

SOUTHERN MISSOURI BANCORP INC
Form 10QSB
February 14, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended December 31, 2004

OR

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

For the transition period from _____ to _____

Commission file number 0-23406

Southern Missouri Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Missouri

(State or jurisdiction of incorporation)

43-1665523

(IRS employer ID. no.)

531 Vine Street, Poplar Bluff, MO

(Address of principal executive offices)

63901

(Zip code)

(573) 778-1800

Registrant's telephone number, including area code

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

Class	Outstanding at February 9, 2005
Common Stock, Par Value \$.01	2,241,285 Shares

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CONSOLIDATED CONDENSED BALANCE SHEETS
DECEMBER 31, 2004 AND JUNE 30, 2004**ASSETS**

	<u>December 31, 2004</u>	<u>June 30, 2004</u>
	(Unaudited)	
Cash and cash equivalents	\$ 8,063,030	\$ 4,582,225
Investment and mortgage-backed securities		
Available for sale - at fair value	33,914,693	40,205,907
Stock in FHLB of Des Moines	3,284,500	3,171,000
Loans receivable, net	258,730,450	248,354,980
Premises and equipment	11,356,773	6,069,506
Bank owned life insurance - cash surrender value	6,363,515	4,260,466
Intangible assets, net	2,731,304	2,858,933
Prepaid expenses and other assets	2,311,547	2,389,725
	<hr/>	<hr/>
Total assets	\$326,755,812	\$311,892,742
	<hr/>	<hr/>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits	\$216,861,198	\$211,958,597
Securities sold under agreements to repurchase	8,565,155	6,447,819
Advances from FHLB of Des Moines	65,800,000	59,250,000
Accounts payable and other liabilities	751,070	730,885
Accrued interest payable	358,242	336,023
Subordinated debt	7,217,000	7,217,000
	<hr/>	<hr/>
Total liabilities	299,552,665	285,940,324
	<hr/>	<hr/>
Commitments and contingencies	-	-
Preferred stock, \$.01 par value; 500,000 shares authorized; none issued and outstanding	-	-
Common stock, \$.01 par value; 4,000,000 shares authorized;		

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2,957,226 shares issued	29,572	29,572
Additional paid-in capital	17,364,034	17,287,099
Retained earnings, substantially restricted	22,497,254	21,236,686
Treasury stock of 715,941 shares at 12/31/04 and 695,222 shares at 6/30/04, at cost	(12,646,798)	(12,253,732)
Unearned employee benefits	(72,120)	(109,051)
Accumulated other comprehensive income (loss)	31,205	(238,156)
	<hr/>	<hr/>
Total stockholders' equity	27,203,147	25,952,418
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$326,755,812	\$311,892,742
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See Notes to Consolidated Condensed Financial Statements

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SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIODS ENDED DECEMBER 31, 2004 AND 2003 (Unaudited)

	Three months ended		Six months ended	
	December 31,		December 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
INTEREST INCOME:				
Loans receivable	\$3,933,269	\$3,650,024	\$7,731,992	\$7,291,552
Investment securities	187,651	108,986	367,703	189,751
Mortgage-backed securities	186,779	175,605	375,724	247,864
Other interest-earning assets	3,973	679	7,477	1,782
	<hr/>	<hr/>	<hr/>	<hr/>
Total interest income	4,311,672	3,935,294	8,482,896	7,730,949
	<hr/>	<hr/>	<hr/>	<hr/>
INTEREST EXPENSE:				
Deposits	1,045,074	870,454	2,036,004	1,771,607
Securities sold under agreements to repurchase	30,334	17,560	49,925	31,768
Advances from FHLB of Des Moines	766,245	704,124	1,523,713	1,397,177
Subordinated debt	86,457	-	166,935	-
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Total interest expense	1,928,110	1,592,138	3,776,577	3,200,552
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NET INTEREST INCOME	2,383,562	2,343,156	4,706,319	4,530,397
PROVISION FOR LOAN LOSSES	95,000	85,000	245,000	115,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,288,562	2,258,156	4,461,319	4,415,397
NONINTEREST INCOME:				
Net gains on sales of available for sale securities	230,514	-	351,508	-
Banking service charges	313,366	300,661	636,546	568,136
Loan late charges	39,644	24,918	68,036	48,983
Increase in cash surrender value of bank owned life insurance	60,686	52,266	103,050	99,693
Other income	119,868	110,637	296,001	222,358
Total noninterest income	764,078	488,482	1,455,141	939,170
NONINTEREST EXPENSE:				
Compensation and benefits	879,035	852,694	1,739,458	1,659,952
Occupancy and equipment, net	298,672	330,231	630,580	618,711
Professional fees	28,821	59,686	69,729	91,404
Advertising	43,788	34,776	82,664	72,574
Postage and office supplies	57,718	56,883	120,904	128,369
Amortization of intangible assets	63,814	63,814	127,629	127,629
Other operating expenses	233,566	200,087	477,159	425,836
Total noninterest expense	1,605,414	1,598,171	3,248,123	3,124,475
INCOME BEFORE INCOME TAXES	1,447,226	1,148,467	2,668,337	2,230,092
INCOME TAXES	573,681	413,481	1,002,050	803,093
NET INCOME	873,545	734,986	1,666,287	1,426,999
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Unrealized gains (losses) on AFS securities	(72,157)	(21,013)	490,810	(37,776)
Adjustment for gains included in net income	(85,290)	-	(221,450)	-

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Total other comprehensive income	(157,447)	(21,013)	269,360	(37,776)
COMPREHENSIVE INCOME		\$ 713,973	\$1,935,647	\$1,389,223
	\$ 716,098			
Basic earnings per common share	\$0.39	\$0.32	\$0.75	\$0.63
Diluted earnings per common share	\$0.38	\$0.31	\$0.73	\$0.61
Dividends per common share	\$0.09	\$0.09	\$0.18	\$0.18

See Notes to Consolidated Condensed Financial Statements

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PART I: FINANCIAL INFORMATION
SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2003 (Unaudited)

	Six months ended	
	December 31,	
	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities:		
Net income	\$ 1,666,287	\$ 1,426,999
Items not requiring (providing) cash:		
Depreciation	324,966	319,781
MRP expense and ESOP expense	113,867	92,734
Gain on sale of available for sale securities	(351,508)	-
Loss on sale of foreclosed assets	14,977	-
Amortization of intangible assets	127,629	127,629
Provision for loan losses	245,000	115,000
Increase in cash surrender value of bank owned life insurance	(103,049)	(99,693)
Net amortization of premiums and discounts	34,526	315,298
Deferred income taxes	(81,186)	-
Changes in:		
Accrued interest receivable	51,128	(77,545)
Prepaid expenses and other assets	(125,292)	5,630
Accounts payable and other liabilities	20,185	(131,681)
Accrued interest payable	22,219	(55,454)

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Net cash provided by operating activities	1,959,749	2,038,698
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Cash flows from investing activities:		
Net increase in loans	(10,624,470)	(16,616,032)
Proceeds from sale of available for sale securities	5,818,287	-
Proceeds from maturing available-for-sale securities	5,703,753	13,241,093
Purchase of FHLB stock	(113,500)	(452,100)
Purchase of available-for-sale securities	(4,486,288)	(14,978,808)
Purchase of bank owned life insurance	(2,000,000)	-
Purchase of premises and equipment	(118,378)	(281,044)
Purchase of land	(5,518,855)	-
Proceeds from sale of land	25,000	-
Proceeds from sale of foreclosed assets	64,355	17,516
	<hr/>	
Net cash used in investing activities	(11,250,096)	(19,069,375)
<hr/>		
Cash flows from financing activities:		
Net increase (decrease) in certificates of deposit	1,643,114	(3,948,226)
Net increase in demand, NOW and savings accounts	3,259,487	8,785,609
Net increase in securities sold under agreements to repurchase	2,117,336	2,300,884
Proceeds from FHLB of Des Moines advances	47,050,000	82,800,000
Repayments of FHLB of Des Moines advances	(40,500,000)	(73,400,000)
Cash dividends on common stock	(405,719)	(414,599)
Exercise of stock options	62,874	13,190
Payments to acquire treasury stock	(455,940)	-
	<hr/>	
Net cash provided by financing activities	12,771,152	16,136,858
<hr/>		
Increase (decrease) in cash and cash equivalents	3,480,805	(893,819)
Cash and cash equivalents at beginning of period	4,582,225	7,617,740
	<hr/>	
Cash and cash equivalents at end of period	\$ 8,063,030	\$ 6,723,921
	<hr/>	

See Notes to Consolidated Condensed Financial Statements

SOUTHERN MISSOURI BANCORP, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS - Continued
(Unaudited)

	Six months ended	
	December 31,	
	<u>2004</u>	<u>2003</u>
Supplemental disclosures of Cash flow information:		
<u>Noncash investing and financing activities:</u>		
Conversion of loans to foreclosed assets	\$ 4,000	\$ 73,921
<u>Cash paid during the period for:</u>		
Interest (net of interest credited)	\$ 2,128,288	\$ 2,018,238
Income taxes	789,960	680,000
See Notes to Consolidated Condensed Financial Statements		

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

Note 1: Basis of Presentation

The accompanying unaudited interim consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Rule 10-01 of Securities and Exchange Commission (SEC) Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all material adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated condensed balance sheet of the Company as of June 30, 2004 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, 2004 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, 2004 Form 10-KSB, 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, 2004 and 2003.

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

Note 2: Securities

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

December 31, 2004			
Amortized	Gross Unrealized	Gross Unrealized	Fair

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	Cost	Gains	Losses	Value
Investment Securities:				
U.S. government and Federal agency obligation	\$ 10,415,374	\$ 49,351	\$ (54,061)	\$ 10,410,664
Obligations of state and political subdivisions	1,662,265	43,548	(3,853)	1,701,960
FNMA preferred stock	1,000,000	-	(4,500)	995,500
Equity Securities	-	-	-	-
Other securities	1,200,000	936	-	1,200,936
Mortgage-backed securities	19,587,554	113,521	(95,442)	19,605,633
Total investments and mortgage-backed securities	\$ 33,865,193	\$ 207,356	\$ (157,856)	\$ 33,914,693

June 30, 2004

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment Securities:				
U.S. government and Federal agency obligation	\$ 11,420,348	\$ 11,940	\$ (118,095)	\$ 11,314,193
Obligations of state and political subdivisions	726,870	50,006	-	776,876
FNMA preferred stock	1,000,000	3,500	(1,300)	1,002,200
Equity Securities	3,357,227	119,959	(62,332)	3,414,854
Other securities	2,712,723	8,315	(17,000)	2,704,038
Mortgage-backed securities	21,366,795	85,517	(458,566)	20,993,746
Total investments and mortgage-backed securities	\$ 40,583,963	\$ 279,327	\$ (657,293)	\$ 40,205,907

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The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2004.

Less than 12 months		More than 12 months		Totals	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

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Investment Securities:

U.S. government and Federal agency obligations	\$ 4,484,764	\$ (54,061)	\$ -	\$ -	\$ 4,484,764	\$ (54,061)
Obligations of state and political subdivisions	261,126	(3,853)	-	-	261,126	(3,853)
Other securities	995,500	(4,500)	-	-	995,500	(4,500)
Mortgage-backed securities	11,237,419	(53,113)	2,014,467	(42,329)	13,751,886	(95,442)
Total investments and mortgage-backed securities	\$ 16,978,809	\$ (115,527)	\$ 2,014,467	\$ (42,329)	\$ 18,993,276	\$ (157,856)

Note 3: Loans

Loans are summarized as follows:

	December 31 2004	June 30 2004
Real Estate Loans:		
Conventional	\$ 123,224,307	\$ 122,392,028
Construction	9,776,504	7,533,011
Commercial	53,364,126	56,111,695
Loans secured by deposit accounts	899,253	1,061,844
Consumer loans	21,187,281	20,417,060
Commercial loans	56,172,110	45,922,527
	264,623,581	253,438,165
Loans in process	(3,769,756)	(3,093,210)
Deferred loan fees, net	16,975	(11,484)
Allowance for loan losses	(2,140,350)	(1,978,491)
Total loans	\$ 258,730,450	\$ 248,354,980

Note 4: Deposits

Deposits are summarized as follows:

	December 31 2004	June 30 2004
Non-interest bearing accounts	\$ 17,639,943	\$ 14,143,212
NOW accounts	30,644,449	30,578,091
Money market deposit accounts	13,610,035	19,731,193
Savings accounts	70,731,019	64,913,463

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Certificates	84,235,752	82,592,638
	<hr/>	<hr/>
Total deposits	\$ 216,861,198	\$ 211,958,597
	<hr/>	<hr/>

Note 5: Earnings Per Share

Basic and diluted earnings per share are based upon the weighted-average shares outstanding. ESOP shares that have been committed to be released are considered outstanding. The following table summarizes basic and diluted earnings per common share for the three and six month periods ended December 31, 2004 and 2003.

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	Three Months Ended December 31,		Six Months Ended December 31,	
	2004	2003	2004	2003
Net income	\$ 873,545	\$ 734,986	\$1,666,287	\$1,426,999
Average Common shares - outstanding basic	2,220,861	2,276,486	2,226,359	2,274,878
Stock options under treasury stock method	60,180	76,758	61,989	76,470
Average Common share - outstanding diluted	2,281,041	2,353,244	2,288,348	2,351,348
Basic earnings per common share	\$ 0.39	\$ 0.32	\$ 0.75	\$ 0.63
Diluted earnings per common share	\$ 0.38	\$ 0.31	\$ 0.73	\$ 0.61

Note 6: Stock Option Plans

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148), which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 requires disclosures of the interim as well as annual financial statements about the method of accounting used for stock-based employee compensation and the effect of the method on net income. The Company has elected to continue to account for stock-based compensation under APB Opinion No. 25.

The following table shows pro forma compensation expense, net income and earnings per share as if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation".

	Three Months Ended December 31,		Six Months Ended December 31,	
	2004	2003	2004	2003

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Net income, as reported	\$ 873,545	\$ 734,986	\$ 1,666,287	\$ 1,426,999
Add: Stock-based employee compensation expense included in reported income, net of related tax effects				57,496
	35,298	28,748	70,596	
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of tax effect				(60,515)
	(44,808)	(30,229)	(88,340)	
Pro forma net income attributable to common stock	\$ 864,035	\$ 733,505	\$ 1,648,543	\$ 1,423,980
Earnings per share:				
Basic -as reported	\$ 0.39	\$ 0.32	\$ 0.75	\$ 0.63
Basic -pro forma	\$ 0.39	\$ 0.32	\$ 0.74	\$ 0.63
Diluted -as reported	\$ 0.38	\$ 0.31	\$ 0.73	\$ 0.61
Diluted -pro forma	\$ 0.38	\$ 0.31	\$ 0.72	\$ 0.61

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment," which will require the compensation costs related to share-based payment transactions to be recognized in financial statements. With limited exceptions, the amount of compensation cost will be measured based on the grant-date fair value of the equity instruments issued. Compensation cost will be recognized over the vesting period during which an employee provides service in exchange for the award. SFAS No. 123R will be effective December 15, 2005 for the Company. The Company has not quantified the effect SFAS No. 123R will have on future reporting periods.

Note 7: Employee Stock Ownership Plan

The Bank established a tax-qualified ESOP in April 1994. The plan covers substantially all employees who have attained the age of 21 and completed one year of service. The Bank makes contributions to the ESOP equal to the ESOP's debt service less dividends on unallocated ESOP shares used to repay the ESOP loan. Dividends on allocated ESOP shares are paid to participants of the ESOP. The ESOP shares are pledged as collateral on the ESOP loan.

Shares are released from collateral and allocated to participants based on pro-rata compensation as the loan is repaid over seven years. Effective July 1, 1998, the loan terms were modified and principal payments were extended an additional four years. Benefits are vested over five years. Forfeitures are allocated on the same basis as other contributions. Benefits are payable upon a participant's retirement, death, disability or separation of service. The purchase of the shares of the ESOP has been recorded in the consolidated financial statements through a credit to common stock and additional paid-in capital with a corresponding charge to a contra equity account for the unreleased shares. As shares are committed to be released from collateral, the Bank reports compensation expense equal to the average fair value of the ESOP shares committed to be released.

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Note 8: Corporate Obligated Floating Rate Trust Preferred Securities

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

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

Note 9: Authorized Share Repurchase Program

In April 2004, the Board of Directors authorized and announced the open-market stock repurchase of up to 115,000 shares of the Company's outstanding stock. As of December 31, 2004 a total of 79,701 shares have been repurchased with 8,982 shares being issued for the exercise of stock options. The number of shares, as of December 31, 2004, held as treasury stock was 715,941.

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PART I Item 2

Southern Missouri Bancorp, Inc. Management's Discussion and Analysis or Plan of Operations

General

Southern Missouri Bancorp, Inc. (Southern Missouri or Company) is a Missouri corporation and owns all of the outstanding stock of Southern Missouri Bank & Trust Co. (SMBT or the Bank). The Company's earnings are primarily dependent on the operations of the Bank. As a result, the following discussion relates primarily to the operations of the Bank. The Bank's deposit accounts are insured up to a maximum of \$100,000 by the Savings Association Insurance Fund (SAIF), 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 seven full service branch facilities in Poplar Bluff, Van Buren, Dexter, Kennett, Doniphan and Quilin, Missouri.

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

The consolidated condensed balance sheet of the Company as of June 30, 2004 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 condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-KSB 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 30, 2004 and the results of operations for the three-month and six month periods ended December 31, 2004 and 2003, respectively.

Forward Looking Statements

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

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

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

Critical Accounting Policies

Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of the Company must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of the Company's significant accounting policies, see "Notes to the Consolidated Financial Statements" in the Company's 2004 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 2004 Annual Report.

Executive Summary

Our results of operations depend primarily on net interest margin, which is directly impacted by the interest rate environment. Net interest margin is the difference between the average yield earned on average interest bearing assets, primarily mortgage loans, commercial loans and the investment portfolio, and the average yield paid on average interest bearing liabilities, primarily certificates of deposits, savings, interest bearing demand and borrowed funds. 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.

Impacting our net interest margin is the level of prepayment activity on our mortgage-related assets. The actual amount of time before mortgage loans and mortgage-backed securities are repaid can be significantly impacted by changes in market interest rates and mortgage prepayment rates. Mortgage prepayment rates will vary due to a number of factors, including the regional economy where the mortgage loan or the underlying mortgages of the mortgage-backed security were originated, seasonal factors and demographic variables. However, the major factors

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affecting prepayment rates are prevailing market interest rates, related mortgage refinancing opportunities and competition. Generally, the level of prepayment activity directly affects the yield earned on those assets, as the payments received on interest-earning assets will be reinvested at the prevailing market interest rate. Prepayment rates are generally inversely related to the prevailing market interest rate, thus, as market interest rates increase, prepayment rates tend to 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.

Short term interest rates generally increased in the first six months of fiscal year 2005 as compared to the first six months of fiscal year 2004. The Federal Open Market (FOMC) increased the overnight lending rate 25 basis points at each of the four regularly scheduled meetings in August, September, November and December of 2004. It is anticipated that the FOMC will continue to increase the overnight lending rate at the regularly scheduled meetings in February, March and May 2005, thus further increasing short-term market interest rates. The rates paid on our deposit products, which are generally tied to short-term market rates, also increased during the first six month period, while long term rates remained relatively low during the first six months of fiscal year 2005. With long term rates remaining low, in conjunction with increasing short-term interest rates, the market yield curve has flattened. The rates earned on the fixed-rate residential loans originated during the first six months of fiscal year 2005, which are generally tied to long-term market rates, have also decreased. If long term interest rates increase in the future at a slower pace than short term interest rates, the result is likely to have a negative impact on our results of operations as our interest-bearing liabilities generally reprice off short term interest rates, while our interest-earning assets generally price off longer-term interest rates, potentially causing our net interest margin to decline. If both short- and long-term interest rates increase by the same amount, and the shape of the yield curve does not change, the resulting environment is also likely to have a negative impact on our results of operations, as our interest-bearing liabilities will reset to current market interest rates faster than our interest-earning assets.

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The prepayment activity decreased on our mortgage-related assets during the first six months of fiscal year 2005 when compared to the prepayment activity experienced during the first six months of fiscal year 2004. This decrease in prepayment activity was due to the stabilization of long-term interest rates during the second half of fiscal year 2004, notwithstanding the decreases in long-term interest rates during fiscal year 2004. The decrease is also due to the large volume of refinancing and modification activity that occurred during the declining interest rate environment of 2003 and 2004. The mortgage-related assets resulting from this prepayment activity will not tend to prepay as fast, as their contractual interest rate is relatively low. The slowing of the prepayment activity in turn decreased the amount of related premium amortization on these assets during the first quarter of fiscal year 2005. The decrease in the prepayment activity and the slowing of the premium amortization generally had a positive impact on our net interest income for the periods reported in fiscal year 2005 when compared to the periods reported in fiscal year 2004.

During the first six months of fiscal year 2005, we continued to grow our balance sheet with commercial loans, which is consistent with historical trends and our change from a thrift to a commercial bank charter. The increase in commercial loans, which inherently contain more credit risk than traditional one-to-four family residences, contributed to an increase in the provision for loan losses. Customer deposits increased through aggressive pricing and a well-received product mix despite increased competition.

We expect to continue to grow our assets modestly through the origination and occasional purchase of loans. The primary funding for our asset growth is expected to come from retail deposits, brokered certificates of deposit and overnight borrowings. We intend to grow deposits by offering desirable deposit products for our customers and to attract 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.

Financial Condition

The Company's total assets increased by \$14.9 million, or 4.8%, to \$326.8 million at December 31, 2004, as compared to \$311.9 million at June 30, 2004. Loans increased \$10.4 million, or 4.2%, to \$258.7 million, as compared to \$248.4 million at June 30, 2004. The Company continues to focus on changing the loan mix and generating growth within the loan portfolio as indicated by growth in commercial and residential loans of \$7.5 million and \$800,000, respectively.

Asset growth has been funded primarily with increased FHLB advances, deposits and securities sold under agreements to repurchase which have increased \$6.6 million, \$4.9 million and \$2.1 million, respectively since June 30, 2004. The 11.1% increase in FHLB advances was primarily

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due to an increase in overnight advances from \$7.3 million to \$13.8 million. The 2.3% increase in total deposits primarily reflects an increase in checking accounts of \$3.5 million for the first six months of fiscal year 2005. The increase reflects the emphasis being placed on attracting less rate sensitive accounts. Securities sold under agreements to repurchase increased 32.8% primarily due to the development and expansion of new and existing relationships.

The investment portfolio decreased \$6.3 million, or 15.6%, to \$33.9 million at December 31, 2004 as compared to \$40.2 million at June 30, 2004, primarily due to the sale of \$5.5 million in investments and equities to fund the purchase of land. The initial investments were from the proceeds of the junior subordinated debt issuance in March 2004 and the sales resulted in net gains of \$352,000 over the period.

Premises and equipment increased \$5.3 million, or 87.1% to \$11.4 million at December 31, 2004 as compared to \$6.1 million at June 30, 2004, primarily due to the purchase of approximately 13 acres of land in Poplar Bluff, Missouri for approximately \$5.5 million in cash. The acquired land includes several retail shopping centers, some of which the Company plans to demolish and use for future expansion needs. The Company also plans to sell a significant portion of the acquired land, subject to the Company's ability to negotiate satisfactory price and other selling conditions.

Total stockholders' equity increased \$1.3 million, or 4.8%, to \$27.2 million at December 31, 2004 as compared to \$26.0 million at June 30, 2004. The increase was primarily due to net income for the six month period, the exercise of stock options, and an increase in accumulated other comprehensive income, partially offset by cash dividends and the repurchase of 79,701 shares of common stock.

Results of Operations - Comparison of the three and six month periods ended December 31, 2004 and 2003.

Net Income. The Company's net income for the three and six month periods ended December 31, 2004 was \$874,000 and \$1.7 million, respectively, as compared to \$735,000 and \$1.4 million earned during the same periods of the prior year. Net income for the three and six month periods ended December 31, 2004 increased over the same period of the prior year as a result of increased net interest income and non-interest income, partially offset by increases in the provision for loan losses. During the first six months of fiscal year 2005, the Company recorded gains on the sale of equities and other investments of \$352,000.

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Net Interest Income. Net interest income increased \$41,000 and \$176,000 for the three and six month periods ended December 31, 2004 to \$2.4 million and \$4.7 million, respectively, as compared to \$2.3 million and \$4.5 million earned during the same periods of the prior year. The increase for the three month period ended December 31, 2004 was primarily due to the spread earned on the incremental difference between the \$26.8 million increase in average interest-earning assets and the \$28.2 million increase in average interest-bearing liabilities, partially offset by the 24 basis point decrease in the average interest rate spread, from 3.19% to 2.95% over the same period of the prior year. The increase for the six month period ended December 31, 2004 was primarily due to the spread earned on the incremental difference between the \$31.5 million increase in average interest-earning assets and \$31.6 million increase in average interest-bearing liabilities, partially offset by the 22 basis point decrease in average interest rate spread, from 3.12% to 2.90% over the same period of the prior year. For the three and six month periods ended December 31, 2004, the increases in average interest-earning assets reflected our planned balance sheet growth. The decrease in yields earned reflected the impact on our net interest margin from changes in interest rates and our balance sheet.

Interest Income. Interest income for the three and six month periods ended December 31, 2004 increased by \$376,000, or 9.6%, and \$752,000, or 9.7%, respectively. The increase for the three month period was primarily due to a \$26.8 million, or 9.8%, increase in the average balance of interest-earning assets to \$300.9 million at December 31, 2004. For the three months ended December 31, 2004, the weighted average yield earned on interest earning assets was 5.73% as compared to 5.74% for the same period of the prior year. For the six month period ended, the increase was primarily due to a \$31.5 million, or 11.7%, increase in the average balance of interest-earning assets to \$301.2 million at December 31, 2004, partially offset by a 10 basis point decrease in weighted average yields earned over the same period of the prior year. The decrease in yields earned reflects the aforementioned change in long-term and short-term interest rates. For the six months ended December 31, 2004, the weighted average yield earned on interest-earning assets was 5.63%, as compared to 5.73% for the same period of the prior year.

Interest Expense. Interest expense for the three and six months ended December 31, 2004 increased by \$336,000, or 21.1%, and \$576,000, or 18.0%, respectively. The increase for the three and six months ended was primarily due to the increase in the average balance of total interest-bearing liabilities of \$28.2 million and \$31.6 million, respectively, and the increase in the weighted average cost of funds of 22 basis points and 12 basis points for the three and six-months ended, respectively. The increase in the average balance of interest-bearing liabilities was

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primarily used to fund our growth. For the three and six month periods ended December 31, 2004, the weighted average cost of total interest bearing liabilities was 2.78% and 2.73%, respectively, as compared to 2.56% and 2.61% for the same periods of the prior year. The increase in the weighted average cost of funds was primarily due to the increase in short term interest rates.

The following table provides detailed information as to average balances, interest income/expenses and rates by major balance sheet categories for the three and six month periods ended December 31, 2004 and 2003.

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Average Balance	For the three month period ending	
	December 31, 2004	December 31, 2003
	Interest and Dividends	
	Yield/ Cost	
	Average Balance	
	Interest and Dividends	
	Yield/ Cost	
Interest Earning Assets: Mortgage Loans (1)	\$181,498,217	\$2,769,728
	6.10%	175,503,067
	\$2,742,121	6.25%
Other Loans (1)	78,189,001	
		1,163,541
		5.95
		61,506,041
		907,903
		5.90
Total Net Loans	259,687,218	333,269,606
	237,009,108	3,650,024
	16	Mortgage-backed securities
	20,011,573	186,779
	73	21,368,921
	175,605	29
Investment securities (2)	17,852,133	187,651
	15	
		3,973
		0.48
		2,746,205
		679
		0.10

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Total Interest Earning Assets (1)300,871,8564,311,6725.73	
274,058,654	
3,935,294	
5.74 Other non-interest-earning assets22,105,867	
	-
	- 16,052,226
	-
	- Total Assets\$ 322,977,723
	\$ 4,311,672
	\$ 290,110,880
	\$ 3,935,294
Interest-bearing liabilities: Savings accounts 69,883,072338,8431.45 55,857,437174,4341.25 NOW accounts 30,471,06275,4040.99 27,574,01163,453 .92 Money market accounts14,056,29141,7271.19	
19,400,67354.7891.13 Certificates of deposit 85,526,857	
	589,100
	2.76
	83,411,227
	577,778
	2.77
Total Interest Bearing Deposits199,937,2821,045,0741.57 186,243,348870,4541.97 Borrowings: Securities sold under agreements to repurchase	
6,904,846	
30,334	
1.76	
6,047,763	
17,560	
1.16 FHLB advances63,316,304766,2454.84 56,882,065 704,1244.95 Subordinated debt 7,217,000	
	86,457
	4.79
	-
	-
	-
Total Interest Bearing Liabilities277,375,4321,928,1102.78 249,173,175721,6842.56 Non-interest bearing demand deposits	
15,717,251	
-	
12,472,431	
-Other liabilities 2,936,425	
	-2,565,547
	- Total Liabilities296,029,108-264,211,153- Stockholders' Equity 26,948,615
	-

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25,899,727

-

Total Liabilities and Stockholders Equity \$322,977,723

\$ 1,928,110

\$ 290,110,880

\$ 1,592,138

Net interest income 2,383,562 2,343,156 Interest rate spread (3) 2.95% 3.19% Net interest margin (4) 3.17% 3.42% Ratio of average interest-earning assets to average interest-bearing liabilities

108.51%

109.99%

(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) Net interest spread represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities. (4) Net yield on average interest-earning assets represents net interest income divided by average interest-earning assets.

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For the three month period ending

December 31, 2004 December 31, 2003 Average Balance

Interest and Dividends

Yield/
Cost

Average
Balance

Interest and
Dividends

Yield/
Cost

Interest Earning Assets: Mortgage Loans (1) \$ 181,887,261 \$ 5,530,453 6.08% \$ 172,344,130 \$ 5,468,226 6.35% Other Loans (1) 75,273,058

2,201,539

5.85

60,389,444

1,823,326

6.04

Total Net Loans 257,160,319 7,731,992 6.01 232,733,574 7,291,552 6.27 Mortgage-backed securities 20,362,594 375,724 3.69 23,010,529 247,865 2.15 Investment securities (2) 19,042,219 367,703 3.86
11,220,156 189,750 3.38 Other interest-earning assets 4,648,080

7,478

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	0.32
	2,719,157
	1,782
	0.13
Total Interest Earning Assets (1)301,213,2128,482,8975.63 269,683,4167,730,9495.73 Other noninterest-earning assets19,398,757	
	-
	- 15,851,377
	-
	- Total Assets\$ 320,611,969
	\$ 8,482,897
	\$ 285,534,793
	\$ 7,730,949
Interest-bearing liabilities: Savings accounts69,076,989651,9961.89 56,526,320369,4051.31 NOW accounts30,631,374149,6850.98 25,166,277116,0220.92 Money market accounts15,661,58495,8891.22 18,685,480110,0431.18 Certificates of deposit 83,458,593	
	1,138,435
	2.73
	83,887,636
	1,176,137
	2.80
Total Interest Bearing Deposits198,828,5402,036,0052.05 184,265,7131,771,6071.97 Borrowings: Securities sold under agreements to repurchase	
6,431,221	
49,924	
1.55	
5,278,801	
31,768	
1.20 FHLB advances64,122,2831,523,7134.75 55,449,185 1,397,1775.04 Subordinated debt 7,217,000	
	166,935
	4.63
	-
	-
	-
Total Interest Bearing Liabilities276,599,0443,776,5772.73 244,993,6993,200,5542.61 Noninterest bearing demand deposits14,577,938-12,070,356-Other liabilities 2,771,927	
	-
	2,561,790

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Total Liabilities 293,948,909-259,625,845- Stockholders' Equity 26,663,060

25,614,160
