceeds from maturities of available for sale securities	14,780,883	7,842,589
Net redemptions of Federal Home Loan Bank stock	444,900	1,226,500
Net purchases of Federal Reserve Bank of Saint Louis stock	-	(583,000)
Purchases of available-for-sale securities	(18,413,045)	(8,858,817)
Purchases of premises and equipment	(597,755)	(265,375)
Investments in state & federal tax credits	-	(1,250,000)
Proceeds from sale of foreclosed assets	88,772	635,320
Net cash provided by (used in) investing activities	7,373,034	(11,245,704)
Cash flows from financing activities:		
Net increase in demand deposits and savings accounts	23,141,081	51,909,163
Net (decrease) increase in certificates of deposits	(15,879,630)	4,467,862
Net increase in securities sold under agreements to repurchase	1,444,856	5,613,632
Proceeds from Federal Home Loan Bank advances	-	30,950,000
Repayments of Federal Home Loan Bank advances	(27,206,803)	(57,200,000)
Dividends paid on common and preferred stock	(739,864)	(739,792)
Net cash provided by (used in) financing activities	(19,240,360)	35,000,865
(Decrease) increase in cash and cash equivalents	(4,486,953)	24,443,536
Cash and cash equivalents at beginning of period	34,472,278	8,074,465

Cash and cash equivalents at end of period	$29,985,325	$32,518,001
Supplemental disclosures of Cash flow information:		
Noncash investing and financing activities:		
Conversion of loans to foreclosed real estate	$232,285	$1,072,755
Conversion of loans to other equipment	77,221	140,246
Cash paid during the period for:		
Interest (net of interest credited)	$1,580,829	$2,497,279
Income taxes	578,450	722,000

See Notes to Condensed Consolidated Financial Statements

5

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

Note 1: Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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, 2010, has been derived from the audited consolidated balance sheet of the Company as of that date. Operating results for the three- and six-month periods ended December 31, 2010, 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, 2010, 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, 2010 and 2009.

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

Note 2: Fair Value Measurements

ASC Topic 820, Fair Value Measurements, 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. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 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 active 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

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 sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-sale Securities. Available-for-sale securities are recorded at fair value on a recurring basis. Available-for-sale securities is the only balance sheet category our Company is required, in accordance with accounting principles generally accepted in the United States of America (US GAAP), to carry at fair value on a recurring basis. When quoted markets are available in an active market, securities are classified within Level 1. Level 1 securities include exchange-traded equities. If quoted market prices are not available, then fair values are estimated using pricing models or quoted prices of securities with similar characteristics. For these securities, our Company

obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

	Fair Value Measurements at December 31, 2010, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government sponsored enterprises (GSEs)	$14,434,911	$-	$14,434,911	$-
State and political subdivisions	23,978,641	-	23,978,641	-
Other securities	465,335	-	465,335	-
FHLMC preferred stock	6,960	6,960	-	-
Mortgage-backed GSE residential	30,310,131	-	30,310,131	-

6

	Fair Value Measurements at June 30, 2010, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government sponsored enterprises (GSEs)	$12,413,977	$-	$12,413,977	$-
State and political subdivisions	19,769,116	-	19,769,116	-
Other securities	441,868	-	441,868	-
FHLMC preferred stock	6,000	6,000	-	-
Mortgage-backed GSE residential	34,334,451	-	34,334,451	-

The following is a description of valuation methodologies used for financial assets measured at fair value on a nonrecurring basis at December 31, 2010.

Impaired Loans (Collateral Dependent). A collateral dependent loan is considered to be impaired when it is probable that all of the principal and interest due may not be collected according to its contractual terms. Generally, when a collateral dependent loan is considered impaired, the amount of reserve required is measured based on the fair value of the underlying collateral. The Company makes such measurements on all material collateral dependent loans deemed impaired using the fair value of the collateral for collateral dependent loans. The fair value of collateral used by the Company is determined by obtaining an observable market price or by obtaining an appraised value from an independent, licensed or certified appraiser, using observable market data. This data includes information such as selling price of similar properties and capitalization rates of similar properties sold within the market, expected future cash flows or earnings of the subject property based on current market expectations, and other relevant factors. In addition, management may apply selling and other discounts to the underlying collateral value to determine the fair value. If an appraised value is not available, the fair value of the collateral dependent impaired loan is determined by an adjusted appraised value including unobservable cash flows. The Company records collateral dependent impaired loans as Nonrecurring Level 3. If a collateral dependent loan's fair value, as estimated by the Company, is less than its carrying value, the Company either records a charge-off of the portion of the loan that exceeds the fair value or establishes a specific reserve as part of the allowance for loan losses.

Foreclosed and Repossessed Assets Held for Sale. Foreclosed and repossessed assets held for sale are valued at the time the loan is foreclosed upon or collateral is repossessed and the asset is transferred to foreclosed or repossessed assets held for sale. The value of the asset is based on third party or internal appraisals, less estimated costs to sell and appropriate discounts, if any. The appraisals are generally discounted based on current and expected market conditions that may impact the sale or value of the asset and management's knowledge and experience with similar assets. Such discounts typically may be significant and result in a Level 3 classification of the inputs for determining fair value of these assets. Foreclosed and repossessed assets held for sale are continually evaluated for additional impairment and are adjusted accordingly if impairment is identified.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis during the period and the level within the ASC 820 fair value hierarchy in which the fair value measurements fell at December 31, 2010:

Fair Value Measurements at December 31, 2010, Using:

	Fair Value at December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$12,051,469	$-	$-	$12,051,469
Foreclosed and repossessed assets held for sale	1,176,584	-	-	1,176,584

ASC 825, formerly Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," requires all entities to disclose the estimated fair value of their financial instrument assets and liabilities. For the Company, as for most financial institutions, the majority of its assets and liabilities are considered financial instruments as defined in ASC 825. Many of the Company's financial instruments, however, lack an available trading market as characterized by a willing buyer and willing seller engaging in an exchange transaction. It is also the Company's general practice and intent to hold its financial instruments to maturity and to not engage in trading or sales activities except for loans held-for-sale and available-for-sale securities. Therefore, significant estimations and assumptions, as well as present value calculations, were used by the Company for the purposes of this disclosure.

Estimated fair values have been determined by the Company using the best available data and an estimation methodology suitable for each category of financial instruments. For those loans and deposits with floating interest rates, it is presumed that estimated fair values generally approximate the recorded book balances.

The estimated methodologies used, the estimated fair values, and the recorded book balances at December 31, and June 30, 2010, were as follows:

	December 31, 2010		June 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$29,094	$29,094	$33,383	$33,383
Interest-bearing time deposits	891	891	1,089	1,089
Available-for-sale securities	69,196	69,196	66,965	66,965
Stock in FHLB	2,945	2,945	2,622	2,622
Stock in Federal Reserve Bank of St. Louis	583	583	583	583
Loans receivable, net	559,817	558,130	418,683	419,917
Accrued interest receivable	4,502	4,502	3,043	3,043
Financial liabilities				
Deposits	560,993	561,059	422,893	426,738
Securities sold under agreements to repurchase	31,814	31,814	30,369	30,369
Advances from FHLB	33,500	36,505	43,500	47,010
Accrued interest payable	979	979	857	857
Subordinated debt	7,217	3,661	7,217	3,001
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

The following methods and assumptions were used in estimating the fair values of financial instruments:

Cash and cash equivalents and interest-bearing time deposits are valued at their carrying amounts, which approximates book value. Stock in FHLB and the Federal Reserve Bank of St. Louis is valued at cost, which approximates fair value. Fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts of accrued interest approximate their fair values.

The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. The value of non-maturity deposits is estimated using a discounted cash flow analysis that applies the rates currently offered for similar products over the expected life of the deposits as defined by “decay rates” for similar products published by the Office of Thrift Supervision. The carrying amounts of securities sold under agreements to repurchase approximate fair value. Fair value of advances from the FHLB is estimated by discounting maturities using an estimate of the current market for similar instruments. The fair value of subordinated debt is estimated using rates currently available to the Company for debt with similar terms and maturities. The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and committed rates. The fair value of letters of credit and lines of

credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date.

Note 3: Securities

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

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$14,750,507	$5,848	$(321,444)	$14,434,911
State and political subdivisions	24,132,106	246,531	(399,996)	23,978,641
Other securities	1,779,274	15,340	(1,329,279)	465,335
FHLMC preferred stock	-	6,960	-	6,960
Mortgage-backed GSE residential	28,867,655	1,442,476	-	30,310,131
Total investments and mortgage-backed securities	$69,529,542	$1,717,155	$(2,050,719)	$69,195,978

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$12,345,409	$68,568	$-	$12,413,977
State and political subdivisions	19,351,837	454,941	(37,661)	19,769,117
Other securities	1,771,299	4,306	(1,333,737)	441,868
FHLMC preferred stock	-	6,000	-	6,000
Mortgage-backed GSE residential	32,581,552	1,753,047	(148)	34,334,451
Total investments and mortgage-backed securities	$66,050,097	$2,286,862	$(1,371,546)	$66,965,413

The amortized cost and estimated fair value of investment and mortgage-backed securities, 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 penalties.

	December 31, 2010	
	Amortized Cost	Estimated Fair Value
Available for Sale:		
Within one year	$ 25,000	$ 25,126
After one year but less than five years	1,551,110	1,557,779
After five years but less than ten years	5,763,383	5,808,459
After ten years	33,322,394	31,494,483
Total investment securities	40,661,887	38,885,847
Mortgage-backed securities	28,867,655	30,310,131
Total investments and mortgage-backed securities	$ 69,529,542	$ 69,195,978

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, 2010.

	Less than 12 months		More than 12 months		Totals	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. government-sponsored enterprises (GSEs)	$9,676,164	$321,444	$-	$-	$9,676,164	$321,444
Mortgage-backed securities	-	-	-	-	-	-
Other securities	-	-	203,371	1,329,279	203,371	1,329,279
Obligations of state and political subdivisions	11,412,946	352,412	1,054,850	47,584	12,467,796	399,996

Total investments and mortgage-backed securities	$21,089,110	$673,856	$1,258,221	$1,376,863	$22,347,331	$2,050,719

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, 2010.

	Less than 12 months		More than 12 months		Totals	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. government-sponsored enterprises (GSEs)	$-	$-	$-	$-	$-	$-
Mortgage-backed securities	-	-	27,349	148	27,349	148
Other securities	-	-	191,218	1,333,737	191,218	1,333,737
Obligations of state and political subdivisions	4,677,991	37,661	-	-	4,677,991	37,661
Total investments and mortgage-backed securities	$4,677,991	$37,661	$218,567	$1,333,885	$4,896,558	$1,371,546

U.S. government-sponsored enterprises (GSEs). The unrealized losses on the Company's investments in direct obligations of U.S. government-sponsored enterprises (GSEs) 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. 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 December 31, 2010.

Obligations of state and political subdivisions. The unrealized losses on the Company's investments in securities of state and political subdivisions 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. 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 December 31, 2010.

Other securities. At December 31, 2010, there were four pooled trust preferred securities with an estimated fair value of $191,000 and unrealized losses of $1.3 million in a continuous unrealized loss position for twelve months or more. These unrealized losses were primarily due to the long-term nature of the pooled trust preferred securities, a lack of demand or inactive market for these securities, and concerns regarding the financial institutions that have issued the underlying trust preferred securities. The December 31, 2010 cash flow analysis for three of these securities showed it is probable the Company will receive all contracted principal and related interest projected, though interest payments have been deferred on two of these securities. The cash flow analysis used in making this determination was based on anticipated default and recovery rates, amounts of prepayments, and the resulting cash flows were discounted based on the yield anticipated at the time the securities were purchased. Other inputs include the actual collateral attributes, which include credit ratings and other performance indicators of the underlying financial institutions, including profitability, capital ratios, and asset quality. Assumptions for these securities included no recoveries of defaulted issuers, and 35% to 38% recoveries on issuers currently deferring interest payments; future additional default rates for the underlying financial institutions are assumed at 36 basis points annually. Recoveries on issuers projected to defer in the future are estimated at 10%, following a two-year lag. The projections assume that institutions in excess of $15 billion (or likely to grow to that size) will prepay their obligations by 2013, due to capital treatment under the regulatory reform bill recently passed. Because the Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell these securities prior to recovery of their amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2010.

At December 31, 2008, analysis of the fourth trust preferred security indicated other-than-temporary impairment (OTTI) and the Company performed further analysis to determine the portion of the loss that was related to credit conditions of the underlying issuers. The credit loss was calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the security to the carrying value of the investment. The discounted cash flow was based on anticipated default and recovery rates, amounts of prepayments, and the resulting projected cash flows were discounted based on the yield anticipated at the time the security was purchased. Other inputs include the actual collateral attributes, which include credit ratings and other performance indicators of the underlying financial institutions, including profitability, capital ratios, and asset quality. Based on this analysis, the Company recorded an impairment charge of $375,000 for the credit portion of the unrealized loss for this trust preferred security. This loss established a new, lower amortized cost basis of $125,000 for this security, and reduced non-interest income for the second quarter of fiscal 2009, and for the twelve months ended June 30, 2009. At December 31, 2010, cash flow analyses showed it is probable the Company will receive the entire remaining cost basis and related interest projected for the security, though interest payments remain deferred on the security. The Company's assumptions for this security include no recoveries of defaulted or deferred issuers, another 12.1% of the pool to default within the next two years with no recoveries, and future additional default rates of 36 basis points annually, with 10% recoveries following a two-year lag. The projections assume that institutions in excess of $15 billion (or likely to grow to that size) will prepay their obligations by 2013, due to capital treatment under the regulatory reform bill recently passed. Because the Company does not intend to sell this security and it is not more-likely-than-not the Company will be required to sell this security before recovery of its new, lower amortized cost basis, which may be maturity, the Company does not consider the remainder of the investment in this security to be other-than-temporarily impaired at December 31, 2010.

Credit losses recognized on investments. As described above, some of the Company's investments in trust preferred securities have experienced fair value deterioration due to credit losses, but are not otherwise other-than-temporarily impaired. During fiscal 2009, the Company adopted ASC 820, formerly FASB Staff Position 157-4, "Determining Fair

Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." The following table provides information about the trust preferred security for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income (loss) for the six-month periods ended December 31, 2010 and 2009.

	Accumulated Credit Losses, Six-Month Periods Ended December 31,	
	2010	2009
Credit losses on debt securities held		
Beginning of period	$ 375,000	$ 375,000
Additions related to OTTI losses not previously recognized	-	-
Reductions due to sales	-	-
Reductions due to change in intent or likelihood of sale	-	-
Additions related to increases in previously-recognized OTTI losses	-	-
Reductions due to increases in expected cash flows	-	-
End of period	$ 375,000	$ 375,000

10

Note 4: Loans

Loans are summarized as follows:

	December 31, 2010	June 30, 2010
Real Estate Loans:		
Conventional	$195,861,013	$158,494,230
Construction	40,016,585	27,951,418
Commercial	183,021,276	121,525,818
Consumer loans	33,280,453	26,323,936
Commercial loans	124,865,652	97,480,888
	577,044,979	431,776,290
Loans in process	(12,039,438)	(8,705,521)
Deferred loan fees, net	110,909	120,769
Allowance for loan losses	(5,299,824)	(4,508,611)
Total loans	$559,816,626	$418,682,927

The following table presents the activity in the allowance for loan losses for the six-month periods ended December 31, 2010 and 2009:

	Six months ended December 31, 2010	Six months ended December 31, 2009
Balance, beginning of period	$4,508,611	$3,992,961
Loans charged off:	(135,639)	(199,266)
Recoveries of loans previously charged off:	10,643	6,832
Net charge offs	(124,996)	(192,434)
Provision charged to expense	916,209	469,604
Balance, end of period	$5,299,824	$4,270,131

The following tables present the balance in the allowance for loan losses and the recorded investment in loans (excluding loans in process and deferred loan fees) based on portfolio segment and impairment methods as of December 31, 2010:

	December 31, 2010						
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Ending Balance: individually evaluated for impairment	$-	$-	$394,647	$-	$-	$-	$394,647

Ending Balance: collectively evaluated for impairment	$1,129,072	$131,813	$1,585,546	$486,677	$1,225,274	$346,795	$4,905,177
Ending Balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-	$-	$-	$-
Loans:							
Ending Balance: individually evaluated for impairment	$-	$-	$1,369,113	$-	$-	$-	$1,369,113
Ending Balance: collectively evaluated for impairment	$192,995,472	$27,162,750	$179,035,510	$33,204,024	$120,161,670	$-	$552,559,426
Ending Balance: loans acquired with deteriorated credit quality	$2,865,541	$814,397	$2,616,653	$76,429	$4,703,982	$-	$11,077,002

The following table presents the credit risk profile of the Company's loan portfolio (excluding loans in process and deferred loan fees) based on rating category and payment activity as of December 31, 2010:

	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial
Pass	$193,131,352	$27,977,147	$165,922,385	$32,806,072	$117,559,299
Special Mention	2,254,710	-	10,487,273	357,867	5,978,638
Substandard	474,951	-	6,611,618	25,703	1,327,715
Doubtful	-	-	-	90,811	-
Total	$195,861,013	$27,977,147	$183,021,276	$33,280,453	$124,865,652

The following table presents the Company’s loan portfolio aging analysis (excluding loans in process and deferred loan fees) as of December 31, 2010:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate Loans:							
Conventional	$594,304	$369,309	$117,435	$1,081,048	$194,779,965	$195,861,013	$117,435
Construction	-	-	-	-	27,977,147	27,977,147	-
Commercial	734,571	4,178	124,226	862,975	182,158,301	183,021,276	124,225
Consumer loans	246,266	19,700	28,441	294,407	32,986,046	33,280,453	28,441
Commercial loans	373,131	504,978	-	878,109	123,987,543	124,865,652	-
Total loans	$1,948,272	$898,165	$270,102	$3,116,539	$573,928,440	$565,005,541	$270,101

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following table presents impaired loans as of December 31, 2010:

	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Conventional real estate	$ 2,865,541	$ 3,619,800	$ -
Construction real estate	814,397	2,104,652	-
Commercial real estate	2,616,653	3,356,832	-
Consumer loans	76,429	173,888	-
Commercial loans	4,703,982	6,317,552	-
Loans with a specific valuation allowance:			
Conventional real estate	$ -	$ -	$ -
Construction real estate	-	-	-
Commercial real estate	1,369,113	1,369,113	394,647
Consumer loans	-	-	-
Commercial loans	-	-	-
Total:			
Conventional real estate	$ 2,865,541	$ 3,619,800	$ -
Construction real estate	$ 814,397	$ 2,104,652	$ -
Commercial real estate	$ 3,985,766	$ 4,725,945	$ 394,647
Consumer loans	$ 76,429	$ 173,888	$ -
Commercial loans	$ 4,703,982	$ 6,317,552	$ -

The following table presents the Company's nonaccrual loans at December 31, 2010. This table excludes purchased impaired loans and performing troubled debt restructurings.

Conventional real estate	$96,277
Construction real estate	-
Commercial real estate	-
Consumer loans	5,878
Commercial loans	5,690
Total	$107,845

Note 5: Accounting for Certain Loans Acquired in a Transfer

The Company acquired loans in a transfer during the six-month period ended December 31, 2010. At acquisition, the transferred loans evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially measured at fair value, which includes estimated future

credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Management estimated the cash flows expected to be collected at acquisition using our internal risk models, which incorporate the estimate of current key assumptions, such as default rates, severity and prepayment speeds.

The carrying amount of those loans is included in the balance sheet amounts of loans receivable at December 31. The amounts of loans at December 31, 2010, are as follows:

Real Estate Loans:		
Conventional	$	3,619,800
Construction		2,104,652
Commercial		3,356,832
Consumer loans		173,888
Commercial loans		6,317,550
Outstanding balance	$	15,572,722
Carrying amount, net of fair value adjustment of $4,495,720	$	11,077,002

Accretable yield, or income expected to be collected, is as follows:

Balance at June 30, 2010	$413,525	
Additions	1,241,522	
Accretion	(69,334	)
Reclassification from nonaccretable difference	-	
Disposals	-	
Balance at December 31, 2010	$1,585,713	

Loans acquired during the six months ended December 31, 2010, for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

Contractually required payments receivable at acquisition:		
Conventional real estate	$	3,164,199
Construction real estate		2,267,781
Commercial real estate		4,669,215
Consumer loans		-
Commercial loans		6,844,624
Total required payments receivable	$	16,945,819
Cash flows expected to be collected at acquisition	$	11,543,172
Basis in acquired loans at acquisition	$	10,301,650

Certain of the loans acquired by the Company that are within the scope of this guidance (ASC 310-30) are not accounted for using the income recognition model for loans and debt securities acquired with deteriorated credit quality because the Company cannot reasonably estimate cash flows expected to be collected. The carrying amounts of such loans (which are included in the carrying amount, net allowance, described above) are as follows.

Loans purchased during the year	$10,301,650
Loans at end of year	$11,077,002

Note 6: Deposits

Deposits are summarized as follows:

	December 31, 2010	June 30, 2010
Non-interest bearing accounts	$42,890,655	$28,795,215
NOW accounts	128,822,344	103,712,619
Money market deposit accounts	20,647,395	7,479,938
Savings accounts	87,149,361	90,384,521
Certificates	281,483,263	192,520,614
Total deposits	$560,993,018	$422,892,907

Note 7: Comprehensive Income

The Company's comprehensive income for the three- and six-month periods ended December 31, 2010 and 2009, was as follows:

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
Net income	$5,576,154	$1,163,154	$6,878,746	$2,352,869
Other comprehensive income:				
Unrealized gains (losses) on securities available-for-sale	(1,548,703)	(407,541)	(1,249,146)	755,086
Unrealized gains on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income	245	1,929	267	1,834
Tax benefit (expense)	572,930	150,077	462,086	(280,060)
Total other comprehensive income (loss)	(975,528)	(255,535)	(786,793)	476,860
Comprehensive income	$4,600,626	$907,619	$6,091,953	$2,829,729

Note 8: Earnings Per Share

Basic and diluted net income per common share available to common stockholders are based upon the weighted-average shares outstanding. The following table summarizes basic and diluted net income per common share available to common stockholders for the three- and six-month periods ended December 31, 2010 and 2009.

	Three months ended September 30,		Six months ended December 31,	
	2010	2009	2010	2009
Net income	$5,576,154	$1,163,154	$6,878,746	$2,352,869
Dividend payable on preferred stock	127,985	127,445	255,713	254,783
Net income available to common shareholders	$5,448,169	$1,035,709	$6,623,033	$2,098,086
Average Common shares – outstanding basic	2,084,102	2,083,382	2,084,104	2,083,376
Stock options under treasury stock method	42,194	2,993	42,100	2,825
Average Common shares – outstanding diluted	2,126,296	2,086,375	2,126,204	2,086,201
Basic earnings per common share	$2.61	$0.50	$3.18	$1.01
Diluted earnings per common share	$2.56	$0.50	$3.11	$1.01

The Company had 185,000 exercisable stock options and warrants outstanding at December 31, 2009, with an exercise price exceeding the market price. These stock options and warrants were excluded from the above calculation as they were anti-dilutive. At December 31, 2010, no options outstanding had an exercise price exceeding the market price.

Note 9: Stock Option Plans

ASC 718, formerly Statement of Financial Accounting Standards 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 10: Employee Stock Ownership Plan

The Company established a tax-qualified ESOP in April 1994. The plan has been merged with the Company’s 401(k) Retirement Plan (the Plan). Both plans cover substantially all employees who are at least 21 years of age and who have completed one year of service. The Company’s intent is to make discretionary contributions to the Plan for fiscal 2011. The Company has been accruing $82,500 per quarter for these benefit expenses during this fiscal year.

Note 11: 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, are now redeemable, 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 12: Capital Purchase Program Implemented by the U.S. Treasury

In December 2008, the Company received $9.6 million from the U.S. Treasury through the sale of 9,550 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, as part of the Treasury's Capital Purchase Program. The Company also issued to the U.S. Treasury a warrant to purchase 114,326 shares of common stock at $12.53 per share. The amount of preferred shares sold represented approximately 3% of the Company's risk-weighted assets as of September 30, 2008.

The transaction was part of the Treasury's program to infuse capital into the nation's healthiest and strongest banks for the purpose of stabilizing the US financial system and promoting economic activity. The Company elected to participate in the program given the uncertain economic outlook, the relatively attractive cost of capital compared to the current market, and the strategic opportunities the Company foresees regarding potential uses of the capital. The additional capital increased the Company's already well-capitalized position. The Company used the proceeds of the issue for working capital and investment in its banking subsidiary.

The preferred shares pay a cumulative dividend of 5% per year for the first five years and 9% per year thereafter. The enactment of the American Recovery and Reinvestment Act of 2009 on February 17, 2009, permits the Company to redeem the preferred shares at any time by repaying the Treasury, without penalty and without a requirement to raise new capital, subject to the Treasury's consultation with the Company's appropriate regulatory agency. Additionally, upon redemption of the preferred shares, the warrant may be repurchased from the Treasury at its fair market value as agreed-upon by the Company and the Treasury.

Note 13: Business Combinations

On December 17, 2010, the Bank entered into a Purchase and Assumption Agreement with the FDIC, as receiver, to acquire certain assets and assume certain liabilities of the former First Southern Bank, with headquarters in Batesville, Arkansas, and one branch location in Searcy, Arkansas. The results of the operations of the former First Southern Bank locations have been included in the consolidated condensed financial statements since that date. As a result of the transaction, the Bank will have an opportunity to increase its deposit base and reduce transaction and other costs through economies of scale.

The Company recorded an estimated $460,000 in third-party acquisition-related costs in the second quarter of fiscal 2011. The expenses are included in noninterest expense in the Company's condensed consolidated statement of income (unaudited) for the three- and six-month periods ended December 31, 2010.

The bargain purchase gain of $7.0 million arising from the acquisition is a result of the discount bid of $17.5 million made by the Company to acquire the assets and assume the liabilities of the failed financial institution. The full amount of the bargain purchase gain is expected to be taxable, on a deferred basis.

15

The following table summarizes the assets acquired and liabilities assumed at the acquisition date. The Company is in the process of reviewing third-party valuations of intangible assets and the fair value of the loan and deposit portfolios; thus, the figures presented are subject to refinement.

Fair Value of Consideration Transferred	
Equity position of target at closing	$(2,453,832)
Asset discount bid	(17,500,000)
Deposit premium bid	224,028
Total cash (to) from buyer	$(19,729,804)

Recognized amounts of identifiable assets acquired and liabilities assumed	Acquired from the FDIC	Fair Value Adjustments	As Recorded
Cash and cash equivalents	$18,519,482	$-	$18,519,482
Loans	124,409,033	(9,801,830)	114,607,203
Premises and equipment	1,159	-	1,159
Identifiable intangible assets	-	624,952	624,952
Other	1,680,991	-	1,680,991
Deposits	(130,314,617)	(524,043)	(130,838,660)
Long-term debt	(16,658,022)	(548,781)	(17,206,803)
Other	(91,858)	(29,520)	(121,378)
Total identifiable net assets	$(2,453,832)	$(10,279,222)	$(12,733,054)
Bargain purchase gain			$(6,996,750)

The acquired business contributed revenues (net interest income and noninterest income) of $195,000 and earnings, net of tax, of $33,000 to the Company for the period from December 17, 2010 to December 31, 2010. The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on July 1, 2009:

(dollars in thousands, except EPS)	Pro forma Three months ended December 31,		Pro forma Six months ended December 31,	
	2010	2009	2010	2009
Interest income	$9,266	$8,418	$18,582	$16,681
Interest expense	3,378	3,420	6,867	6,751
Net interest income	5,888	4,998	11,715	9,930
Provision for loan losses	355	769	1,163	2,010
Net interest income after provision for loan losses	5,533	4,229	10,552	7,920
Noninterest income	7,984	778	8,865	