

SOUTHERN MISSOURI BANCORP INC
Form 10-Q
November 14, 2007

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 September 30, 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

(Address of principal executive offices)

63901

(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

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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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer <input checked="" type="checkbox"/> [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 November 14, 2007	
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Common Stock, Par Value \$.01	2,167,625 Shares	

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PART I: Item 1: Consolidated Financial Statements

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

	<u>September 30, 2007</u> (unaudited)	<u>June 30, 2007</u>
Cash and cash equivalents	\$ 5,477,663	\$ 7,330,966
Available for sale securities	34,794,752	34,883,588
Stock in FHLB of Des Moines	3,421,100	3,070,600
Loans receivable, net of allowance for loan losses of \$2,619,422 and \$2,537,659 at September 30, 2007, and June 30, 2007, respectively	319,301,349	312,062,967
Accrued interest receivable	2,938,796	2,248,064
Premises and equipment, net	8,528,683	8,650,673
Bank owned life insurance - cash surrender value	7,067,117	6,998,565
Intangible assets, net	2,029,346	2,093,160
Prepaid expenses and other assets	2,442,685	2,588,212
Total assets	\$ 386,001,491	\$ 379,926,795
Deposits	\$ 265,736,960	\$ 270,088,096
Securities sold under agreements to repurchase	16,175,264	17,758,364
Advances from FHLB of Des Moines	65,600,000	54,000,000
Accounts payable and other liabilities	726,694	742,816
Accrued interest payable	1,331,511	1,406,280
Subordinated debt	7,217,000	7,217,000
Total liabilities	356,787,429	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	17,407,558	17,389,156
Retained earnings	25,227,108	24,634,854
Treasury stock of 761,950 shares at September 30, 2007, and 743,250 shares at June 30, 2007, at cost	(13,269,477)	(12,990,541)
Accumulated other comprehensive loss	(180,699)	(348,802)
Total stockholders' equity	29,214,062	28,714,239
Total liabilities and stockholders' equity	\$ 386,001,491	\$ 379,926,795

See Notes to Consolidated Financial Statements

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SOUTHERN MISSOURI BANCORP, INC
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2007 AND 2006 (Unaudited)

	<u>2007</u>	Three months ended September 30,	<u>2006</u>
INTEREST INCOME:			
Loans	\$ 5,911,308		\$ 5,211,478
Investment securities	289,487		313,683
Mortgage-backed securities	125,066		150,222
Other interest-earning assets	6,768		10,902
	<hr/>		
Total interest income	6,332,629		5,686,285
	<hr/>		
INTEREST EXPENSE:			
Deposits	2,526,130		2,141,331
Securities sold under agreements to repurchase	192,551		123,772
Advances from FHLB of Des Moines	831,999		782,027
Subordinated debt	150,515		150,219
	<hr/>		
Total interest expense	3,701,195		3,197,349
	<hr/>		
NET INTEREST INCOME	2,631,434		2,488,936
PROVISION FOR LOAN LOSSES	110,000		125,000
	<hr/>		
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,521,434		2,363,936
	<hr/>		
NONINTEREST INCOME:			
Customer service charges	303,590		316,150
Loan late charges	33,424		31,234
Increase in cash surrender value of bank owned life insurance	68,551		64,600
Other	184,793		165,197
	<hr/>		
Total noninterest income	590,358		577,181
	<hr/>		
NONINTEREST EXPENSE:			
Compensation and benefits	1,068,006		985,280
Occupancy and equipment, net	373,168		340,976
DIF deposit insurance premium	7,226		8,068
Professional fees	39,291		40,524
Advertising	47,223		57,279
Postage and office supplies	72,012		69,233
Amortization of intangible assets	63,814		63,814
Other	228,387		231,796
	<hr/>		
Total noninterest expense	1,899,127		1,796,970
	<hr/>		
INCOME BEFORE INCOME TAXES	1,212,665		1,144,147
INCOME TAXES	399,480		404,400
	<hr/>		
NET INCOME	813,185		739,747
	<hr/>		
OTHER COMPREHENSIVE INCOME, NET OF TAX:			
Unrealized gains on AFS securities, net of income taxes	168,103		275,305
	<hr/>		
COMPREHENSIVE INCOME	\$ 981,288		\$ 1,015,052

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Basic earnings per common share	\$ 0.37	\$ 0.33
Diluted earnings per common share	\$ 0.36	\$ 0.33
Dividends per common share	\$ 0.10	\$ 0.09

See Notes to Consolidated Financial Statements

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SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2007 AND 2006 (Unaudited)

	<u>2007</u>	Three months ended September 30,	<u>2006</u>
Cash Flows From Operating Activities:			
Net income	\$ 813,815		\$ 739,747
Items not requiring (providing) cash:			
Depreciation	166,277		166,085
MRP and SOP expense	17,772		16,063
Gain on sale of foreclosed assets	(15,578)		-
Amortization of intangible assets	63,814		63,814
Increase in cash surrender value of bank owned life insurance	(68,552)		(64,600)
Provision for loan losses	110,000		125,000
Net amortization (accretion) of premiums and discounts on securities	6,561		(413)
Changes in:			
Accrued interest receivable	(690,732)		(492,247)
Prepaid expenses and other assets	(6,450)		2,042
Accounts payable and other liabilities	(16,122)		470,546
Accrued interest payable	(74,769)		167,071
	<hr/>		
Net cash provided by operating activities	306,036		1,193,108
	<hr/>		
Cash flows from investing activities:			
Net increase in loans	(7,419,624)		(10,420,313)
Proceeds from maturities of available for sale securities	3,585,316		2,379,292
Net purchases of Federal Home Loan Bank stock	(350,500)		(704,300)
Purchases of available-for-sale securities	(3,236,211)		(1,943,500)
Purchases of premises and equipment	(44,287)		(20,816)
Proceeds from sale of foreclosed assets	140,070		-
	<hr/>		
Net cash used in investing activities	(7,325,236)		(10,709,637)
	<hr/>		
Cash flows from financing activities:			
Net increase (decrease) in demand deposits and savings accounts	(6,980,309)		(8,470,093)
Net increase (decrease) in certificates of deposits	2,629,173		(2,265,326)
Net increase (decrease) in securities sold under agreements to repurchase	(1,583,100)		(1,458,011)
Proceeds from Federal Home Loan Bank advances	164,350,000		80,100,000
Repayments of Federal Home Loan Bank advances	(152,750,000)		(60,200,000)
Dividends paid on common stock	(220,931)		(201,270)
Purchases of treasury stock	(278,936)		-
	<hr/>		
Net cash provided by financing activities	5,165,897		7,505,300
	<hr/>		
Decrease in cash and cash equivalents	(1,853,303)		(2,011,229)
Cash and cash equivalents at beginning of period	7,330,966		6,366,608
	<hr/>		
Cash and cash equivalents at end of period	\$ 5,477,663		\$ 4,355,379
	<hr/>		
	<u>2007</u>	Three months ended September 30,	<u>2006</u>
Supplemental disclosures of			
Cash flow information:			
<u>Noncash investing and financing activities:</u>			
Conversion of loans to foreclosed real estate	\$ 87,992		\$ 139,449
Conversion of loans to other equipment	16,750		-
<u>Cash paid during the period for:</u>			
Interest (net of interest credited)	\$ 1,250,746		\$ 1,114,853
Income taxes	386,000		-

See Notes to Consolidated Financial Statements

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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 three-month period ended September 30, 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:

	<u>September 30, 2007</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Investment Securities:				
U.S. government and federal agency obligation	\$ 19,221,575	\$ 16,717	\$ (112,233)	\$ 19,126,059
Obligations of state and political subdivisions	2,613,362	14,056	(20,081)	2,607,337
Other securities	874,199	-	-	874,199
Mortgage-backed securities	12,372,471	21,744	(207,058)	12,187,157
Total investments and mortgage-backed securities	\$ 35,081,607	\$ 52,517	\$ (339,372)	\$ 34,794,752

	<u>June 30, 2007</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
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
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 September 30, 2007.

	<u>Less than 12 months</u>		<u>More than 12 months</u>		<u>Totals</u>	
	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>	<u>Unrealized Losses</u>
Investment Securities:						
U.S. government and federal agency obligations	\$ 1,982,076	\$ (3,134)	\$ 15,132,532	\$ (109,099)	\$ 17,114,608	\$ (112,233)
Obligations of state and political subdivisions	1,588,210	(13,889)	255,853	(6,192)	1,844,063	(20,081)
Other securities	-	-	-	-	-	-
Mortgage-backed securities	3,437,724	(13,039)	5,975,090	(194,019)	9,412,814	(207,058)
Total investments and mortgage-backed securities	\$ 7,008,010	\$ (30,062)	\$ 21,363,475	\$ (309,310)	\$ 28,371,485	\$ (339,372)

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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.

<u>Fair Value</u>	<u>Less than 12 months</u>		<u>More than 12 months</u>		<u>Totals</u>	<u>Unrealized</u>
	<u>Estimated</u> <u>Losses</u>	<u>Unrealized</u> <u>Fair Value</u>	<u>Estimated</u> <u>Losses</u>	<u>Unrealized</u> <u>Fair Value</u>		
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)
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:

	<u>September 30,</u> <u>2007</u>	<u>June 30,</u> <u>2007</u>
Real Estate Loans:		
Conventional	\$ 138,420,809	\$ 135,287,992
Construction	10,527,008	7,981,390
Commercial	78,861,178	77,723,332
Consumer loans	19,593,930	19,416,309
Commercial loans	78,221,171	76,053,308
	325,624,096	316,462,331
Loans in process	(3,766,218)	(1,913,191)
Deferred loan fees, net	62,893	51,486
Allowance for loan losses	(2,619,422)	(2,537,659)
Total loans	\$ 319,301,349	\$ 312,062,967

Note 4: Deposits

Deposits are summarized as follows:

	<u>September 30,</u> <u>2007</u>	<u>June 30,</u> <u>2007</u>
Non-interest bearing accounts	\$ 20,322,416	\$ 22,275,977
NOW accounts	29,397,375	31,122,878
Money market deposit accounts	5,877,175	7,211,517
Savings accounts	76,941,448	78,908,351
Certificates	133,198,546	130,569,373
Total deposits	\$ 265,736,960	\$ 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 September 30, 2007 and 2006.

	<u>2007</u>	<u>Three months ended</u> <u>September 30,</u>	<u>2006</u>
Net income	\$ 813,185		\$ 739,747
Average Common shares - outstanding basic	2,201,179		2,228,254
Stock options under treasury stock method	40,971		39,143
Average Common share - outstanding diluted	2,242,150		2,267,397
Basic earnings per common share	\$ 0.37		\$ 0.33
Diluted earnings per common share	\$ 0.36		\$ 0.33

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Note 6: Stock Option Plans

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment," which requires the compensation costs related to share-based payment transactions to 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. SFAS No. 123R was adopted during the first quarter of fiscal 2006.

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 this 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 subsidiaries.

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 September 30, 2007, a total of 18,700 shares have been repurchased. The number of shares, as of September 30, 2007, held as treasury stock was 761,950.

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 November 14, 2007, 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 Quin, 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 September 30, 2007, and the results of operations for the three-month periods ended September 30, 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 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 three months of fiscal 2008, we grew our balance sheet by \$6.1 million, which was consistent with the Company's growth strategies. This additional growth reflected a \$7.2 million increase in total net loans, a \$4.4 million decrease in deposits, and an \$11.6 million increase in borrowed funds. The growth in loans was primarily due to commercial and commercial real estate loan originations and advances, coupled with residential real estate loan originations. The increase in borrowed funds was in the form of short-term borrowings from the Federal Home Loan Bank of Des Moines (FHLB), used in part to fund loan growth.

Our net income for the first quarter of 2008 increased 9.9% to \$813,000, as compared to \$740,000 earned during the same period of the prior year. The increase in net income was primarily due to a 5.7% increase in net interest income, partially offset by a 5.7% increase in non-interest expense. Diluted earnings per share for the first quarter of fiscal 2008 were \$0.36, as compared to \$0.33 for the first quarter of fiscal 2007. For the three-month period ended September 30, 2007, our growth in interest income was derived primarily from the overall growth in our balance sheet and the increase in yields earned; the increase in interest expense reflected the growth in our interest-bearing liabilities and increases in rates paid.

Short-term market interest rates declined during the first three 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 held the rate steady until September 2007, when it cut rates by 50 basis points, to 4.75%. From July 1 to September 30, 2007, rates on short term treasuries declined based on investor expectations regarding short-term monetary policy. At July 1, the six-month treasury bill and two-year treasury note yielded almost 5%, three months later, the yield was off nearly 100 basis points; meanwhile the ten-year bond declined about 50 basis points. The result was a steepened yield curve. In this rate environment, our net interest margin decreased four basis points when comparing the first quarter of fiscal 2008 with the corresponding period in fiscal 2007; however, compared to the fourth quarter of fiscal 2007, our net interest margin improved from 2.92% to 2.94% in the first quarter of fiscal 2008. The \$142,000 increase in net interest income for the first quarter of 2008, when compared to the corresponding period in 2007, reflected growth of 7.2% in our average interest-earning assets, compared to the prior period.

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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-month period ended September 30, 2007, compared to the corresponding period ended September 30, 2006, non-interest income increased 2.3%, primarily due to increased ATM transaction fee income and loan fee collections, partially offset by lower income from NSF charges. Non-interest expense increased during the three months ended September 30, 2007, compared to the same period of the prior fiscal year, primarily in the categories of compensation and benefits, as well as occupancy expenses, with the increases partially offset by lower advertising costs.

We expect to continue to grow our assets modestly through the origination and occasional purchase of loans and investment securities. A portion of the current period's loan growth is attributed to the seasonal nature of agricultural lending, and growth for the remainder of the fiscal year may not continue at the same pace. The primary funding for our asset growth is expected to come from retail deposits, short- and long-term FHLB borrowings, and 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 September 30, 2007, and June 30, 2007

The Company's total assets increased by \$6.1 million, or 1.6%, to \$386.0 million at September 30, 2007, as compared to \$379.9 million at June 30, 2007. Loans, net of the allowance for loan losses, increased \$7.2 million, or 2.3%, to \$319.3 million, as compared to \$312.1 million at June 30, 2007. The Company continues to focus on origination of commercial loans, resulting in growth of \$3.3 million in commercial and commercial real estate loan balances. Cash and cash equivalent balances decreased \$1.9 million, or 25.3%, to \$5.5 million, as compared to \$7.3 million at June 30, 2007.

Asset growth during the first three months of fiscal 2008 has been funded primarily with short-term FHLB borrowings. At June 30, 2007, the Company had \$7.0 million in short-term FHLB borrowings. At September 30, 2007, short-term FHLB borrowings increased to \$19.6 million. During the first three months of fiscal 2008, one FHLB advance of \$1.0 million was called, and the Company replaced this funding with short-term borrowings. The remaining \$11.6 million increase in short-term borrowings was due to asset growth and decreases in deposit balances. FHLB advances totaled \$65.6 at September 30, 2007, compared to \$54.0 million at June 30, 2007. At September 30, 2006, FHLB advances totaled \$65.9 million. Deposits decreased \$4.4 million, or 1.6%, to \$265.7 million at September 30, 2007, as compared to \$270.1 million at June 30, 2007. At September 30, 2006, deposits totaled \$247.3 million. The decrease in total deposits was primarily due to a \$3.8 million decrease in checking account balances (of which \$3.0 million was in accounts tied to repurchase agreements, with customers whose account balances tend to fluctuate), and a \$3.4 million combined decrease in money market passbook and money market deposit accounts, partially offset by a \$2.6 million increase in certificates of deposit. Securities sold under agreements to repurchase decreased \$1.6 million, or 8.9%; the decrease was primarily attributed to normal balance fluctuations with customers holding the agreements.

Total stockholders' equity increased \$500,000, or 1.7%, to \$29.2 million at September 30, 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 Months Ended September 30, 2007 and 2006

The table on the following page presents certain information regarding Southern Missouri Bancorp, Inc.'s financial condition and net interest income for the three-month periods ending September 30, 2007 and 2006. The table presents 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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	<u>September 30, 2007</u>			<u>September 30, 2006</u>		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
Interest earning assets:						
Mortgage loans (1)	\$ 226,041,123	\$ 4,042,688	7.15%	\$ 201,692,028	\$ 3,466,447	6.87%
Other loans (1)	91,014,918	1,868,620	8.21	86,304,988	1,745,031	8.09
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Total net loans	317,056,041	5,911,308	7.46	287,997,016	5,211,478	7.24
Mortgage-backed securities	11,022,386	125,066	4.54	14,575,426	150,222	4.12
Investment securities (2)	26,966,168	289,487	4.29	27,986,537	318,200	4.55
Other interest earning assets	2,844,650	6,768	0.95	3,180,003	6,385	0.80
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Total interest earning assets (1)	357,889,245	6,332,629	7.08	333,738,982	5,686,285	6.82
Other noninterest earning assets (3)	21,715,090	-		21,202,814	-	
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Total assets	\$ 379,604,335	\$ 6,332,629		\$ 354,941,796	\$ 5,686,285	
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Interest bearing liabilities:						
Savings accounts	\$ 77,765,702	\$ 757,396	3.90	\$ 72,670,458	\$ 682,453	3.76
NOW accounts	29,925,632	104,072	1.39	29,019,502	94,453	1.30
Money market accounts	5,880,962	27,700	1.88	8,245,702	41,356	2.01
Certificates of deposit	132,470,942	1,636,992	4.94	123,237,029	1,323,069	4.29
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Total interest bearing deposits	246,043,238	2,526,130	4.11	233,172,691	2,141,331	3.67
Borrowings:						
 						