SOUTHERN MISSOURI BANCORP INC
Form 10-Q
February 16, 2010

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, 2009

OR

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

For the transition period from ______________ to ________________

Commission file 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)

(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 Feb. 16, 2010
Common Stock, Par Value $.01	2,087,976 Shares

SOUTHERN MISSOURI BANCORP, INC.
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PART I: Item 1: Consolidated Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009, AND JUNE 30, 2009

	December 31, 2009 (unaudited)	June 30, 2009
Cash and cash equivalents	$31,230,001	$8,074,465
Interest-bearing time deposits	1,288,000	-
Total cash equivalents	32,518,001	8,074,465
Available for sale securities	63,449,158	60,177,992
Stock in FHLB of Des Moines	3,365,800	4,592,300
Stock in Federal Reserve Bank of St. Louis	583,000	-
Loans receivable, net of allowance for loan losses of $4,270,131 and $4,430,210 at December 31, 2009, and June 30, 2009, respectively	402,504,902	368,555,962
Accrued interest receivable	3,028,398	2,650,161
Premises and equipment, net	9,413,791	8,135,092
Bank owned life insurance – cash surrender value	7,701,489	7,563,855
Intangible assets, net	1,750,442	1,582,645
Prepaid expenses and other assets	8,533,581	4,564,164
Total assets	$532,848,562	$465,896,636
Deposits	$397,397,107	$311,955,468
Securities sold under agreements to repurchase	29,361,189	23,747,557
Advances from FHLB of Des Moines	52,500,000	78,750,000
Accounts payable and other liabilities	1,405,956	1,229,187
Accrued interest payable	858,383	989,086
Subordinated debt	7,217,000	7,217,000
Total liabilities	488,739,635	423,888,298
Commitments and contingencies	-	-
Preferred stock, $.01 par value, $1,000 liquidation value; 500,000 shares authorized; 9,550 shares issued and outstanding	9,404,848	9,388,815
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	16,355,376	16,344,725
Retained earnings	31,544,342	29,947,297
Treasury stock of 869,250 shares at December 31, 2009, and June 30, 2009, at cost	(13,994,870)	(13,994,870)
Accumulated other comprehensive income - AFS securities	583,790	106,930
Accumulated other comprehensive income - FAS 158	9,079	9,079

Total stockholders’ equity	44,596,572	42,008,338
Total liabilities and stockholders’ equity	$532,848,562	$465,896,636

See Notes to Consolidated Financial Statements

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SOUTHERN MISSOURI BANCORP, INC
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE- AND SIX-MONTH PERIODS ENDED DECEMBER 31, 2009 AND 2008 (Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2009	2008	2009	2008
INTEREST INCOME:				
Loans	$6,136,721	$5,734,137	$12,334,845	$11,523,631
Investment securities	279,077	159,671	509,963	336,480
Mortgage-backed securities	452,432	399,776	901,288	754,200
Other interest-earning assets	25,570	10,332	43,865	32,080
Total interest income	6,893,800	6,303,916	13,789,961	12,646,391
INTEREST EXPENSE:				
Deposits	2,005,338	1,808,640	3,860,885	3,642,271
Securities sold under agreements to repurchase	53,028	52,526	103,253	142,015
Advances from FHLB of Des Moines	734,900	884,732	1,592,500	1,746,942
Subordinated debt	56,010	99,819	117,160	203,478
Total interest expense	2,849,276	2,845,717	5,673,798	5,734,706
NET INTEREST INCOME	4,044,524	3,458,199	8,116,163	6,911,685
PROVISION FOR LOAN LOSSES	310,000	200,000	520,000	600,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,734,524	3,258,199	7,596,163	6,311,685
NONINTEREST INCOME:				
Customer service charges	350,476	305,252	690,483	656,345
Loan late charges	51,325	39,530	101,585	75,122
Increase in cash surrender value of bank owned life insurance	68,819	67,775	137,634	139,409
AFS securities losses due to other-than-temporary-impairment	-	(375,000)	-	(678,973)
Other	320,494	202,774	565,586	384,082
Total noninterest income	791,114	240,331	1,495,288	575,985
NONINTEREST EXPENSE:				
Compensation and benefits	1,623,026	1,188,324	3,122,919	2,372,901
Occupancy and equipment, net	441,967	391,469	919,409	746,476
DIF deposit insurance premium	147,925	79,228	268,959	90,762
Professional fees	91,759	67,103	175,721	111,968
Advertising	66,075	70,532	142,924	103,454
Postage and office supplies	95,935	66,280	201,439	144,053
Amortization of intangible assets	73,035	63,814	142,996	127,629
Other	394,862	279,585	1,142,915	546,465
Total noninterest expense	2,934,584	2,206,335	6,117,282	4,243,708

INCOME BEFORE INCOME TAXES	1,591,054	1,292,195	2,974,169	2,643,962
INCOME TAXES	427,900	404,500	621,300	829,500
NET INCOME	1,163,154	887,695	2,352,869	1,814,462
Less: effective dividend on preferred shares	127,445	34,486	254,783	34,486
Net income available to common shareholders	$1,035,709	$853,209	$2,098,086	$1,779,976
Basic earnings per common share	$0.50	$0.40	$1.01	$0.82
Diluted earnings per common share	$0.50	$0.40	$1.01	$0.82
Dividends per common share	$0.12	$0.12	$0.24	$0.24

See Notes to Consolidated Financial Statements

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SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED DECEMBER 31, 2009 AND 2008 (Unaudited)

	Six months ended December 31, 2009	Six months ended December 31, 2008
Cash Flows From Operating Activities:		
Net income	$2,352,869	$1,814,462
Items not requiring (providing) cash:		
Depreciation	367,339	301,540
MRP and SOP expense	10,652	34,419
AFS losses due to other-than-temporary impairment	-	678,973
Gain on sale of foreclosed assets	(2,858)	(13,474)
Amortization of intangible assets	142,996	127,629
Increase in cash surrender value of bank owned life insurance	(137,634)	(139,409)
Provision for loan losses	520,000	600,000
Net amortization (accretion) of premiums and discounts on securities	106,094	33,470
Deferred income taxes	(328,000)	(136,000)
Changes in:		
Accrued interest receivable	(246,646)	(780,554)
Prepaid expenses and other assets	(1,633,332)	56,796
Accounts payable and other liabilities	(271,382)	(133,089)
Accrued interest payable	(191,723)	(348,063)
Net cash provided by operating activities	688,375	2,096,700
Cash flows from investing activities:		
Net increase in loans	(19,706,225)	(9,151,576)
Net cash received in acquisitions	9,713,304	-
Proceeds from maturities of available for sale securities	7,842,589	3,610,558
Net redemptions (purchases) of Federal Home Loan Bank stock	1,226,500	(1,268,600)
Net purchases of Federal Reserve Bank of Saint Louis stock	(583,000)	-
Purchases of available-for-sale securities	(8,858,817)	(22,321,825)
Purchases of premises and equipment	(265,375)	(333,154)
Investments in state & federal tax credits	(1,250,000)	(1,263,944)
Proceeds from sale of foreclosed assets	635,320	150,974
Net cash used in investing activities	(11,245,704)	(30,577,567)
Cash flows from financing activities:		
Preferred stock issued	-	9,550,000
Net increase (decrease) in demand deposits and savings accounts	51,909,163	(2,599,980)
Net increase (decrease) in certificates of deposits	4,467,862	(3,610,273)
Net increase in securities sold under agreements to repurchase	5,613,632	3,714,238
Proceeds from Federal Home Loan Bank advances	30,950,000	161,475,000
Repayments of Federal Home Loan Bank advances	(57,200,000)	(132,850,000)
Dividends paid on common and preferred stock	(739,792)	(523,057)
Exercise of stock options	-	161,000
Purchases of treasury stock	-	(1,507,755)

Net cash provided by financing activities	35,000,865	33,809,173
Increase in cash and cash equivalents	24,443,536	5,328,306
Cash and cash equivalents at beginning of period	8,074,465	8,022,408
Cash and cash equivalents at end of period	$32,518,001	$13,350,714
Supplemental disclosures of Cash flow information:		
Noncash investing and financing activities:		
Conversion of loans to foreclosed real estate	$1,072,755	$268,000
Conversion of loans to other equipment	140,246	131,341
Cash paid during the period for:		
Interest (net of interest credited)	$2,497,279	$2,756,910
Income taxes	722,000	981,405

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 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, 2009, 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, 2009, 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, 2009, 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, 2009 and 2008.

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. Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. 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, 2009, 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 and federal agency obligations	$6,949,263	$-	$6,949,263	$-
Obligations of state and political subdivisions	18,662,462	-	18,662,462	-
Other securities	374,296	-	374,296	-
FHLMC preferred stock	10,680	-	10,680	-
Mortgage-backed securities	37,452,457	-	37,452,457	-

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	Fair Value Measurements at June 30, 2009, 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 and federal agency obligations	$3,278,708	$-	$3,278,708	$-
Obligations of state and political subdivisions	13,622,695	-	13,622,695	-
Other securities	2,999,656	-	2,999,656	-
FHLMC preferred stock	7,920	-	7,920	-
Mortgage-backed securities	40,269,013	-	40,269,013	-

The following is a description of valuation methodologies used for financial assets measured at fair value on a nonrecurring basis at December 31, 2009.

Impaired Loans. A 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 loan is considered impaired, the amount of reserve required under SFAS No. 114 is measured based on the fair value of the underlying collateral. The Company makes such measurements on all material 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 impaired loan is determined by an adjusted appraised value including unobservable cash flows. The Company records impaired loans as Nonrecurring Level 3. If a 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, 2009:

	Fair Value Measurements at December 31, 2009, Using:			
	Fair Value			Significant

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Impaired loans	$3,830,308	$-	$-	$3,830,308
Foreclosed and repossessed assets held for sale	150,000	-	-	150,000

ASC 825, formerly Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," and FSP FAS 107-1, 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, 2009 and June 30, 2009, were as follows:

	December 31, 2009		June 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$31,230	$31,230	$8,074	$8,074
Interest-bearing time deposits	1,288	1,380	-	-
Available for sale investment securities	63,449	63,449	60,178	60,178
Stock in FHLB	3,366	3,366	4,592	4,592
Stock in Federal Reserve Bank of St. Louis	583	583	-	-
Loans receivable, net	402,505	405,988	368.556	374,328
Accrued interest receivable	3,028	3,028	2,650	2,650
Financial liabilities				
Deposits	397,397	399,058	311,955	313,059
Securities sold under agreements to repurchase	29,361	29,361	23,748	23,748
Advances from FHLB	52,500	55,904	78.750	82,510
Accrued interest payable	859	859	989	989
Subordinated debt	7,217	7,217	7,217	7,217
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. Fair values of available for sale securities are based on quoted market prices or, if unavailable, quoted market prices of similar securities. 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.

Deposits with no defined maturities, such as NOW accounts, savings accounts, and money market deposit accounts, are valued at their carrying amount, which approximates fair value. 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 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 estimated fair value:

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment Securities:				
U.S. government and federal agency obligation	$6,923,238	$69,988	$(43,963)	$6,949,263
Obligations of state and political subdivisions	18,094,179	582,979	(14,696)	18,662,462
Other securities	1,764,927	13,844	(1,404,475)	374,296
FHLMC preferred stock	-	10,680	-	10,680
Mortgage-backed securities	35,740,194	1,712,539	(276)	37,452,457
Total investments and mortgage-backed securities	$62,522,538	$2,390,030	$(1,463,410)	$63,449,158

	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment Securities:				
U.S. government and federal agency obligation	$3,216,975	$61,733	$-	$3,278,708
Obligations of state and political subdivisions	13,512,789	212,308	(102,402)	13,622,695
Other securities	4,264,409	-	(1,264,753)	2,999,656
FHLMC preferred stock	-	7,920	-	7,920
Mortgage-backed securities	39,014,119	1,263,681	(8,787)	40,269,013
Total investments and mortgage-backed securities	$60,008,292	$1,545,642	$(1,375,942)	$60,177,992

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 call or prepayment penalties.

	December 31, 2009	
	Amortized Cost	Estimated Fair Value
Available for Sale:		
Within one year	$ 1,352,295	$ 1,386,198
After one year but less than five years	130,000	145,824
After five years but less than ten years	4,269,972	4,341,709
After ten years	21,030,077	20,122,970
Total investment securities	26,782,344	25,996,701
Mortgage-backed securities	35,740,194	37,452,457
Total investments and mortgage-backed securities	$ 62,522,538	$ 63,449,158

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, 2009.

	December 31, 2009					
	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	$2,053,072	$43,963	$-	$-	$2,053,072	$43,963
Obligations of state and political subdivisions	2,294,254	14,696	-	-	2,294,254	14,696
Other securities	-	-	114,388	1,404,475	114,388	1,404,475
Mortgage-backed securities	19,291	29	31,736	247	51,027	276

Total investments and mortgage-backed securities	$4,366,617	$58,688	$146,124	$1,404,722	$4,512,741	$1,463,410

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, 2009.

	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:						
Obligations of state and political subdivisions	$3,243,030	$82,933	$1,547,675	$19,469	$4,790,705	$102,402
Other securities	-	-	249,656	1,264,753	249,656	1,264,753
Mortgage-backed securities	276,201	1,992	291,621	6,795	567,822	8,787
Total investments and mortgage-backed securities	$3,519,231	$84,925	$2,088,952	$1,291,017	$5,608,183	$1,375,942

Other securities. At September 30, 2009, there were four pooled trust preferred securities with a fair value of $114,000 and unrealized losses of $1.4 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, 2009 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 a range of default rates from 4.9% to 9.6% for the 2010 calendar year, 0.25% to 3.9% for calendar year 2011, and 0.25% to 0.5% thereafter. Recoveries are assumed at a 15% to 20% rate, following a two-year lag. The projections assume that the securities will realize no recovery on defaulted participants, and 15% to 20% recoveries on deferred securities. No prepayments are assumed. 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, 2009.

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, 2009, cash flow analyses showed it is probable the Company will receive all of the remaining cost basis and related interest projected for the security, though interest payments have been deferred on the security. The Company's assumptions for this security included default rates of 15% for calendar year 2010, 6% for calendar year 2011, and 0.5% thereafter; for participants that have already defaulted, no recovery is assumed, while participants that have deferred are assumed to default with a 20% recovery following a two-year lag. Future defaults are assumed to provide a 10% recovery after a two-year lag. 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, 2009.

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, 2009 and 2008.

	Accumulated Credit Losses Six Month Period Ended December 31,	
	2009	2008
Credit losses on debt securities held		
Beginning of period	$ 375,000	$ -
Additions related to OTTI losses not previously recognized	-	375,000
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

Note 4: Loans

Loans are summarized as follows:

	December 31, 2009	June 30, 2009
Real Estate Loans:		
Conventional	$ 160,685,414	$ 155,490,317
Construction	26,579,783	23,531,528
Commercial	113,688,252	97,160,828
Consumer loans	27,210,503	23,141,738
Commercial loans	89,188,522	89,065,652
	417,352,474	388,390,063
Loans in process	(10,690,883)	(15,511,237)
Deferred loan fees, net	113,442	107,346
Allowance for loan losses	(4,270,131)	(4,430,210)
Total loans	$ 402,504,902	$ 368,555,962

In the July 2009 SBOC acquisition, the Company obtained loans that had been carried by SBOC at a book value of $16.2 million; the loans were recorded at a $1.1 million fair value discount. Included in that figure is a $1.0 million fair value discount related to $3.9 million in loans that were deemed impaired at acquisition and accounted for in accordance with SOP 03-3; the $1.0 million fair value discount related to the SOP 03-3 loans is not accretable. None of the $1.1 million fair value discount is included in the Company's $4.3 million allowance for loan losses.

Note 5: Deposits

Deposits are summarized as follows:

	December 31, 2009	June 30, 2009
Non-interest bearing accounts	$ 25,297,428	$ 21,303,646
NOW accounts	88,776,913	65,114,474
Money market deposit accounts	7,267,618	6,632,987
Savings accounts	86,398,729	58,598,085
Certificates	189,656,419	160,306,276
Total deposits	$ 397,397,107	$ 311,955,468

Note 6: Comprehensive Income

The Company's comprehensive income for the three- and six-month periods ended December 31, 2009 and 2008, was as follows:

	Three months ended December 31,		Six months ended December 31,	
	2009	2008	2009	2008
Net income	$1,163,154	$887,695	$2,352,869	$1,814,462
Other comprehensive income:				
Unrealized gains (losses) on securities available-for-sale	(407,541)	639,428	755,086	412,158
Unrealized gains (losses) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income	1,929	-	1,834	-
Tax benefit (expense)	150,077	(236,589)	(280,060)	(152,499)
Total other comprehensive income (loss)	(255,535)	402,839	476,860	259,659
Comprehensive income	$907,619	$1,290,534	$2,829,729	$2,074,121

Note 7: 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- and six-month periods ended December 31, 2009 and 2008.

	Three months ended	Six months ended

	December 31,		December 31,	
	2009	2008	2009	2008
Net income	$1,163,154	$887,695	$2,352,869	$1,814,462
Dividend payable on preferred stock	127,445	34,486	254,783	34,486
Net income available to common shareholders	$1,035,709	$853,209	$2,098,086	$1,779,976
Average Common shares – outstanding basic	2,083,382	2,129,827	2,083,376	2,163,534
Stock options under treasury stock method	2,993	681	2,825	197
Average Common share – outstanding diluted	2,086,375	2,130,508	2,086,201	2,163,731
Basic earnings per common share	$0.50	$0.40	$1.01	$0.82
Diluted earnings per common share	$0.50	$0.40	$1.01	$0.82

The Company had 189,800 and 184,800 stock options and warrants outstanding at December 31, 2009 and 2008, respectively, with a grant price exceeding the market price. These stock options and warrants were excluded from the above calculation as they were anti-dilutive.

Note 8: Stock Option Plans

ASC 505, 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 9: Employee Stock Ownership Plan

The Company 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 2010. The Company has been accruing $60,000 per quarter for ESOP benefit expenses during this fiscal year.

Note 10: 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 11: 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 12: Acquisitions

In July 2009, the Company acquired 100% of the outstanding stock of Southern Bank of Commerce (SBOC), headquartered in Paragould, Arkansas. SBOC was merged into the Company's existing banking subsidiary, Southern Bank, on July 20, 2009. The Company acquired SBOC primarily for the purpose of obtaining entry to markets where it believes the Company's business model will perform well. The Company paid $600,000 in cash to acquire the target. At acquisition, SBOC held assets of $29.9 million, including loans of $16.2 million, and held total deposits of $29.1 million. Based on the acquisition date fair values of the net assets acquired, goodwill of $171,000 was recorded. A fair value discount was recorded for the acquired loans of $1.1 million, with the loans reported in the financial statements at a fair value of approximately $15 million. Of the fair value discount, $1.0 million relates to impaired loans accounted for in accordance with SOP 03-3; as such, the discount will not be accreted. A core deposit intangible asset of $184,000 was recognized on the transaction; the Company anticipates amortizing this amount over five years, using the straight-line method.

Note 13: Subsequent Events

Subsequent events have been evaluated through February 15, 2010, which is the date the financial statements were issued.

Note 14: Recent Accounting Pronouncements

The following paragraphs summarize the impact of new accounting pronouncements:

In December 2007, the FASB issued ASC 805, formerly Statement No. 141 (revised 2007), “Business Combinations—A Replacement of FASB Statement No. 141” and ASC 810, formerly Statement No. 160, “Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51.” ASC 805 establishes principles and requirements for how an acquirer recognizes and measures certain items in a business combination, as well as disclosures about the nature and financial effects of a business combination. ASC 810 establishes accounting and reporting standards surrounding noncontrolling interest, or minority interests, which are the portions of equity in a subsidiary not attributable, directly or indirectly, to a parent. The pronouncements were effective for the Company beginning July 1, 2009. Presentation and disclosure requirements related to noncontrolling interests must be retrospectively applied. The Company was impacted by the adoption of ASC 805 with its July 2009 acquisition (see Footnote 12 to the Consolidated Financial Statements). The Company does not have any noncontrolling interests; thus, there was no effect to the financial statements related to the adoption of ASC 810.

In April 2009, the FASB issued ASC 825, formerly FASB Staff Position on FAS 107-1 and APB No. 28-1, “Interim Disclosures About Fair Value of Financial Instruments,” which requires disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements. The provisions of ASC 825 were effective for the Company’s interim period ending September 30, 2009. As ASC 825 amends only the disclosure requirements about fair value of financial instruments in interim periods, the adoption of ASC 825 did not affect the Company’s consolidated financial statements.

On May 28, 2009, the FASB issued ASC 855, formerly Statement No. 165, “Subsequent Events.” Under ASC 855, companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are issued, or available to be issued in the case of non-public entities. ASC 855 requires entities to recognize in the financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including the estimates inherent in the financial preparation process. Entities shall not recognize the impact of events or transactions that provide evidence about conditions that did not exist at the balance sheet date, but arose after that date. ASC 855 also requires entities to disclose the date through which subsequent events have been evaluated. ASC 855 was effective for interim and annual periods ending after June 15, 2009. The Company adopted the provisions of ASC 855 during the year ended June 30, 2009, and the adoption did not have a material impact on the Company’s financial statements.

On June 12, 2009, the FASB issued ASC 860, formerly Statement No. 166, “Accounting for Transfers of Financial Assets”. ASC 860 is a revision to SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” and will require more information about transfers of financial assets, including securitization transactions, and where companies will have continuing exposure to the risks related to transferred financial assets. ASC 860 also eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures. ASC 860 will be effective as of the beginning of the Company's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions of ASC 860 shall be applied to transfers that occur on or after the effective date. The Company will adopt ASC 860 on July 1, 2010, as required. Management does not expect adoption of the Statement to have a material impact on the Company's consolidated financial statements.

On June 12, 2009, the FASB issued ASC 810, formerly Statement No. 167, "Amendments to FASB Interpretation No. 46(R)". ASC 810 is a revision to FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities," and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design, and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASC 810 will be effective as of the Company's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and annual reporting periods thereafter.

Earlier application is prohibited. The Company will adopt ASC 810 on July 1, 2010, as required. Management does not expect adoption of the Statement to have a material impact on the Company's consolidated financial statements.

On June 29, 2009, the FASB issued ASC 105, formerly Statement No. 168, "Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles," a replacement of FASB Statement No. 162. ASC 105 establishes the FASB Accounting Standards Codification TM as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with US GAAP. ASC 105 will be effective for financial statements issued for interim and annual periods ending after September 15, 2009, for most entities. On the effective date, all non-SEC accounting and reporting standards will be superseded. The Company adopted ASC 105 for the quarterly period ended September 30, 2009, as required, and the adoption did not have a material impact on the Company's consolidated financial statements.

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 Bank (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 $250,000 under current law 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 13 full service branch facilities in Poplar Bluff (2), Van Buren, Dexter, Kennett, Doniphan, Qulin, Sikeston, and Matthews, Missouri, and Paragould, Jonesboro, Brookland, and Leachville, Arkansas.

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, 2009, 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, 2009, and the results of operations for the three- and six-month periods ended December 31, 2009 and 2008, 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," "anticipa "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:

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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

Accounting principles generally accepted in the United States of America 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 2009 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 2009 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 deposit accounts, repurchase agreements, 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 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 2009, we grew our balance sheet by $67.0 million; this growth was partially due to the July 2009 acquisition of Southern Bank of Commerce (SBOC). In that acquisition, the Company acquired loans at a fair value of approximately $15 million; cash, cash equivalents, and investments of approximately $12 million; and deposits of $29 million. Total growth for the six-month period reflected a $34.0 million increase in net loans; a $3.3 million increase in available-for-sale investments; and a $24.4 million increase in cash and cash equivalents. Deposits increased $85.4 million, and Federal Home Loan Bank (FHLB) advances decreased $26.3 million. Growth in loans was primarily comprised of commercial real estate loans, construction loans, and residential real estate loans. Deposit growth was primarily in certificates of deposit, passbook and statement savings accounts, and interest-bearing checking.

In December 2008, the Company announced its participation in the U.S. Treasury Department's Capital Purchase Program (CPP), which is one component of its Troubled Asset Relief Program (TARP). The Treasury invested $9.6 million in perpetual preferred stock carrying a dividend of 5% for the first five years, increasing to 9% thereafter. The Treasury Department created the CPP with the intention of building capital at healthy U.S. financial institutions in order to increase the flow of financing to U.S. businesses and consumers, and to support the U.S. economy. Since the issuance of the preferred stock to the Treasury, the Company has increased loan balances by approximately $53 million. The increase in loans was partially due to the SBOC acquisition. The acquired bank was a small, troubled institution headquartered in Paragould, Arkansas, which had significantly reduced lending activity in recent periods. The Company believes that it can increase credit availability in the communities in which SBOC was located. Additionally, the Company has contributed to the accomplishment of Treasury's objective by leveraging the investment to support the purchase of U.S. government agency mortgage backed securities and municipal debt, helping to improve the availability of credit in two distressed markets. Since the preferred stock issuance, the Company has increased its securities portfolio balance by $25 million. Much of these securities purchases would not likely have been made by the Company, absent the Treasury investment. Including both securities and direct loans, the Company has increased its investment in credit markets by $78 million since the preferred stock issuance.

Net income for the first six months of fiscal 2010 increased 29.7% to $2.4 million, as compared to $1.8 million earned during the same period of the prior year. After accounting for preferred stock dividends of $255,000 in the first six months of the fiscal year, net earnings available to common shareholders increased 17.9%, to $2.1 million. The increase in net income compared to the year-ago period was primarily due to the inclusion in the prior period's results of other-than-temporary impairment (OTTI) charges of $679,000, with no corresponding charges in the current period, and a $220,000 reduction in income tax provisions in the current period due to $258,000 in tax benefits resulting from the July SBOC acquisition. Compared to the same period of the prior year, net interest income was up $1.2 million, or 17.4%, due to increased interest-earning balances and a relatively stable net interest margin; non interest income was up $919,000, or 159.6%, due primarily to the prior period OTTI charges noted above; and loan loss provisions were down $80,000, or 13.3%. These improvements were mostly offset by a 44.1% increase in noninterest expense, primarily the result of expenses related to the SBOC acquisition and the subsequent operation of additional branches in new markets. Diluted earnings per common share for the first six months of fiscal 2010 were $1.01, as compared to $0.82 for the first six months of fiscal 2009.

Short-term market rates fell slightly during the first six months of fiscal 2010, following an already substantial decline over the prior two fiscal years; medium- and long-term rates increased, and the curve remained quite steep, relative to recent norms – the steep curve is generally beneficial to the Company. In December 2008, the Federal Reserve cut the targeted Federal Funds rate to a range of 0.00% to 0.25%, and in March 2009, detailed its plan to purchase long-term mortgage-backed securities, agency debt, and long-term Treasuries – those purchases are expected to end in the first calendar quarter of 2010. From July 1, 2009, to December 31, 2009, the six-month treasury bill rate declined 15 basis points (to yield 0.20%); the two-year treasury note increased four basis points (to yield 1.14%); and the ten-year treasury bond increased 32 basis points (to yield 3.85%). The yield curve was generally steeper for the first six months of the fiscal year, but was less volatile than in our prior two fiscal years. In this rate environment, our net interest margin decreased three basis points when comparing the first six months of fiscal 2010 to the same period of the prior year, due primarily to special promotional rates offered in our new Arkansas markets and larger average cash holdings resulting from strong deposit growth.

The Company's net income is also affected by the level of its 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, deposit insurance assessments, advertising, postage and office expenses, insurance, professional fees, and other general operating expenses. During the six-month period ended December 31, 2009, non-interest income increased 159.6% compared to the same period of the prior fiscal year, primarily due to OTTI charges, noted above, incurred in the same period of the prior year, with no similar charges during the six-month period ended December 31, 2009. Excluding those charges, non-interest income would have increased 19.2%, attributable to increased debit card activity, secondary market loan sale income, loan late charges, and NSF charges. Non-interest expense increased for the six-month period ended December 31, 2009, by 44.1%, compared to the same period of the prior fiscal year, primarily due to increased compensation and benefits (resulting primarily from additional compensation related to the SBOC acquisition); higher occupancy and data processing charges (again, due primarily to the SBOC acquisition); charges to write down the book value of fixed assets; increased deposit insurance assessments (primarily the result of base assessment rate increases by the FDIC); charges for electronic banking and third-party fees for deposit products; increased advertising and legal and professional fees; and higher expenses and losses relating to foreclosed and repossessed property.

In fiscal 2009, we incurred charges to recognize the other-than-temporary impairment (OTTI) of available-for-sale investments related to investments in Freddie Mac preferred stock ($304,000 loss realized in the first quarter of fiscal

2009) and a pooled trust preferred collateralized debt obligation, Trapeza CDO IV, Ltd., class C2 ($375,000 loss realized in the second quarter of fiscal 2009). The Company currently holds three additional collateralized debt obligations (CDOs) which have not been deemed other-than-temporarily impaired, based on the Company's best judgment using information currently available. All of these investments are described in the table below:

Security	Amortized Cost	Unrealized Gains / (Losses)	Estimated Fair Value	S&P Rating	Moody's Rating
Freddie Mac Preferred Stock Series Z	$-	$10,680	$10,680	C	Ca
Trapeza CDO IV, Ltd., class C2	125,000	(118,183)	6,817	NR	Ca
Trapeza CDO XIII, Ltd., class A2A	477,871	(416,631)	61,240	BB-	Ba2
Trapeza CDO XIII, Ltd., class B	479,880	(468,364)	11,516	NR	Caa3
Preferred Term Securities XXIV, Ltd., class B1	436,111	(401,296)	34,815	NR	Caa3
Totals	$1,518,862	$(1,393,794)	$125,068		

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The Company determined the amount of OTTI charges to record on the Freddie Mac Preferred Stock based on quoted market prices, and on the Trapeza IV CDO based on the estimated present value of expected cash flows on the instruments, discounted using a current market rate on such securities. The Trapeza IV CDO is receiving principal in kind (PIK), in lieu of cash payments, and is treated by the Company as a non-accrual asset. The Preferred Term Securities XXIV Class B1 and Trapeza XIII Class B CDOs are also receiving PIK, but are not treated as non-accrual assets, as a full recovery of principal and interest is anticipated, based on a review of the terms of the obligation and the financial strength of the underlying firms. For the Trapeza XIII class A2A CDO, the Company expects to receive principal and interest in full without a material change in the scheduled interest payments, based on a review of the terms of the obligation and the financial strength of the underlying firms.

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, 2009, and June 30, 2009

The Company’s total assets increased by $67.0 million, or 14.4%, to $532.8 million at December 31, 2009, as compared to $465.9 million at June 30, 2009. Loans, net of the allowance for loan losses, increased $34.0 million, or 9.2%, to $402.5 million at December 31, 2009, as compared to $368.5 million at June 30, 2009. Loan growth was partially due to the approximately $15 million fair value in loans acquired in the SBOC acquisition. In total, commercial real estate loans grew $16.5 million, construction loans grew $7.9 million, residential real estate loans grew $5.2 million, and consumer loans were up $4.1 million; commercial operating and equipment loans were relatively unchanged as agricultural loans saw seasonal paydowns. Available-for-sale investment balances increased by $3.3 million, or 5.4%, to $63.4 million, as compared to $60.2 million at June 30, 2009. Cash and equivalents increased $24.4 million, from $8.1 million at June 30, 2009, to $32.5 million, at December 31, 2009. The increase was attributed to strong deposit growth, additional liquidity obtained through the SBOC acquisition, and higher required reserves resulting from transaction account growth.

Asset growth during the first six months of fiscal 2010 has been funded with deposit growth, which totaled $85.4 million, or 27.4%, bringing deposit balances to $397.4 million at December 31, 2009, as compared to $312.0 million at June 30, 2009. The increase in deposits was due in part to deposits acquired in the SBOC acquisition of approximately $29 million. Growth was also attributed to continued strong growth in the Company’s reward checking product and promotion of special high-rate savings accounts in the Company’s new Arkansas markets. In total, the increase reflected growth of $29.4 million in certificates of deposit, a $27.8 million increase in passbook and statement savings, and a $23.7 million increase in interest-bearing checking accounts. Certificate of deposit growth included $3.1 million in new brokered CD funds, acquired primarily because of the Company’s participation in a reciprocal brokered deposit service. Public unit deposits were up $5.8 million, as the Company established a significant new relationship with an area municipality. Net retail, non-brokered deposits were up $76.6 million. Of the $29 million in deposits acquired from SBOC, approximately $5 million was public unit and brokered funds, meaning that organic growth in retail, non-brokered deposits was approximately $72 million in the first six months of fiscal 2010. As a result of strong deposit growth and redeployment of cash and cash equivalents acquired in the SBOC acquisition, the Company reduced FHLB borrowings, which were down $26.3 million, or 33.3%, to $52.5 million at December 31, 2009, as compared to $78.8 million at June 30, 2009. Securities sold under agreements to repurchase totaled $29.4 million at December 31, 2009, an increase of $5.6 million, or 23.6%, compared to $23.7 million at June 30, 2009, partially due to seasonal balance fluctuations with several public unit accounts.

Total stockholders' equity increased $2.1 million, or 5.0%, to $44.1 million at December 31, 2009, as compared to $42.0 million at June 30, 2009. The increase was due to retention of net income and an increase in the market value of the Company's available-for-sale investment portfolio, net of tax, partially offset by cash dividends paid on common and preferred shares.

Average Balance Sheet for the Three- and Six-Month Periods Ended December 31, 2009 and 2008

The tables below and on the following page 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, 2009 and 2008. 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.

	Three-month period ended December 31, 2009			Three-month period ended December 31, 2008		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest earning assets:						
Mortgage loans (1)	$284,140,434	$4,436,153	6.25	$251,367,563	$4,209,253	6.70
Other loans (1)	119,186,750	1,700,568	5.71	103,076,030	1,524,884	5.92
Total net loans	403,327,184	6,136,721	6.10	354,443,593	5,734,137	6.47
Mortgage-backed securities	36,686,502	452,432	4.93	32,312,440	399,776	4.95
Investment securities (2)	28,609,152	279,077	3.90	18,057,845	159,671	3.54
Other interest earning assets	26,212,800	25,570	0.39	5,745,215	10,332	0.72
Total interest earning assets (1)	494,835,638	6,893,800	5.58	410,559,093	6,303,916	6.14
Other noninterest earning assets (3)	27,113,781	-		24,780,987	-	
Total assets	$521,949,419	$6,893,800		$435,340,080	$6,303,916	
Interest bearing liabilities:						
Savings accounts	$77,345,656	$311,527	1.61	$64,796,101	$326,194	2.01
NOW accounts	79,866,322	476,689	2.47	42,999,550	202,129	1.88
Money market deposit accounts	6,371,321	22,825	1.43	6,407,373	23,601	1.47
Certificates of deposit	193,507,694	1,194,297	2.47	146,287,148	1,256,716	3.44
Total interest bearing deposits	357,090,993	2,005,338	2.25	260,490,172	1,808,640	2.78
Borrowings:						
Securities sold under agreements to repurchase	24,486,870	53,028	0.87	24,110,814	52,526	0.87
FHLB advances	62,466,033	734,900	4.71	84,841,304	884,732	4.17
Subordinated debt	7,217,000	56,010	3.10	7,217,000	99,819	5.53
Total interest bearing liabilities	451,260,896	2,849,276	2.52	376,659,290	2,845,717	3.02
Noninterest bearing demand deposits	25,682,469	-		24,426,808	-	
Other noninterest bearing liabilities	1,144,084	-		1,133,714	-	
Total liabilities	478,087,449	2,849,276		402,219,812	2,845,717	
Stockholders' equity	43,861,970	-		33,120,268	-	
Total liabilities and	$521,949,419	$2,849,276		$435,340,080	$2,845,717	

stockholders' equity				
Net interest income		$4,044,524		$3,458,199
Interest rate spread (4)		3.06		3.12
Net interest margin (5)		3.27		3.37
Ratio of average interest-earning assets to average interest-bearing liabilities	109.66 %		109.00 %	

(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 $9.4 million and $7.7 million, respectively, for the three-month period ending December 31, 2009, as compared to $8.2 million and $7.4 million for the same period of the prior fiscal year.
(4) Interest rate spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.
(5) Net interest margin represents net interest income divided by average interest-earning assets.

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	Six-month period ended December 31, 2009			Six-month period ended December 31, 2008		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest earning assets:						
Mortgage loans (1)	$279,635,131	$8,827,843	6.31	$248,237,472	$8,353,731	6.73
Other loans (1)	120,346,765	3,507,002	5.83	103,748,862	3,169,900	6.11
Total net loans	399,981,896	12,334,845	6.19	351,986,334	11,523,631	6.55
Mortgage-backed securities	37,439,868	901,288	4.81	30,310,641	754,200	4.98
Investment securities (2)	26,443,113	509,963	3.86	17,624,941	336,480	3.82
Other interest earning assets	18,000,060	43,865	0.49	5,580,958	32,080	1.15
Total interest earning assets (1)	481,864,937	13,789,961	5.74	405,502,874	12,646,391	6.24
Other noninterest earning assets (3)	27,275,973	-		22,690,738	-	
Total assets	$509,140,910	$13,789,961		$428,193,612	$12,646,391	
Interest bearing liabilities:						
Savings accounts	$69,025,070	$495,101	1.43	$67,603,440	$721,260	2.13
NOW accounts	75,320,454	895,554	2.38	39,476,033	322,044	1.63
Money market deposit accounts	5,815,216	39,167	1.35	7,709,289	60,979	1.58
Certificates of deposit	190,393,330	2,431,063	2.55	147,568,287	2,537,988	3.44
Total interest bearing deposits	340,554,070	3,860,885	2.27	262,357,049	3,642,271	2.78
Borrowings:						
Securities sold under agreements to repurchase	24,584,433	103,253	0.84	22,729,678	142,015	1.25
FHLB advances	66,898,778	1,592,500	4.76	79,864,674	1,746,942	4.37
Subordinated debt	7,217,000	117,160	3.25	7,217,000	203,478	5.64
Total interest bearing liabilities	439,254,281	5,673,798	2.58	372,168,401	5,734,706	3.08
Noninterest bearing demand deposits	24,943,833	-		22,754,712	-	
Other noninterest bearing liabilities	1,658,410	-		1,264,280	-	
Total liabilities	465,856,524	5,673,798		396,187,393	5,734,706	
Stockholders' equity	43,284,386	-		32,006,219	-	
Total liabilities and stockholders' equity	$509,140,910	$5,673,798		$428,193,612	$5,734,706	
Net interest income		$8,116,163			$6,911,685	
Interest rate spread (4)			3.16			3.16
Net interest margin (5)			3.38			3.41

Ratio of average interest-earning assets to average interest-bearing liabilities	109.70	%	108.96	%

(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 $9.3 million and $7.6 million, respectively, for the six-month period ending December 31, 2009, as compared to $8.2 million and $7.3 million for the same period of the prior fiscal year.
(4) Interest rate spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.
(5) Net interest margin represents net interest income divided by average interest-earning assets.

Results of Operations – Comparison of the three- and six-month periods ended December 31, 2009 and 2008

General. Net income for the three- and six-month periods ended December 31, 2009, was $1.2 million and $2.4 million, respectively. After preferred dividends of $127,000 and $255,000, respectively, paid in the three- and six-month periods, net income available to common shareholders was $1.0 million and $2.1 million, respectively, increases of $318,000, or 21.4%, and $183,000, or 17.9%, respectively, as compared to $853,000 and $1.8 million, respectively, in net income available to common shareholders in the same periods of the prior fiscal year. Basic and diluted net income available to common shareholders for the three- and six-month periods ended December 31, 2009, was $1.01 and $0.50, respectively, compared to $0.82 and $0.40, respectively, for the same periods of fiscal 2009. Our annualized return on average assets for the three- and six-month periods ended December 31, 2009, was 0.89% and 0.92%, respectively, compared to 0.82% and 0.85%, respectively, for the same periods of the prior fiscal year. Our return on average common stockholders' equity for the three and six-month periods ended December 31, 2009, was 12.0% and 12.4%, respectively, compared to 11.2% and 11.6%, respectively, in the same periods of the prior fiscal year.

Net Interest Income. Net interest income for the three- and six-month periods ended December 31, 2009, was $4.0 million and $8.1 million, respectively, increases of $587,000, or 17.0%, and $1.2 million, or 17.4%, as compared to the same periods of the prior fiscal year. The increases reflected our growth initiatives, including the SBOC acquisition, which resulted in 20.5% and 18.8% increases, respectively, in the average balances of interest-earning assets (and 19.8% and 18.0% increases, respectively, in interest-bearing liabilities), for the three- and six-month periods ended December 31, 2009, compared to the same periods of the prior fiscal year. Our average interest rate spread for the three- and six-month periods ended December 31, 2009, was 3.06% and 3.16%, respectively, as compared to 3.12% and 3.16%, respectively, for the same periods of the prior fiscal year. Our net interest margin for the three- and six-month periods ended December 31, 2009, determined by dividing the annualized net interest income by total average interest-earning assets, was 3.27% and 3.38%, respectively, compared to 3.37% and 3.41%, respectively, in the same periods of the prior fiscal year. The six-basis point decrease in interest rate spread for the three-month period resulted from a 56 basis point decrease in the average yield on interest-earning assets, partially offset by a 50 basis point decrease in the average cost of interest-bearing liabilities – the decline in our interest rate spread was attributed primarily to larger cash balances, earning relatively low rates, and promotional deposit products, paying relatively high rates; the Company partially offset these factors by relying to a lesser extent on longer-term FHLB advances, for which the Company has typically paid higher rates. For the six-month period, our interest rate spread was unchanged due to a 50 basis point decrease in both the yield on interest-earning assets and the cost of interest-bearing liabilities.

Interest Income. Total interest income for the three- and six-month periods ended December 31, 2009, was $6.9 million and $13.8 million, respectively, increases of $590,000, or 9.4%, and $1.1 million, or 9.0%, respectively, compared to the amounts earned in the same periods of the prior fiscal year. The improvements were due to the increases of $84.3 million, or 20.5%, and $76.4 million, or 18.8%, respectively, in the average balance of interest-earning assets for the three- and six-month periods ended December 31, 2009, as compared to the same periods of the prior year, partially offset by 56 and 50 basis point decreases, respectively, in the average interest rate earned. For the three- and six-month periods ended December 31, 2009, the average interest rate on interest-earning assets was 5.58% and 5.74%, respectively, as compared to 6.14% and 6.24%, respectively, for the same periods of the prior fiscal year.

Interest Expense. Total interest expense for the three-month period ended December 31, 2009, was $2.8 million, an increase of $4,000, or 0.1%, as compared to the same period of the prior fiscal year; for the six-month period ended December 31, 2009, total interest expense was $5.7 million, a decrease of $61,000, or 1.1%, compared to the same period of the prior fiscal year. The increase for the three-month period was due to the $67.1 million, or 18.0% increase in interest-bearing liabilities, partially offset by a 50 basis point decrease in the average cost of those liabilities, compared to the same period of the prior fiscal year; for the six-month period ended December 31, 2009, the decrease was due to a 50 basis point decrease in the average cost of interest-bearing liabilities, partially offset by a $74.6 million, or 19.8%, increase in the amount of those interest-bearing liabilities. For the three- and six-month periods ended December 31, 2009, the average interest rate on interest-bearing liabilities was 2.52% and 2.58%, respectively, as compared to 3.02% and 3.08%, respectively, for the same periods of the prior fiscal year.

Provisions for Loan Losses. Provisions for loan losses for the three- and six month periods ended December 31, 2009, were $310,000 and $520,000, respectively, as compared to $200,000 and $600,000, respectively, for the same periods of the prior fiscal year. The increase for the three-month period and decrease for the six-month period was due to management's recurring analysis of the loan portfolio and the allowance for loan losses, which indicated provisions required to maintain the allowance at the necessary level indicated by the analysis. In fiscal year 2008 and 2009, respectively, provisions totaled 34 and 29 basis points as a percentage of average loans outstanding, compared to net charge offs of ten basis points in fiscal 2009, and net recoveries of three basis points in fiscal 2008. By comparison, annualized provisions in the fiscal year to date totaled 26 basis points, while annualized net charge offs totaled five basis points. Although we believe that we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary as the loan portfolio grows, as economic conditions remain poor, and as other conditions differ from the current operating environment. Even though we use the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. (See "Critical Accounting Policies", "Allowance for Loan Loss Activity" and "Nonperforming Assets").

Non-interest Income. Non-interest income for the three- and six-month periods ended December 31, 2009, was $791,000 and $1.5 million, respectively, increases of $551,000, or 229.2%, and $919,000, or 159.6%, respectively, as compared to the same periods of the prior fiscal year. The increases were primarily due charges of $375,000 and $679,000, respectively, in the same periods of the prior fiscal year incurred to recognize the other-than-temporary impairment ("OTTI") of some available-for-sale investments (see "Executive Summary"). Outside those charges, noninterest income would have increased 28.6% and 19.2%, respectively, for the three- and six-month periods ended December 31, 2009, as compared to the same periods of the prior fiscal year, attributable to increased debit card activity, secondary market loan sale income, loan late charges, and NSF charges.

Non-interest Expense. Non-interest expense for the three- and six-month periods ended December 31, 2009, was $2.9 million and $6.1 million, respectively, increases of $728,000, or 33.0%, and $1.9 million, or 44.1%, as compared to the same periods of the prior fiscal year. The increase for the three-month period was attributed to increased compensation and benefits, increased deposit insurance assessments, higher occupancy and data processing charges, charges for electronic banking and third-party fees for deposit products, and increased legal and professional fees. For the six-month period, the increase was attributed to increased compensation and benefits, higher occupancy and data processing charges, charges to write down the book value of fixed assets, increased deposit insurance assessments, charges for electronic banking and third-party fees for deposit products, increased advertising and legal and professional fees, and higher expenses and losses relating to foreclosed and repossessed property. Compensation increases were attributed to the addition of personnel related to the SBOC acquisition, the addition of other key personnel, and general increases in compensation levels. Occupancy and data processing increases were primarily due to the addition and operation of four additional branch locations in Arkansas. Charges to write down the book value of fixed assets resulted from a decision to write down the value of land previously held for future expansion to a figure likely to be realized on a pending negotiated sale and charges to write off obsolete furniture and equipment. Deposit insurance assessment increases were attributed to industry-wide base assessment rate increases by the FDIC. As the Company continues to grow its balance sheet, non-interest expense will continue to increase due to compensation, expenses related to expansion, and inflation. Our efficiency ratio, determined by dividing total non-interest expense by the sum of net interest income and non-interest income, was 60.7% and 63.6%, respectively, for the three- and six-month periods ended December 31, 2009, as compared to 59.7% and 56.7%, respectively, for the same periods of the prior fiscal year.

Income Taxes. Provisions for income taxes for the three-month period ended December 31, 2009, were $428,000, an increase of $23,000, or 5.7%, as compared to the $405,000 in provisions for the same period of the prior fiscal year. The increase was attributed to an increase in pre-tax income, partially offset by a decline in the effective tax rate. For the six-month period ended December 31, 2009, provisions were $621,000, a decrease of $208,000, or 25.1%, as compared to the $830,000 in provisions for the same period of the prior fiscal year. The decrease was due primarily to the recognition of $258,000 in net operating loss carryforward tax benefits resulting from the SBOC acquisition, which were recognized in the current period. For the three- and six-month periods ended December 31, 2009, our effective tax rate was 26.9% and 20.9%, respectively, as compared to 31.3% and 31.4%, respectively, for the same periods of the prior fiscal year. Absent the SBOC tax benefits, our effective tax rate would be 29.6% for the fiscal year to date, as compared to 30.9% for fiscal 2009; the decrease is attributed to higher average balances of tax-preferred securities and tax credit investments.

Allowance for Loan Loss Activity

The Company regularly reviews its allowance for loan losses and makes adjustments to its balance based on management's analysis of the loan portfolio, the amount of non-performing and classified assets, as well as general economic conditions. Although the Company maintains its allowance for loan losses at a level that it considers sufficient to provide for losses, there can be no assurance that future losses will not exceed internal estimates. In addition, the amount of the allowance for loan losses is subject to review by regulatory agencies, which can order the establishment of additional loss provisions. The following table summarizes changes in the allowance for loan losses over the six months ended December 31, 2009 and 2008:

	Fiscal 2010	Fiscal 2009
Balance, beginning of period	$ 4,430,210	$ 3,567,203
Loans charged off:		
Residential real estate	(84,969)	(19,382)
Commercial business	(78,482)	(206,841)
Commercial real estate	-	(10,495)
Consumer	(35,815)	(34,850)
Gross charged off loans	(199,266)	(271,568)
Recoveries of loans previously charged off:		
Residential real estate	203	15
Commercial business	4,086	100
Consumer	2,543	4,908
Gross recoveries of charged off loans	6,832	5,023
Net charge offs	(192,434)	(266,545)
Provision charged to expense	520,000	600,000
Reclassification of allowance for loan losses as allowance for credit losses on off-balance sheet credit exposures	(487,645)	-
Balance, end of period	$ 4,270,131	$ 3,900,658
Ratio of net charge offs (recoveries) during the period to average loans outstanding during the period	0.05 %	0.08 %

The allowance for loan losses has been calculated based upon an evaluation of pertinent factors underlying the various types and quality of the Company's loans. Management considers such factors as the repayment status of a loan, the estimated net fair value of the underlying collateral, the borrower's intent and ability to repay the loan, local economic conditions, and the Company's historical loss ratios. We maintain the allowance for loan losses through the provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. The allowance for loan losses decreased $160,000 to $4.3 million at December 31, 2009, from $4.4 million at June 30, 2009; the decrease was due to the reclassification of $488,000 in allowance for loan losses as an allowance for credit losses on off-balance sheet credit exposures (letters of credit and unfunded lines of credit).

At December 31, 2009, the Company had $8.4 million, or 1.6% of total assets, adversely classified ($8.4 million classified "substandard"; none classified "doubtful" or "loss"), as compared to adversely classified assets of $9.7 million, or 2.1% of total assets at June 30, 2009, and $4.9 million, or 1.1% of total assets, adversely classified at December 31, 2008. The decrease since the end of the prior fiscal year is primarily the result of an upgrade to a loan relationship with a bank holding company, partially offset by the SBOC acquisition, as impaired loans were acquired in the transaction. The acquired impaired loans had an outstanding balance of $3.9 million at acquisition, and were booked at an estimated fair value of $2.8 million. Fair value was determined primarily based on estimates regarding underlying collateral value. At December 31, 2009, these acquired impaired loans had an outstanding balance of $1.7 million, and were recorded on the consolidated financial statements at a $908,000 fair value. In general, the loans had not deteriorated beyond the fair value estimates recorded at acquisition. The increase from December 31, 2008, is partially due to the classification of the Company's investments in pooled trust preferred securities (see "Executive Summary"), in addition to the impaired loans acquired in the SBOC transaction. Other classified assets were generally comprised of loans secured by commercial real estate, agricultural real estate, or inventory and equipment. Of our classified loans, the Company had ceased recognition of interest on loans totaling $630,000. The Company's investment in the Trapeza 4 CDO (see "Executive Summary" and "Nonperforming Assets") was also treated as a non-accrual asset. All assets were classified due to concerns as to the borrowers' ability to continue to generate sufficient cash flows to service the debt.

While management believes that our asset quality remains strong, it recognizes that, due to the continued growth in the loan portfolio and potential changes in market conditions, our level of nonperforming assets and resulting charge offs may fluctuate. Higher levels of net charge offs requiring additional provisions for loan losses could result. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

Nonperforming Assets

The ratio of nonperforming assets to total assets and non-performing loans to net loans receivable is another measure of asset quality. Nonperforming assets of the Company include nonaccruing loans, accruing loans delinquent/past maturity 90 days or more, and assets which have been acquired as a result of foreclosure or deed-in-lieu of foreclosure. The table below summarizes changes in the Company's level of nonperforming assets over selected time periods:

	12/31/2009	6/30/2009	12/31/2008
Loans past maturity/delinquent 90 days or more and non-accrual loans			
Residential real estate	$ 651,000	$ 480,000	$ 184,000
Construction	100,000	-	-
Commercial real estate	381,000	241,000	-
Commercial business	26,000	66,000	-
Consumer	130,000	9,000	-
Total loans past maturity/delinquent 90 days or more and non-accrual loans	1,288,000	796,000	184,000
Non-performing investments	125,000	125,000	-
Foreclosed real estate or other real estate owned	1,351,000	313,000	168,000
Other repossessed assets	104,000	137,000	111,000
Total nonperforming assets	$ 2,868,000	$ 1,371,000	$ 463,000
Percentage nonperforming assets to total assets	0.54 %	0.29 %	0.10 %
Percentage nonperforming loans to net loans	0.32 %	0.22 %	0.05 %

At December 31, 2009, non-performing assets totaled $2.9 million, up from $1.4 million at June 30, 2009, and $463,000 at December 31, 2008. The increase was attributed primarily to the July 2009 SBOC acquisition. At December 31, 2009, non-performing loans acquired from SBOC totaled $1.0 million, with a $319,000 fair value adjustment reducing the balance at which these loans are reported in the financial statements to $717,000. At December 31, 2009, foreclosed real estate reported by the Company included $488,000 obtained as a result of the acquisition of SBOC. Nonperforming investments consist of the Company's investment in Trapeza CDO IV, Ltd., class C2 (see Executive Summary).

Liquidity Resources

The term "liquidity" refers to our ability to generate adequate amounts of cash to fund loan originations, loans purchases, deposit withdrawals and operating expenses. Our primary sources of funds include deposit growth, securities sold under agreements to repurchase, FHLB advances, brokered deposits, amortization and prepayment of loan principal and interest, investment maturities and sales, and funds provided by our operations. While the scheduled loan repayments and maturing investments are relatively predictable, deposit flows, FHLB advance redemptions, and loan and security prepayment rates are significantly influenced by factors outside of the Bank's control, including interest rates, general and local economic conditions and competition in the marketplace. The Bank relies on FHLB advances and brokered deposits as additional sources for funding cash or liquidity needs.

The Company uses its liquid resources principally to satisfy its ongoing cash requirements, which include funding loan commitments, funding maturing certificates of deposit and deposit withdrawals, maintaining liquidity, funding maturing or called FHLB advances, purchasing investments, and meeting operating expenses.

At December 31, 2009, the Company had outstanding commitments to fund approximately $53.4 million in mortgage and non-mortgage loans. These commitments are expected to be funded through existing cash balances, cash flow from normal operations and, if needed, FHLB advances. At December 31, 2009, the Bank had pledged its residential real estate loan portfolio and a significant portion of its commercial real estate portfolio with the FHLB for available credit of approximately $141.8 million, of which $52.5 million had been advanced (additionally, letters of credit totaling $3.0 million had been issued on the Bank's behalf in order to secure public unit funding). The Bank has the ability to pledge several of its other loan portfolios, including home equity and commercial business loans, which could provide additional collateral for additional borrowings; in total, FHLB borrowings are generally limited to 40% of Bank assets, or $212.0 million, which means $156.5 million in borrowings remain available, subject to available collateral. Along with the ability to borrow from the FHLB, management believes its liquid resources will be sufficient to meet the Company's liquidity needs.

Regulatory Capital

The Bank is subject to minimum regulatory capital requirements pursuant to regulations adopted by the federal banking agencies. The requirements address both risk-based capital and leverage capital. As of December 31, 2009, and June 30, 2009, the Bank met all applicable adequacy requirements.

The FDIC has in place qualifications for banks to be classified as "well-capitalized." As of September 30, 2009, the most recent notification from the FDIC categorized the Bank as "well-capitalized." There were no conditions or events since the FDIC notification that has changed the Bank's classification.

The Bank's actual capital amounts and ratios are also presented in the following tables.

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of December 31, 2009									
Total Capital (to Risk-Weighted Assets)	$48,579,000	12.59	%	$30,857,000	8.00	%	$38,571,000	10.00	%
Tier I Capital (to Risk-Weighted Assets)	43,816,000	11.36	%	15,428,000	4.00	%	23,143,000	6.00	%
Tier I Capital (to Average Assets)	43,816,000	8.47	%	20,691,000	4.00	%	25,863,000	5.00	%

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
As of June 30, 2009									
Total Risk-Based Capital (to Risk-Weighted Assets)	$44,699,000	12.98	%	$27,557,000	8.00	%	$34,446,000	10.00	%
Tier I Capital (to Risk-Weighted Assets)	40,388,000	11.72	%	13,779,000	4.00	%	20,668,000	6.00	%
Tier I Capital (to Average Assets)	40,388,000	8.87	%	18,215,000	4.00	%	22,769,000	5.00	%

PART I: Item 3: Quantitative and Qualitative Disclosures About Market Risk
SOUTHERN MISSOURI BANCORP, INC.

Asset and Liability Management and Market Risk

The goal of the Company's asset/liability management strategy is to manage the interest rate sensitivity of both interest-earning assets and interest-bearing liabilities in order to maximize net interest income without exposing the Bank to an excessive level of interest rate risk. The Company employs various strategies intended to manage the potential effect that changing interest rates may have on future operating results. The primary asset/liability management strategy has been to focus on matching the anticipated re-pricing intervals of interest-earning assets and interest-bearing liabilities. At times, however, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the Company may determine to increase its interest rate risk position somewhat in order to maintain its net interest margin.

In an effort to manage the interest rate risk resulting from fixed rate lending, the Bank has utilized longer term FHLB advances (with maturities up to ten years), subject to early redemptions and fixed terms. Other elements of the Company's current asset/liability strategy include (i) increasing originations of commercial business, commercial real estate, agricultural operating lines, and agricultural real estate loans, which typically provide higher yields and shorter repricing periods, but inherently increase credit risk; (ii) actively soliciting less rate-sensitive deposits, including aggressive use of the Company's "rewards checking" product, and (iii) offering competitively-priced money market accounts and CDs with maturities of up to five years. The degree to which each segment of the strategy is achieved will affect profitability and exposure to interest rate risk.

The Company continues to originate long-term, fixed-rate residential loans. During the first six months of fiscal year 2010, fixed rate residential loan production totaled $8.8 million, as compared to $8.1 million during the same period of the prior year. At December 31, 2009, the fixed rate residential loan portfolio was $104.4 million with a weighted average maturity of 194 months, as compared to $97.8 million at December 31, 2008, with a weighted average maturity of 208 months. The Company originated $7.0 million in adjustable-rate residential loans during the six-month period ended December 31, 2009, as compared to $6.8 million during the same period of the prior year. At December 31, 2009, fixed rate loans with remaining maturities in excess of 10 years totaled $79.4 million, or 19.7% of net loans receivable, as compared to $89.8 million, or 25.6% of net loans receivable at December 31, 2008. The Company originated $33.5 million of fixed rate commercial and commercial real estate loans during the six-month period ended December 31, 2009, as compared to $29.3 million during the same period of the prior year. At December 31, 2009, the fixed rate commercial and commercial real estate loan portfolio was $124.1 million with a weighted average maturity of 37 months, compared to $112.6 million at December 31, 2008, with a weighted average maturity of 36 months. The Company originated $28.0 million in adjustable rate commercial and commercial real estate loans during the six-month period ended December 31, 2009, as compared to $38.3 million during the same period of the prior year. At December 31, 2009, adjustable-rate home equity lines of credit totaled $12.0 million, as compared to $9.6 million at December 31, 2008. At December 31, 2009, the Company's investment portfolio had a weighted-average life of 3.6 years, compared to 6.0 years at December 31, 2008 – the decrease was attributed to improvement in the financial markets, which made early repayment of many instruments more likely. Management continues to focus on customer retention, customer satisfaction, and offering new products to customers in order to increase the Company's amount of less rate-sensitive deposit accounts.

Interest Rate Sensitivity Analysis

The following table sets forth as of December 31, 2009, management's estimates of the projected changes in net portfolio value ("NPV") in the event of 100, 200, and 300 basis point ("bp") instantaneous and permanent increases, and 100, 200, and 300 basis point instantaneous and permanent decreases in market interest rates. Dollar amounts are expressed in thousands.

BP Change	Estimated Net Portfolio Value			NPV as % of PV of Assets	
in Rates	$ Amount	$ Change	% Change	NPV Ratio	Change
+300	$ 51,177	$ (266)	-1%	9.92%	0.36%
+200	52,314	871	2%	9.99%	0.43%
+100	52,793	1,350	3%	9.93%	0.37%
NC	51,443	-	-	9.56%	-
-100	47,703	(3,740)	-7%	8.79%	-0.77%
-200	46,549	(4,894)	-10%	8.51%	-1.05%
-300	47,351	(4,092)	-8%	8.59%	-0.97%

Computations of prospective effects of hypothetical interest rate changes are based on an internally generated model using actual maturity and repricing schedules for the Bank's loans and deposits, and are based on numerous assumptions, including relative levels of market interest rates, loan repayments and deposit run-offs, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates.

Management cannot predict future interest rates or their effect on the Bank's NPV in the future. Certain shortcomings are inherent in the method of analysis presented in the computation of NPV. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in differing degrees to changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have an initial fixed rate period typically from one to five years and over the remaining life of the asset changes in the interest rate are restricted. In addition, the proportion of adjustable-rate loans in the Bank's portfolio could decrease in future periods due to refinancing activity if market interest rates remain steady in the future. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in the table. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an interest rate increase.

The Bank's Board of Directors (the "Board") is responsible for reviewing the Bank's asset and liability policies. The Board's Asset/Liability Committee meets monthly to review interest rate risk and trends, as well as liquidity and capital ratios and requirements. The Bank's management is responsible for administering the policies and determinations of the Board with respect to the Bank's asset and liability goals and strategies.

PART I: Item 4: Controls and Procedures
SOUTHERN MISSOURI BANCORP, INC.

An evaluation of Southern Missouri Bancorp's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended, (the "Act")) as of December 31, 2009, was carried out under the supervision and with the participation of our Chief Executive and Financial Officer, and several other members of our senior management. The Chief Executive and Financial Officer concluded that, as of December 31, 2009, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to management (including the Chief Executive and Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company does not expect that its disclosures and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II: Other Information
SOUTHERN MISSOURI BANCORP, INC.

Item 1: Legal Proceedings

In the opinion of management, the Bank is not a party to any pending claims or lawsuits that are expected to have a material effect on the Bank's financial condition or operations. Periodically, there have been various claims and lawsuits involving the Bank mainly as a defendant, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. Aside from such pending claims and lawsuits, which are incident to the conduct of the Bank's ordinary business, the Bank is not a party to any material pending legal proceedings that would have a material effect on the financial condition or operations of the Bank.

Item 1a: Risk Factors

There have been no material changes to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended June 30, 2009.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Program
10/1/2009 thru 10/31/2009	-	-	-	-
11/1/2009 thru 11/30/2009	-	-	-	-
12/1/2009 thru 12/31/2009	-	-	-	-
Total	-	-	-	-

Item 3: Defaults upon Senior Securities

Not applicable

Item 4: Submission of Matters to a Vote of Security Holders

None

Item 5 - Other Information

None

Item 6 – Exhibits

(a) Exhibits
- (3) (a) Certificate of Incorporation of the Registrant+
- (3) (b) Bylaws of the Registrant+
- (4) Form of Stock Certificate of Southern Missouri Bancorp++
- 10 Material Contracts
  - (a) Registrant's Stock Option Plan+++
  - (b) Southern Missouri Savings Bank, FSB Management Recognition and Development Plans+++
  - (c) Employment Agreements
    - (i) Greg A. Steffens*
  - (d) Director's Retirement Agreements
    - (ii) Samuel H. Smith**
    - (iii) Sammy A. Schalk***
    - (iii) Ronnie D. Black***

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a.	L. Douglas Bagby***
b.	Rebecca McLane Brooks****
c.	Charles R. Love****
d.	Charles R. Moffitt****
e.	Dennis Robison*****

(e) Tax Sharing Agreement***

31 Rule 13a-14(a) Certification

32 Section 1350 Certification

+ Filed as an exhibit to the Registrant's Annual Report on Form 10-KSB for the year ended June 30, 1999

++ Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (File No. 333-2320) as filed with the SEC on January 3, 1994.

+++ Filed as an exhibit to the registrant's 1994 Annual Meeting Proxy Statement dated October 21, 1994.

* Filed as an exhibit to the registrant's Annual Report on Form 10-KSB for the year ended June 30, 1999.

** Filed as an exhibit to the registrant's Annual Report on Form 10-KSB for the year ended June 30, 1995.

*** Filed as an exhibit to the registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000.

**** Filed as an exhibit to the registrant's Quarterly Report on Form 10-QSB for the quarter ended December 31, 2004.

***** Filed as an exhibit to the registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008.

SIGNATURES

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

SOUTHERN MISSOURI BANCORP, INC.
Registrant

Date: February 16, 2010 /s/ Samuel H. Smith
Samuel H. Smith
Chairman of the Board of Directors

Date: February 16, 2010 /s/ Greg A. Steffens
Greg A. Steffens
President (Principal Executive, Financial and Accounting Officer)