

SOUTHERN MISSOURI BANCORP INC
Form 10-K
September 17, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2010 OR

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

Commission File Number: 0-23406

SOUTHERN MISSOURI BANCORP, INC.
(Exact name of small business issuer as specified in its charter)

Missouri 43-1665523
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
531 Vine Street, Poplar Bluff, Missouri 63901
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (573) 778-1800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, par value \$0.01 per share	The Nasdaq Global Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.402 of this chapter) during the preceding 12 months (or for such shorter period that the registration was required to submit and post such files. YES NO

Edgar Filing: SOUTHERN MISSOURI BANCORP INC - Form 10-K

Indicate by check mark whether disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. 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.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting
	company	x	company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average of the high and low traded price of such stock as of the last business day of the registrant's most recently completed second fiscal quarter, was \$18.4 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of September 16, 2010, there were issued and outstanding 2,087,976 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part II of Form 10-K - Annual Report to Stockholders for the fiscal year ended June 30, 2010.
Part III of Form 10-K - Portions of the Proxy Statement for the 2010 Annual Meeting of Stockholders.

PART I

Item 1. Description of Business

General

Southern Missouri Bancorp, Inc. ("Company"), which changed its state of incorporation to Missouri on April 1, 1999, was originally incorporated in Delaware on December 30, 1993 for the purpose of becoming the holding company for Southern Missouri Savings Bank upon completion of Southern Missouri Savings Bank's conversion from a state chartered mutual savings and loan association to a state chartered stock savings bank. As part of the conversion in April 1994, the Company sold 1,803,201 shares of its common stock to the public. The Company's Common Stock is quoted on the National Association of Securities Dealers Automated Quotations ("NASDAQ") Global Market under the symbol "SMBC".

Southern Missouri Savings Bank was originally chartered as a mutual Missouri savings and loan association in 1887. On June 20, 1995, it converted to a federally chartered stock savings bank and took the name Southern Missouri Savings Bank, FSB. On February 17, 1998, Southern Missouri Savings Bank converted from a federally chartered stock savings bank to a Missouri chartered stock savings bank and changed its name to Southern Missouri Bank & Trust Co. On June 4, 2004, Southern Missouri Bank & Trust Co. converted from a Missouri chartered stock savings bank to a Missouri state chartered trust company with banking powers ("Charter Conversion"). On June 1, 2009, the institution changed its name to Southern Bank ("Bank").

The primary regulator of the Bank is the Missouri Division of Finance. The Bank is a member of the Federal Reserve, and the Federal Reserve Board ("FRB") is the Bank's primary federal regulator. The Bank's deposits continue to be insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC"). With the Bank's conversion to a trust company with banking powers, the Company became a bank holding company regulated by the FRB.

The principal business of the Bank consists primarily of attracting retail deposits from the general public and using such deposits along with wholesale funding from the Federal Home Loan Bank of Des Moines ("FHLB"), and to a lesser extent, brokered deposits, to invest in one- to four-family residential mortgage loans, mortgage loans secured by commercial real estate, commercial non-mortgage business loans and consumer loans. These funds are also used to purchase mortgage-backed and related securities ("MBS"), U.S. Government Agency obligations and other permissible investments.

At June 30, 2010, the Company had total assets of \$552.1 million, total deposits of \$422.9 million and stockholders' equity of \$45.6 million. The Company has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank. The Company's revenues are derived principally from interest earned on loans, debt securities, MBS, CMOs and, to a lesser extent, banking service charges, loan late charges, increases in the cash surrender value of bank owned life insurance and other fee income.

On December 5, 2008, as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with the United States Department of the Treasury ("Treasury"), pursuant to which the Company (i) sold 9,550 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") for a purchase price of \$9,550,000 in cash and (ii) issued a warrant (the "Warrant") to purchase 114,326 shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), for a per share price of \$12.53 per share. The Series A Preferred Stock is entitled to cumulative dividends at a rate of 5% per annum for the first five

years, and 9% per annum thereafter. The Series A Preferred Stock may be redeemed by the Company at any time, subject to consultation. The Warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to \$12.53 per share of the Common Stock. If the Series A Preferred Stock is redeemed, the Warrant will be liquidated at the current market price. Treasury has agreed not to exercise voting power with respect to any shares of Common Stock issued upon exercise of the Warrant that it holds.

Pursuant to the terms of the Purchase Agreement, the ability of the Company to declare or pay dividends or distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its Junior Stock (as defined

below) and Parity Stock (as defined below) will be subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share (\$0.12) declared on the Common Stock prior to December 5, 2008. The redemption, purchase or other acquisition of trust preferred securities of the Company or its affiliates also will be restricted. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the Series A Preferred Stock, (b) the date on which the Series A Preferred Stock has been redeemed in whole; and (c) the date Treasury has transferred all of the Series A Preferred Stock to third parties. In addition, the ability of the Company to declare or pay dividends or distributions on, or repurchase, redeem or otherwise acquire for consideration, shares of its Junior Stock and Parity Stock will be subject to restrictions in the event that the Company fails to declare and pay full dividends (or declare and set aside a sum sufficient for payment thereof) on its Series A Preferred Stock. "Junior Stock" means the Common Stock and any other class or series of stock of the Company the terms of which expressly provide that it ranks junior to the Series A Preferred Stock as to dividend rights and/or rights on liquidation, dissolution or winding up of the Company. "Parity Stock" means any class or series of stock of the Company the terms of which do not expressly provide that such class or series will rank senior or junior to the Series A Preferred Stock as to dividend rights and/or rights on liquidation, dissolution or winding up of the Company (in each case without regard to whether dividends accrue cumulatively or non-cumulatively).

Through June 30, 2010, the Company had placed \$7.0 million of TARP proceeds into the Bank, while maintaining the remaining \$2.6 million with the Company for general operating purposes. Using the additional capital, along with deposit growth, the Bank increased its investment portfolio by \$26 million since obtaining the TARP proceeds in December 2008. These purchases were primarily in mortgage and municipal securities, and would likely have not been made absent the Treasury investment. Also, since December 2008, the Company has used the additional capital, along with deposit growth, to increase its loan portfolio by \$68 million.

On July 17, 2009, the Company acquired 100% of the outstanding stock of Southern Bank of Commerce (SBOC), headquartered in Paragould, Arkansas. SBOC was merged into the 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. At acquisition, SBOC held assets of \$29.9 million, including loans of \$16.2 million, and held deposits of \$29.1 million.

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

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

- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
 - inflation, interest rate, market and monetary fluctuations;
- the timely development of and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;

- the willingness of users to substitute our products and services for products and services of our competitors;
- the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance);
 - the impact of technological changes;
 - acquisitions;
 - changes in consumer spending and saving habits; and
 - our success at managing the risks involved in the foregoing.

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

Market Area

The Bank provides its customers with a full array of community banking services and conducts its business from its headquarters in Poplar Bluff and 13 additional full service offices located in Poplar Bluff (2), Van Buren, Dexter, Kennett, Doniphan, Sikeston, Qulin, and Matthews, Missouri, and Paragould, Jonesboro, Leachville, and Brookland, Arkansas. At June 30, 2010, the Bank's primary market area includes all or portions of Butler, Carter, Dunklin, Ripley, Stoddard, Scott, Mississippi, New Madrid, Wayne, and Pemiscot Counties in Missouri, and Mississippi and Clay Counties in Arkansas. The Bank's market area has a population of approximately 380,000. The largest employers in the Bank's primary market area include Frito-Lay, Nestle, various hospitals and healthcare providers, Briggs & Stratton, Ralcorp (f/k/a Ralston-Purina), Arkansas State University, Noranda Aluminum, American Railcar, Visiting Nurse Association, Good Humor-Breyers, Emerson Electric, Monroe Shocks, Gates Rubber, Nordyne, various school districts, Wal-Mart Stores, Mid-Continent Nail, Tyson Foods, and ArvinMeritor. The Bank's primary market area is predominantly rural in nature and relies heavily on the manufacturing industries and agriculture, with products including livestock, rice, timber, soybeans, wheat, melons, corn and cotton.

Competition

The Bank faces strong competition in attracting deposits (its primary source of lendable funds) and originating loans. At June 30, 2010, the Bank was one of 35 financial institution groups located in its primary market area.

Competitors for deposits include commercial banks, credit unions, money market funds, and other investment alternatives, such as mutual funds, full service and discount broker-dealers, equity markets, brokerage accounts and government securities. The Bank's competition for loans comes principally from other financial institutions, mortgage banking companies, mortgage brokers and life insurance companies. The Bank expects competition to continue to increase in the future as a result of legislative, regulatory and technological changes within the financial services industry. Technological advances, for example, have lowered barriers to market entry, allowed banks to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. The Gramm-Leach-Bliley Act, which permits affiliation among banks, securities firms and insurance companies, also has changed the competitive environment in which the Bank conducts business.

Internet Website

The Company maintains a website at www.bankwithsouthern.com. The information contained on that website is not included as part of, or incorporated by reference into, this Annual Report on Form 10-K. The Company currently makes available on or through its website its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K or amendments to these reports. These materials are also available free of charge on the Securities and Exchange Commission's website at www.sec.gov.

Selected Consolidated Financial Information

This information is incorporated by reference from pages 8 and 9 of the 2010 Annual Report to Stockholders attached hereto as Exhibit 13 ("Annual Report").

Yields Earned and Rates Paid

This information contained under the section captioned "Yields Earned and Rates Paid" is incorporated herein by reference from page 18 of the Annual Report.

Rate/Volume Analysis

This information is incorporated by reference from page 18 of the Annual Report.

Average Balance, Interest and Average Yields and Rates

This information contained under the section captioned "Average Balance, Interest and Average Yields and Rates" is incorporated herein by reference from pages 16 and 17 of the Annual Report.

Lending Activities

General. The Bank's lending activities consist of origination of loans secured by mortgages on one- to four-family residences and commercial and agricultural real estate, construction loans on residential and commercial properties, commercial and agricultural business loans and consumer loans. The Bank has also occasionally purchased loan participation interests originated by other lenders and secured by properties generally located in the State of Missouri.

Supervision of the loan portfolio is the responsibility of our Chief Lending Officer. Loan officers have varying amounts of lending authority depending upon experience and types of loans. Loans beyond their authority are presented to the next level of authority, or to the Loan Officers Committee, comprised of our President and our Chief Lending Officer, along with various appointed loan officers. Loans to one borrower (or group of related borrowers), in aggregate, in excess of \$750,000 require the approval of a majority of the Discount Committee, which consists of all Bank directors, prior to the closing of the loan. All loans are subject to ratification by the full Board of Directors.

The aggregate amount of loans that the Bank is permitted to make under applicable federal regulations to any one borrower, including related entities, or the aggregate amount that the Bank could have invested in any one real estate project, is based on the Bank's capital levels. See "Regulation - Loans to One Borrower." At June 30, 2010, the maximum amount which the Bank could lend to any one borrower and the borrower's related entities was approximately \$11.6 million. However, the Bank's internal lending limit established by the Board of Directors is \$10.0 million. At June 30, 2010, the Bank's five largest credit relationships outstanding ranged from \$7.3 million to \$9.9 million, net of participation interests sold. As of June 30, 2010, the majority of these credits were commercial real estate, commercial, or multi-family real estate loans and all of them continued to perform according to their terms.

Loan Portfolio Analysis. The following table sets forth the composition of the Bank's loan portfolio by type of loan and type of security as of the dates indicated.

	2010		At June 30,			
	Amount	Percent	2009		2008	
			Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Type of Loan:						
Mortgage Loans:						
Residential real estate	\$ 158,494	37.86	% \$ 155,490	42.14	% \$ 149,340	43.48
Commercial real estate (1)	121,526	29.03	97,161	26.33	85,860	25.00
Construction	27,951	6.68	23,532	6.38	13,945	4.06
Total mortgage loans	307,971	73.56	276,183	74.85	249,145	72.54
Other Loans:						
Automobile loans	8,442	2.02	8,329	2.26	8,872	2.58
Commercial business (2)	97,481	23.28	89,066	24.14	81,575	23.75
Home equity	12,879	3.08	10,976	2.97	8,213	2.39
Other	5,003	1.19	3,836	1.04	4,439	1.30
Total other loans	123,805	29.56	112,207	30.41	103,099	30.02
Total loans	431,776	103.13	388,390	105.26	352,244	102.56
Less:						
Undisbursed loans in process	8,705	2.08	15,511	4.21	5,668	1.65
Deferred fees and discounts	(121)	(0.03)	(107)	(0.03)	(61)	(0.02)
Allowance for loan losses	4,509	1.08	3,993	1.08	3,199	0.93
Net loans receivable	\$ 418,683	100.00	% \$ 368,993	100.00	% \$ 343,438	100.00
Type of Security:						
Residential real estate						
One-to four-family	\$ 167,622	40.04	\$ 158,739	43.02	\$ 154,403	44.96
Multi-family	12,475	2.98	14,171	3.84	22,971	6.69
Commercial real estate	96,601	23.07	74,937	20.31	58,365	16.99
Land	34,518	8.24	29,584	8.02	24,891	7.25
Commercial	94,224	22.51	87,817	23.80	68,379	19.91
Consumer and other	26,336	6.29	23,142	6.27	23,235	6.76
Total loans	431,776	103.13	388,390	105.26	352,244	102.56
Less:						
Undisbursed loans in process	8,705	2.08	15,511	4.21	5,668	1.65
Deferred fees and discounts	(121)	(0.03)	(107)	(0.03)	(61)	(0.02)
Allowance for loan losses	4,509	1.08	3,993	1.08	3,199	0.93
Net loans receivable	\$ 418,683	100.00	% \$ 368,993	100.00	% \$ 343,438	100.00

(1) Commercial real estate loan balances included farmland and other agricultural-related real estate loans of \$28.3 million, \$21.3 million, and \$14.9 million, as of June 30, 2010, 2009, and 2008, respectively.

(2)

Commercial business loan balances included agricultural equipment and production loans of \$35.9 million, \$27.5 million, and \$22.7 million as of June 30, 2010, 2009, and 2008, respectively.

The following table shows the fixed and adjustable rate composition of the Bank's loan portfolio at the dates indicated.

Type of Loan:	2010		At June 30, 2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Fixed-Rate Loans:						
Residential real estate	\$107,190	25.60 %	\$107,994	29.27 %	\$108,052	31.46 %
Commercial real estate	70,643	16.87	52,169	14.14	63,983	18.63
Construction	21,467	5.13	18,444	5.00	13,005	3.79
Consumer	13,439	3.21	12,140	3.29	13,280	3.87
Commercial business	50,747					