ENOVA SYSTEMS INC
Form PRE 14A
October 30, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
þ Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

ENOVA SYSTEMS, INC.

(Name of Registrant as Specified In Its Charter)

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2) Form, Schedule or Registration Statement No.:

3) Filing Party:

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ENOVA SYSTEMS, INC.
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON DECEMBER 8, 2009

NOTICE IS HEREBY GIVEN that the 2009 Annual Meeting of Shareholders (the Annual Meeting) of Enova Systems, Inc., a California corporation, will be held on December 8, 2009 at 10:00 a.m. local time at Enova Systems, Inc. s principal executive office, located at 1560 West 190th Street, Torrance, California 90501 for the following purposes:

1. To elect six directors to serve until the 2010 Annual Meeting of Shareholders and until their respective successors are elected and qualify from among the following nominees: Richard Davies, John J. Micek, Edwin O. Riddell, Roy Roberts, Michael Staran, and John R. Wallace.

2. To vote on ratifying the selection of PMB Helin Donovan, LLP as its independent auditors for 2009.

3. To vote on approval of a potential issuance of up to 10,347,960 shares of the common stock of the Company in accordance with a Purchase Agreement and Placing Agreement each dated October 29, 2009.

4. To transact such other business as may be properly brought before the Annual Meeting and at any postponements or adjournments thereof.

Any action may be taken on the foregoing matters at the Annual Meeting on the date specified above, or on any date or dates to which, by original or later postponement or adjournment, the Annual Meeting may be postponed or adjourned.

The Board of Directors has fixed the close of business on November 10, 2009 as the record date for determining the shareholders entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof. Only holders of record of Enova Systems, Inc. s common stock, no par value or Preferred Stock, no par value, at that time will be entitled to receive notice of and to vote at the Annual Meeting.

All shareholders are cordially invited to attend the meeting in person. To assure your representation at the meeting, however, you are requested to authorize a proxy to vote your shares by filling in and signing the enclosed proxy card, and by mailing it promptly in the enclosed postage-prepaid envelope. You may also authorize a proxy to vote your shares electronically by following the instructions on your proxy card. Any shareholder attending the meeting may vote in person even if he or she has returned a proxy.

By Order of the Board of Directors

/s/ Michael Staran
Michael Staran, President and Chief Executive Officer
Torrance, California

November 13, 2009

IMPORTANT:

Regardless of the number of shares you own, your vote is important. Please complete, sign, date and promptly return the enclosed proxy card to vote your shares by following the instructions on your proxy card.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on December 8, 2009: The Proxy Statement and Annual Report to Security Shareholders are available at www.proxyvote.com.

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GENERAL INFORMATION ABOUT THE ANNUAL MEETING

Proxy Statement

This proxy statement is furnished to the shareholders of Enova Systems, Inc., a California corporation, in connection with the solicitation of proxies by our Board of Directors for use at our 2009 Annual Meeting of Shareholders to be held on Tuesday, December 8, 2009 at 10:00 a.m. local time at the Enova Systems principal executive office, located at 1560 West 190th Street, Torrance, California 90501 and at any and all adjournments of the Annual Meeting. Directions to our office may be obtained by calling us at the following telephone number: (310) 527-2800 ext. 118. This proxy statement and the accompanying Notice of Annual Meeting and proxy card are first being sent to shareholders on or about November 13, 2009.

Please mark, date, sign and return the enclosed Proxy in the accompanying postage-prepaid, return envelope as soon as possible so that, if you do not attend the Annual Meeting, your shares may be voted.

Record Date and Voting

The close of business on November 10, 2009 has been fixed as the record date for determining the holders of shares of common stock, Series A Preferred Stock, and Series B Preferred Stock of Enova Systems entitled to notice of and to vote at the Annual Meeting. As of the close of business on the record date, there were 21,012,565 shares of common stock, 2,652,159 shares of Series A Preferred Stock, and 546,166 shares of Series B Preferred Stock, outstanding and entitled to vote at the Annual Meeting. The common stock, Series A Preferred Stock, Series B Preferred Stock will vote together as a single class on all matters voted on at the Annual Meeting.

Each outstanding share of common stock on the record date is entitled to one vote, each outstanding share of Series A Preferred Stock on the record date is entitled to 1/45 or 2.22% of one vote, and each outstanding share of Series B Preferred Stock on the record date is entitled to 2/45 or 4.44% of one vote on all matters voted on at the Annual Meeting. The conversion ratio for the preferred stock reflects anti-dilution provisions to account for the 1:45 reverse stock-split that our common stock underwent on July 20, 2005. On a converted basis therefore, the Series A Preferred Stock holds the voting power of 58,937 shares of common stock and the Series B Preferred Stock holds the voting power of 24,274 shares of common stock. Including the preferred stock on an as converted basis together with the 21,012,565 shares of common stock, the total voting shares entitled to vote on the record date was 21,095,776 shares.

The presence at the Annual Meeting of a majority of the shares of common stock, Series A Preferred Stock, and Series B Preferred Stock of Enova Systems in the aggregate on an as converted basis, or approximately 10,547,889 of these shares on an as converted basis either in person or by proxy, will constitute a quorum for the transaction of business at the Annual Meeting.

Abstentions and broker non-votes will be counted for purposes of determining whether a quorum is present for the transaction of business at the Annual Meeting. A broker non-vote refers to a share represented at the Annual Meeting which is held by a broker or other nominee who has not received instructions from the beneficial owner or person entitled to vote such share and with respect to which, on one or more but not all proposals, such broker or nominee does not have discretionary voting power to vote such share. Abstentions and broker non-votes are each included in the determination of the number of shares present and voting, and each is tabulated separately. However, broker non-votes are not counted for purposes of determining the number of votes cast with respect to a particular proposal. In determining whether a proposal (other than the election of directors) has been approved, abstentions are counted as votes against the proposal and broker non-votes are not counted as votes for or against the proposal.

With respect to the election of directors (Proposal 1), the six nominees receiving the highest number of affirmative votes of the common stock, Series A Preferred Stock (as converted), and Series B Preferred Stock (as converted), present and voting together as a single class at the meeting, either in person or by proxy, will be declared elected. The affirmative vote of a majority of the shares of common stock, Series A Preferred Stock (as converted), and Series B Preferred Stock (as converted), present and voting together as a single class at the meeting, either in person or by proxy, is required for approval of Proposal 2 (ratification of independent auditors). With respect to

Proposal 3 (approval of the potential issuance of shares of the common stock of the Company in accordance with a Purchase Agreement and Placing Agreement dated October 29, 2009), the affirmative vote of a majority of the votes cast by the holders of shares of common stock, Series A Preferred Stock (as converted) and Series B Preferred Stock (as converted), voting together as a single class, present or represented at the meeting and entitled to vote, is required for approval.

Cumulative voting may be used in the election of directors. Under cumulative voting, each holder of common stock, Series A and Series B Preferred Stock may cast for a single candidate, or distribute among the candidates as such holder chooses, a number of votes equal to the number of candidates (six at this Annual Meeting) multiplied by the number of votes to which holders shares are entitled. Cumulative voting will apply only to those candidates whose names have been placed in nomination prior to voting. No shareholder shall be entitled to cumulate votes unless the shareholder has given notice at the meeting, prior to the voting, of the shareholder s intention to cumulate the shareholder s votes. If any one shareholder gives such notice, all shareholders may cumulate their votes for candidates in nomination, except to the extent that if a shareholder withholds votes from the nominees. The proxy holders named in the accompanying form of proxy, in their sole discretion, will vote such proxy for, and, if necessary, exercise cumulative voting rights to secure the election of the nominees listed below as directors of Enova Systems.

If a properly signed proxy is submitted but not marked as to a particular item, the proxy will be voted FOR the election of the six nominees for director of Enova Systems named in this proxy statement; FOR the ratification of the selection of PMB Helin Donovan LLP as its independent auditors for 2009; and FOR the issuance of up to 10,347,960 shares of the Company s common stock in accordance with a Purchase Agreement and Placing Agreement dated October 29, 2009.

The Board of Directors does not know of, and it is not anticipated that, any matters other than those set forth in the proxy statement will be presented at the Annual Meeting. If other matters are presented, proxies will be voted in the discretion of the proxy holders.

An automated system administered by our transfer agent will tabulate votes of the holders of common stock, Series A and Series B Preferred Stock cast by proxy. An employee of Enova Systems will tabulate votes cast in person at the Annual Meeting.

Solicitation

You may submit your proxy by signing your proxy card and mailing it in the enclosed, postage-prepaid and addressed envelope. For shares you hold beneficially in street name, you may sign the voting instruction card included by your broker or nominee and mail it in the envelope provided.

The solicitation of proxies will be conducted by mail and Enova Systems will bear all attendant costs. These costs will include the expense of preparing and mailing proxy materials for the Annual Meeting and reimbursements paid to brokerage firms and others for their expenses incurred in forwarding solicitation material regarding the Annual Meeting to beneficial owners of Enova Systems common stock or preferred stock. We may conduct further solicitation personally, telephonically, by facsimile or by other electronic or written means through our officers, directors and regular employees, none of whom will receive additional compensation for assisting with the solicitation.

Revocability of Proxy

You may change your proxy instructions at any time prior to the vote at the Annual Meeting. For shares held directly in your name, you may do this by granting a new proxy, by filing a written revocation with the Secretary of Enova

Systems, or by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting without further action will not cause your previously granted proxy to be revoked. You may change your proxy instructions for shares you beneficially own by submitting new voting instructions to your broker or nominee.

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PROPOSAL 1

ELECTION OF DIRECTORS

The Board of Directors currently consists of eight members. Our Bylaws provide that the size of the Board shall be not less than six members nor more than nine members. It is anticipated that prior to the Annual Meeting and pursuant to our Bylaws, the Board of Directors will fix, effective with the Annual Meeting, the authorized number of directors at six. Six nominees will stand for election at the Annual Meeting and if elected will serve until the 2010 Annual Meeting of Shareholders and until their successors are elected and qualify. The following six individuals have been nominated to serve as directors: Michael E. Staran, John J. Micek, Edwin O. Riddell, Roy S. Roberts, John R. Wallace, and Richard Davies. These six nominees currently serve on the Board. Each of the existing Board members was elected at our prior annual meeting in May 2008.

The Board anticipates that each of the six nominees, if elected, will serve as Director. In the unexpected event a nominee is unable or declines to serve as a Director at the time of the Annual Meeting, the shares of common stock, Series A preferred stock and Series B preferred stock represented by the enclosed proxy may (unless such proxy contains instructions to the contrary) be voted for such other person or persons as may be determined by the holders of such proxies.

Information Regarding Nominees

Richard Davies. Mr. Davies, age 41, was elected to the Board of Directors in May 2008. Since 2007, he has served as Managing Director of investments for Jagen Pty Ltd. Prior to that appointment, he managed the listed equity investments of Jagen Ptd Ltd. since 2003. Between 2001 and 2003, Mr. Davies co-founded Kicap Management, a global long short equity hedge fund. Between 1998 and 2001, Mr. Davies worked for Tiger Management as an analyst of telecom and media industries. In addition to his experience as a portfolio manager and analyst, Mr. Davies between 1992 and 1996 practiced as an attorney with Baker & McKenzie in Hong Kong and Melbourne, Australia and then with Freehill, Hollingdale & Page in Melbourne and Sydney, Australia. In 1992, Mr. Davies graduated from Monash University with a Bachelor of Law (Honors) and Bachelor of Economics. He also earned an MBA (Honors) from Columbia Business School.

John J. Micek. Mr. Micek, age 57, was re-appointed to the Board of Directors in 2007. He previously served on the Board between April 1999 and July 2005. Since 2000, Mr. Micek has been Managing Director of Silicon Prairie Partners, LP, a Palo Alto, California-based family-owned venture fund. He also is admitted to practice law in California and his prior practice focused on financial services. Mr. Micek currently actively serves on the Board of Directors of Armanino Foods of Distinction, UTEK Corporation, and JAL/Universal Assurors. During the past five years, he has served on the Board of Directors of Benda Pharmaceutical, Wherify Wireless, and ExchangeBlvd.com. Mr. Micek is a cum laude graduate of Santa Clara University and the University of San Francisco School of Law, where he was Senior Articles Editor of the Law Review.

Edwin O. Riddell. Mr. Riddell, age 67, has served on the Board of Directors since 1995. He also served as our President and Chief Executive Officer from August 20, 2004 until his retirement effective August 28, 2007. Between 1999 and 2004, Mr. Riddell was President of CR Transportation Services, a consultant to the electric and hybrid vehicle industry. From 1992 to 1999, Mr. Riddell was Product Line Manager of the Transportation Business Unit at the Electric Power Research Institute, and from 1985 until 1992, he served with the Transportation Group, Inc. as Vice President of Engineering, working on electrically driven public transportation systems. From 1979 to 1985, Mr. Riddell was Vice President, General Manager and COO of Lift-U, Inc., a manufacturer of handicapped wheelchair lifts for the transit industry. He has also worked with Ford, Chrysler, and General Motors in the area of auto design, and as a member of senior management for a number of public transit vehicle manufacturers. Mr. Riddell served as a member of the American Public Transportation Association s (APTA) Member Board of Governors for over 15 years, and served on APTA s Board of Directors. Mr. Riddell was also Managing Partner of the U.S. Advanced Battery Consortium. He also serves on the Electric Drive Association Board of Directors.

Roy S. Roberts. Mr. Roberts, age 70, was appointed to the Board of Directors in 2008. He has served as Managing Director of Reliant Equity Investors, a venture capital firm, since September 2000. Mr. Roberts retired from General Motors in 2000. At the time of his retirement, he was Group Vice President for North American

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Vehicle Sales, Service and Marketing of General Motors Corporation, having been elected to that position in October 1998. Prior to that time, he was Vice President and General Manager in charge of Field Sales, Service and Parts for the Vehicle Sales, Service and Marketing Group from August 1998 to October 1998, General Manager of the Pontiac-GMC Division between 1996 and 1998, and General Manager of the GMC Truck Division between 1992 and 1996. Mr. Roberts first joined General Motors Corporation in 1977 and became a corporate officer of General Motors Corporation in 1987. He was named 1996 Executive of the Year by Black Enterprise magazine and 1997 Executive of the Year by African Americans on Wheels magazine. Mr. Roberts earned a bachelor s degree from Western Michigan University. He also received honorary doctorate degrees from Florida A&M University and Grand Valley State College. He previously served as on the Board of Directors for Morehouse School of Medicine, the United Negro College Fund, the National Urban League, and as president and on the National Board of Directors for the Boy Scouts of America. He currently serves as a director of Burlington Northern Santa Fe Corporation and Abbott Laboratories, and as Trustee Emeritus at Western Michigan University.

Michael Staran. Mr. Staran, age 48, was appointed to the Board of Directors in 2007. He currently serves as our President and Chief Executive Officer. Mr. Staran became our Chief Executive Officer effective August 28, 2007. He previously had served as President and Chief Operating Officer since June 26, 2007 and Executive Vice President since November 17, 2006. He also acted as a consultant for Enova Systems from November 2004 through February 2005 when he was hired by us as Director of Sales and Marketing. Mr. Staran has over 25 years of experience in business development, product management, sales and marketing, and engineering. Prior to joining us in 2006, he had served since 1998 as President of Effective Solutions People LLC providing specialized consulting to the OEM supplier segment. His affiliations and work history range from companies such as Ford, General Motors and DaimlerChrysler to suppliers such as Johnson Controls Inc. and Decoma International (a division of Magna International) where he was vice president of sales and marketing for 13 years. Mr. Staran holds a Bachelor of Science degree in Mechanical Engineering with a minor in Mathematics from Lawrence Institute of Technology in Southfield Michigan. Mr. Staran has developed three patented mechanical designs within the automotive components sector.

John R. Wallace. Mr. Wallace, age 61, was elected to the Board of Directors in 2002 and was elected Chairman of the Board of Directors on August 22, 2008. Since November of 2005, he has held the position of CEO, Xantrex Technology, Inc. based in Burnaby, B.C. Canada. He also has been a member of the Xantrex Board of Directors since 2003. From 2002 to 2005, Mr. Wallace worked independently as a consultant in the alternative energy sector. Prior to working as a consultant, Mr. Wallace served in various capacities at Ford Motor Company from 1988 until his retirement in 2002. He served as Director of Ford s Electronic Systems Research Laboratory, Research Staff, from 1988 through 1990. He then worked in Ford s alternative fuel vehicle programs, serving first as Director of Technology Development Programs then as Director of Electric Vehicle Programs, Director of Alternative Fuel Vehicles, and finally Director of Environmental Vehicles. Prior to joining Ford Research Staff, he was president of Ford Microelectronics, Inc., in Colorado Springs. Mr. Wallace has been past Chairman of the Electric Vehicle Association of the Americas, past Executive Director and Chairman of the Board of Directors of TH!NK Nordic, past chairman of the United States Advanced Battery Consortium, and past Chairman of the California Fuel Cell Partnership. His other experience includes work as program manager with Intel Corporation. He also served as Director, Western Development Center, for Perkin-Elmer Corporation and as President of Precision Microdesign, Inc.

There is no family relationship between any director, nominee, or executive officer of Enova Systems

Required Vote and Recommendation

The holders of the common stock, Series A Preferred Stock (as converted), and Series B Preferred Stock (as converted), voting together as a single class, are entitled to elect the members of the Board.

Our Bylaws provide that every shareholder entitled to vote shall have the right to cumulate the holder s votes and give one candidate a number of votes equal to the number of directors to be elected, multiplied by the number of votes to which the holder s shares are entitled. To do so, the names of the candidate or candidates for whom the shareholder votes have been placed in nomination prior to the voting and at least one shareholder has given notice at the meeting prior to the voting of an intention to cumulate votes.

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The six nominees receiving the most votes (providing a quorum is present) will be elected as directors. Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will count towards the presence of a quorum. Properly executed and unrevoked proxies will be voted **FOR** the nominees set forth in Proposal 1 unless contrary instructions or an abstention are indicated in the proxy. The proxy holders named in the accompanying form of proxy, in their sole discretion, will if necessary, exercise cumulative voting rights to secure the election of the nominees.

The Board of Directors unanimously recommends a vote FOR each and all of the nominees.

PROPOSAL 2

RATIFICATION OF SELECTION OF INDEPENDENT PUBLIC AUDITORS

The Board recommends that the shareholders ratify the Audit Committee s selection of PMB Helin Donovan LLP as the principal registered independent auditors of Enova Systems for fiscal year 2009. PMB Helin Donovan LLP served as our registered independent auditor at the conclusion of each of our three most recently completed fiscal years. A representative of PMB Helin Donovan LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement if such representative desires to do so and will be available to respond to appropriate questions.

Although ratification is not required by our Bylaws or otherwise, the Board is submitting the selection of PMB Helin Donovan LLP to our shareholders for ratification as a matter of good corporate practice. If the selection is not ratified, the Audit Committee will consider whether it is appropriate to select another registered public accounting firm. Even if the selection is ratified, the Audit Committee in its discretion may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of Enova Systems and our shareholders.

Required Vote and Recommendation

The affirmative vote of the holders of a majority of the shares of the common stock, Series A Preferred Stock (as converted), and Series B Preferred Stock (as converted), voting together as a single class, present or represented by proxy at the Annual Meeting, is required to ratify the selection of PMB Helin Donovan. Accordingly, abstentions and broker non-votes will have no effect on the outcome of the vote, although they will count towards the presence of a quorum. Proxies will be voted **FOR** ratifying the selection of PMB Helin Donovan LLP as our independent auditors for fiscal year 2009 unless contrary instructions are set forth on the enclosed proxy card.

The Board of Directors unanimously recommends a vote FOR the ratification of the selection of PMB Helin Donovan LLP as Enova Systems independent auditors for fiscal year 2009.

PROPOSAL 3

APPROVAL OF THE POTENTIAL ISSUANCE OF SHARES OF COMMON STOCK TO BE SOLD IN ACCORDANCE WITH A PURCHASE AGREEMENT AND PLACING AGREEMENT EACH DATED OCTOBER 29, 2009

As more particularly described below, on October 29, 2009, the Company entered into a Purchase Agreement (the Purchase Agreement) with a number of institutional investors for the sale of shares in the United States and a Placing Agreement (the Placing Agreement and, collectively with the Purchase Agreement, the Agreements) for the sale of shares outside the United States, pursuant to which the Company agreed to sell an aggregate of 10,347,960 shares of common stock for an aggregate cash purchase price of approximately $10,347,960.

After giving effect to such issuance, there will be 31,360,525 shares of common stock outstanding, representing an increase of approximately 49.2% of the outstanding shares of common stock. As described more fully below, The NYSE Amex rules require shareholder approval for the issuance of the common stock pursuant to the Agreements. Both of the Agreements require shareholder approval of the issuance of such shares in accordance with

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the NYSE Amex rules. As a result, the Company is seeking the approval of the issuance of the shares of common stock at the meeting.

As a condition to the closing of the transactions contemplated under the Purchase Agreement and the Placing Agreement, the shares subject to those agreements must be approved for listing on NYSE Amex. The NYSE Amex rules require shareholder approval of certain stock issuances or potential stock issuances that equal or exceed 20% of the outstanding common stock. Thus, in order to meet the Company s obligations under the Purchase Agreement and the Placing Agreement, as well as the NYSE Amex rules, the Company is seeking the approval of the issuance of all such 10,347,960 shares of common stock pursuant to this Proxy Statement.

The transactions contemplated by the Agreements will not result in a change of control of the Company.

This Proxy Statement does not constitute an offer of any securities for sale. The securities to be sold pursuant to the Agreements have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Need for Additional Financing

The board and executive management have reviewed the business strategy of the Company and have determined that the current fundraise is necessary to support the working capital needs of the Company.

Purchase Agreement

On October 29, 2009, Enova entered into the Purchase Agreement with eight institutional investors, including Silicon Prairie Partners, LLP (an affiliate of one of our Directors, John Micek) (collectively, the Investors), pursuant to which the Investors have agreed to purchase 9,024,960 shares of Common Stock (Investor Shares) for an aggregate purchase price of $9,024,960.

The closing of the sale of the Investor Shares offering is contingent on, among other things, the approval by the shareholders of the Company of the issuance of the common stock pursuant to the Agreements in accordance with NYSE Amex rules.

In connection with the offering, a finder s fee of 7% on up to $1,750,000 of gross proceeds under the Purchase Agreement will be paid by the Company.

Under the terms of the Purchase Agreement, Enova is obligated to enter into a Registration Rights Agreement with each of the Investors no later than the closing of the sale of the Investor Shares. The Registration Rights Agreement will require the Company to file with the SEC a registration statement to cover the resale of the Investor Shares covered by the Registration Rights Agreement no later than thirty days of the closing of the sale of the Investor Shares. If such registration statement is not filed with the SEC on a timely basis, is not declared effective within the time periods specified in the Registration Rights Agreement or, after having been declared effective, is not available for sales of the Investor Shares for any reason (with certain limited exceptions), then the Company is required to pay the Investors, as liquidated damages, monetary penalties of 1.5% of the amount invested for each 30-day period (or pro rata portion thereof) during which such failure continues. The Registration Rights Agreement will not be applicable to the shares to be sold pursuant to the Placing Agreement.

The Investor Shares are expected to be sold in a transaction exempt from the registration requirements under Section 5 of the Securities Act of 1933, as amended (the Securities Act), pursuant to Section 4(2) thereof and in reliance upon Rule 506 of Regulation D promulgated by the SEC.

As noted above, Silicon Prairie Partners, LLP is an affiliate of John Micek. That entity has agreed to purchase $100,000 of the Investor Shares pursuant to the terms of the Purchase Agreement. Mr. Micek is currently the beneficial holder of 79,584 shares of our common stock.

The foregoing descriptions of the Purchase Agreement and the Registration Rights Agreement are summaries only and are qualified by the terms of those agreements. A copy of each of those agreements was filed with the SEC on October 30, 2009 as exhibits 99.1 and 99.2 to the Company s Current Report on Form 8-K with date of earliest event reported being October 29, 2009.

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Placing Agreement

On October 29, 2009, the Company entered into the Placing Agreement to which Investec Bank (UK) Limited (Investec) is acting as Enova s agent to use its reasonable endeavors to procure subscribers for 1,323,000 shares of the Common Stock (the Placing Shares) at 62.5 Pence (the Placing Price), or approximately the equivalent of $1.00 (U.S. Dollars) per share as of such date based on the exchange rate on October 29, 2009 as reported by Fidessa. The Placing Price will remain at this fixed Pence per share price. The actual amount per share in US Dollars will be determined based upon the conversion rate in effect as of the closing. Investec, on behalf of Enova, has conditionally placed the Placing Shares with three institutional investors at the Placing Price to raise $1,323,000 (U.S. Dollars) in gross proceeds (subject to adjustment as described above based on the conversion rate as of the closing).

Investec will earn a selling commission of 7% of the proceeds from the offering under the Placing Agreement.

The placing and the subscription for the Placing Shares are conditional upon, among other things, the Company having received written confirmation from the NYSE Amex that the Placing Shares will be listed on NYSE Amex by 4:00 p.m. (London time) on December 14, 2009 (or such later date as the Company and Investec may agree, but in any event not later than 4:00 p.m. (London time) on December 30, 2009) and admission to trading of the Placing Shares on the London Stock Exchange AIM Market, by not later than 8:00 a.m. on December 15, 2009 (or such later date as the Company and Investec may agree, but in any event not later than 8:00 a.m. on December 31, 2009) and the receipt of no less than $8,424,960 (U.S. Dollars) in respect of the sale of the Investor Shares.

The Placing Shares to be sold pursuant to the Placing Agreement will not have been registered under the Securities Act of 1933, as amended, and there is no obligation on the part of the Company to so register such shares.

The offer and sale of the Placing Shares will be made pursuant to Regulation S under the Securities Act. Among other things, each investor purchasing Placing Shares in the offering will represent that the investor is not a United States person as defined in Regulation S. In addition, neither Enova nor Investec has conducted or will conduct any selling efforts directed at the United States in connection with the offering. All Placing Shares to be issued in the offering will include a restrictive legend indicating that the shares are being issued pursuant to Regulation S under the Securities Act and are deemed to be restricted securities. As a result, the purchasers of such shares will not be able to resell the shares unless, in accordance with Regulation S, pursuant to a registration statement or upon reliance of an applicable exemption from registration under the Securities Act.

The foregoing description of the Placing Agreement is a summary only and is qualified by the terms of that agreement. A copy of the Placing Agreement was filed with the SEC on October 30, 2009 as exhibit 99.3 to the Company s Current Report on Form 8-K with date of earliest event reported being October 29, 2009.

NYSE Amex Shareholder Approval Requirement

NYSE Amex Rule Section 713 requires for the listing of shares shareholder approval of issuances or potential issuances of common stock sold in private transactions if the number of shares sold is equal to or exceeds 20% or more of presently outstanding stock and the price per share is less than the greater of book value or market value of the common stock.

The Company currently has 21,012,565 shares outstanding and the issuance of the additional 10,347,960 shares will increase the outstanding shares to 31,360,525 shares, representing an increase of 49.2% in the number of shares outstanding. As of the date that the Agreements were entered into, the per share purchase price for the shares was less than the greater of book value or market value of the common stock. Accordingly, pursuant to NYSE Amex Rule 713, the proposed issuance of the shares pursuant to the Agreements must be approved by the Company s shareholders. If the shareholders do not approve Proposal 3 by the vote required under NYSE Amex rules, the Company will not be able to complete the sale of all 10,347,960 shares pursuant to the Agreements.

Notwithstanding shareholder approval of Proposal 3, the listing on the NYSE Amex of any of the shares that we may issue following such shareholder approval will be subject to NYSE Amex s review related to our

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compliance with the listing rules. Furthermore, shareholder approval does not obviate the need for compliance with the requirements of the Exchange Act or other NYSE Amex requirements.

If Proposal 3 is approved at our 2009 Annual Meeting, we will not need to solicit further authorization for the issuance of any of these securities by a vote of our shareholders prior to such issuance.

Use of Proceeds

The Company intends to utilize all of the proceeds from the sale of Investor Shares and Placing Shares for working capital and general corporate purposes, including funding of its strategic operating plan and the completion of key product development initiatives.

Effects of Issuance on Existing Shareholders

If Proposal 3 is approved and we issue the shares of common stock under the Agreements and the purchase price is less than the greater of book value or market value of the common stock as of the date of the closing, our existing shareholders will incur dilution of their interests, which dilution may be significant. Additionally, because the proposed purchase price under the Purchase Agreement and the Placing Agreement is less than the greater of book value or market value of the common stock as of October 29, 2009, such purchase price could depress the market price for our common stock.

If Proposal 3 is approved and we issue additional shares of our common stock, it is anticipated that certain of the Investor Shares will be registered for resale as provided in the Registration Rights Agreement. Even if not so registered , some or all of those shares may become eligible for sale in the public markets after expiration of the six-month holding period required under Rule 144 of the Securities Act. The Placing Shares are anticipated to be admitted for trading on the London Stock Exchange AIM Market. The Placing Shares may become saleable in the United States pursuant to a registration statement or in reliance upon an applicable exemption from registration under the Securities Act. Any such sales, or the anticipation of the possibility of such sales, could represent an overhang on the market and could depress the market price of our common stock.

Although Proposal 3 and the sale of shares pursuant to the Agreements are not part of a plan by the Board of Directors to adopt a series of anti-takeover measures, the issuance of such shares of common stock could have an anti-takeover effect because it may make it more difficult for, or discourage an attempt by, a party to obtain control of the Company by tender offer or other means. These shares of common stock, if and when issued, will increase the number of shares entitled to vote, increase the number of shares held by certain inside investors that may participate in any offering of the shares and dilute the interest of a party attempting to obtain control of the Company. The Board of Directors does not have any knowledge of any effort by any person to accumulate our securities or obtain control of Enova by any means.

Because the sale of shares pursuant to both the Purchase Agreement and the Placing Agreement are subject to various conditions, there is no assurance that the transactions contemplated by either of those agreements will be successfully completed.

Required Vote; Recommendation

The proposal to issue up to an additional 10,347,960 shares of common stock pursuant to the Agreements requires the affirmative vote of at least a majority of the votes cast by the holders of shares of common stock, Series A Preferred Stock (as converted), and Series B Preferred Stock (as converted), voting together as a single class, present or represented at the meeting and entitled to vote. Accordingly, abstentions and broker non-votes will

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have no effect on the outcome of the vote, although they will count towards the presence of a quorum. Proxies will be voted **FOR** Proposal 3 unless contrary instructions are set forth on the enclosed proxy card.

The Board of Directors unanimously recommends a vote* FOR *approval of the potential issuance of 10,347,960 shares of common stock to be sold pursuant to the Purchase Agreement and the Placing Agreement.

CORPORATE GOVERNANCE AND RELATED MATTERS

Code of Ethics

Enova Systems has adopted a Code of Ethics For Officers, Directors, and Employees consistent with Securities and Exchange Commission (SEC) rules requiring a Code of Ethics and the NYSE Amex rules requiring a Code of Conduct and Ethics. It applies to our Board of Directors, Chief Executive Officer, Chief Financial Officer and principal accounting officer, and employees. A copy of the Code of Ethics for Officers, Directors, and Employees may be obtained free of charge by writing to Enova Systems, Inc., 1560 West 190th Street, Torrance, California 90501, Attention: Chief Financial Officer or by accessing the Investor Relations section of our website (*www.enovasystems.com*). To the extent required by the rules of the Securities and Exchange Commission (SEC) and the NYSE Amex, we will post on our website any amendments and waivers relating to our code of ethics.

Board of Directors and its Committees

The Board of Directors currently consists of eight directors. The minimum and maximum number of Directors under our Bylaws is six and nine members. It is anticipated that prior to the Annual Meeting, the Board will fix, effective with the 2009 Annual Meeting, the authorized number of directors at six members.

The Board of Directors has determined that at least 50% of its current members are independent within the meaning of NYSE Amex rules as applicable to a smaller reporting company. Specifically, Messrs. Ahlstrom, Currie, Davies, Micek, Roberts and Wallace are independent.

The Board met six times during 2008. The Board schedules regular executive sessions at each of its meetings in which non-employee directors meet without management participation. In addition, at least once each year the independent directors meet without non-independent director participation. Each of the directors attended at least 75% of the total number of meetings of the Board and meetings of the committees of the Board of which he was a member. The policy of the Board is that all directors should attend annual meetings of shareholders. All Board members attended the Annual Meeting held in May 2008.

Audit Committee. The Board of Directors has established an Audit Committee in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended.. The current members of this committee are Messrs. Micek (Chair), Roberts, and Ahlstrom. Although there presently are three members of the Audit Committee, NYSE Amex rules permit us, as a smaller reporting company, to have only two members of the audit committee. The Board has determined that the members of the Audit Committee are independent under the rules of the SEC and the NYSE Amex. In addition to being independent, Mr. Micek has been determined by the Board to be an audit committee financial expert as defined by the SEC and the NYSE Amex. Mr. Micek s designation by the Board as an audit committee financial expert is not intended to be a representation that he is an expert for any purpose as a result of such designation, nor is it intended to impose on him any duties, obligations or liability that are greater than the duties, obligations or liability imposed on him as a member of the Audit Committee and the Board in the absence of such designation. Additionally, his designation as an audit committee financial expert does not affect the duties, obligations or liability of any other member of the Audit Committee.

The Audit Committee, among other functions, has the sole authority to appoint and replace the independent auditors, is responsible for the compensation and oversight of the work of the independent auditors, reviews the results of the audit engagement with the independent auditors, and reviews and discusses with management and the independent auditors quarterly and annual financial statements and major changes in accounting and auditing principles. The Audit Committee met four times during 2008. The Board has adopted a written charter for the Audit Committee. The Audit Committee charter may be obtained free of charge by writing to Enova Systems, Inc., 1560 West 190th Street, Torrance, California 90501, Attention: Chief Financial Officer or by accessing the Investor Relations section of our website (*www.enovasystems.com*). The Report of the Audit Committee is provided below on page [18].

Compensation Committee. The Board of Directors has established a Compensation Committee. The current members of this committee are Messrs. Ahlstrom (Chair), Currie and Wallace. The Compensation Committee Charter requires a minimum of two members be appointed to the Compensation Committee from the Board of Directors. The Board has determined that Messrs. Ahlstrom, Currie and Wallace are independent members of the Compensation Committee under the rules of the NYSE Amex. In addition, the compensation of our executive officers has always been ratified by a majority of the independent members of our Board.

The Compensation Committee, among other functions, reviews and recommends compensation structures, programs and amounts, and establishes corporate and management performance goals and objectives. The determinations of the Compensation Committee typically are ratified by the full Board of Directors, including a majority of independent directors. In performing its functions with respect to management and employees, the Compensation Committee may rely upon the recommendations of or delegate authority to our Chief Executive Officer. The Compensation Committee met three times during 2007 and two times during 2008. The Board has adopted a written charter for the Compensation Committee. A copy of the Compensation Committee charter may be obtained free of charge by writing to Enova Systems, Inc., 1560 West 190th Street, Torrance, California 90501, Attention: Chief Financial Officer or by accessing the Investor Relations section of our website *(www.enovasystems.com).*

Nominating and Governance Committee. The Board of Directors has established a Nominating and Governance Committee (the Nominating Committee). The current members of this committee are Messrs. Davies (Chair), Wallace, Roberts and Riddell. The Board has determined that, while Mr. Riddell is precluded from being deemed independent, the majority of the members of the Nominating Committee are independent under the rules of the NYSE Amex. The primary purpose of the Nominating Committee is to assist the Board of Directors in identifying individuals qualified to become Board members and to recommend to the Board of Directors individuals to be nominees for election as directors to the Company. The general purpose of the Nominating Committee is to review and evaluate corporate governance provisions applicable to the Board of Directors and the Company. The Nominating Committee met three times in 2008. The Board has adopted a written charter for the Nominating Committee. A copy of the Nominating Committee charter may be obtained free of charge by writing to Enova Systems, Inc., 1560 West 190th Street, Torrance, California 90501, Attention: Chief Financial Officer or by accessing the Investor Relations section of our website (*www.enovasystems.com*).

Consideration of Director Nominees

In evaluating and determining whether to recommend a person as a candidate for election as a director, the Nominating Committee considers the person s qualities and skills, which include business and professional background, history of leadership or contributions to other organizations, function skill set and expertise, general understanding of marketing, finance, accounting and other elements relevant to the success of a publicly-traded company in today s business environment, and service on other boards of directors. There are no specific minimum qualifications for nominees. The Nominating Committee may employ a variety of methods for identifying and evaluating nominees for director. The Nominating Committee may assess the size of the Board, the need for particular expertise on the Board, the upcoming election cycle of the Board and whether any vacancies are expected, due to retirement or otherwise. In the event that vacancies are anticipated or otherwise arise, the Nominating Committee will consider various potential candidates for director which may come to the Nominating Committee s attention through current Board members, professional search firms, shareholders or other persons. No fees were paid to any third party to identify or evaluate potential nominees for inclusion in this proxy statement.

In exercising its function of recommending individuals for nomination by the Board for election as directors, the Nominating Committee considers nominees recommended by shareholders. The Nominating Committee will consider candidates recommended by shareholders under the criteria summarized above. The Nominating Committee will make an initial analysis of the qualities and skills of any candidate recommended by shareholders or others pursuant to the criteria summarized above to determine whether the candidate is suitable for service on our

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Board before deciding to undertake a complete evaluation of the candidate. If any materials are provided by a shareholder or professional search firm in connection with the nomination of a director candidate, such materials are forwarded to the Nominating Committee as part of its review. The same identifying and evaluating procedures apply to all candidates for director nomination, including candidates submitted by shareholders. There have been no material changes to the procedures by which shareholders may recommend nominees since our prior annual meeting in May 2008.

If you would like the Nominating Committee to consider a prospective candidate, please submit the candidate s name and biographical description to: Enova Systems, Inc., 1560 West 190th Street, Torrance, California 90501, Attention: Corporate Secretary.

Contacting the Board

You may contact any of our directors, or our independent directors as a group, by writing to them c/o Enova Systems, Inc., 1560 West 190th Street, Torrance, California 90501, Attention: Corporate Secretary. Your letter should clearly specify the name of the individual director or group of directors to whom your letter is addressed. Any communications received in this manner will be forwarded to the appropriate director(s) as addressed, except for solicitations or other matters unrelated to our company.

Director Compensation

The table below summarizes the total compensation we paid to our non-employee Directors for the fiscal year ended December 31, 2008:

Director Compensation

Non-Executive Director Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(E)	Option Awards ($)	Nonequity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Bjorn Ahlstrom	$ 23,000		$ 27,000				$ 50,000
Malcolm Currie	$ 18,000		$ 27,000				$ 45,000
Donald Dreyer(A)	$ 4,000		$ 6,000				$ 10,000
Richard Davies(B)	$						
John Micek	$ 18,000		$ 27,000				$ 45,000
Anthony Rawlinson(C)	$ 4,000		$ 6,000				$ 10,000
Edwin Riddell	$ 22,000		$ 27,000				$ 45,000
Roy Roberts	$ 14,000		$ 15,000				$ 29,000
John Wallace(D)	$ 18,000		$ 27,000				$ 45,000

(A) Mr. Dreyer resigned from his position as Director effective May 8, 2008.

(B) Mr. Davies elected not to receive compensation for his services in the year ended December 31, 2008.

(C) Mr. Rawlinson resigned his position as Chairman of the Board effective April 23, 2008.

(D) Mr. Wallace was elected as Chairman of the Board on August 22, 2008 and has served on the Board of Directors since 2002.

(E) Stock awards issued to directors as compensation for services are valued at issuance in accordance with FAS 123R.

During 2008, we issued, or accrued for issuance, an aggregate of 152,311 shares of common stock to the non-executive board directors. Board compensation for outside Directors is made in accordance with standards that were originally implemented in September 1999. The current provisions of the Board compensation, as effective since the second quarter of 2008, provides that each Director receive quarterly compensation at a flat rate of $5,000 in cash and $7,500 in stock valued as of the closing prices of our common stock on the last day of the quarter in which the meeting is held. The flat rate is not dependent on the amount or type of services performed by the Directors. In

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February 2006, the Board increased the compensation paid to members of the Board who serve on our audit committee to provide additional compensation of $2,500 per quarter for the chairman of the audit committee and $1,250 per quarter for other members of the audit committee. All Directors are also reimbursed for out-of-pocket expenses incurred in connection with attending Board and committee meetings.

EXECUTIVE OFFICERS

We currently have three executive officers.

Michael Staran. Please see Information Regarding Nominees above for a biographical discussion of Mr. Staran, our President and Chief Executive Officer

Jarett Fenton. Mr. Fenton, age 33, has served as our Chief Financial Officer since February 5, 2007. He previously served from March 2003 through February 2007 as the Chief Executive of the Clarity Group, a company he founded to provide SEC reporting and corporate compliance consultancy. From September 1998 to March of 2003, Mr. Fenton worked as a Senior Associate in the Middle Market practice of PricewaterhouseCoopers in the Orange County, CA office where he facilitated audit engagements, worked on SEC reporting issues, controls assessments, client reporting, financial guidance interpretation and staff development. Mr. Fenton has a B.A. in Business Economics with an emphasis in Accounting from the University of California at Santa Barbara and is a Certified Public Accountant in the State of California.

William Frederiksen. Mr. Frederiksen joined Enova Systems on April 2, 2007 as Chief Engineer and progressed to become Vice President and Chief Operating Officer on June 18, 2008. On December 1, 2008, Mr. Frederiksen resigned from his positions with the Company.

John Mullins. Mr. Mullins, age 45, joined Enova Systems on December 12, 2007 as Director of Supply Chain Management and was promoted to Vice President and Chief Operating Officer on October 22, 2009. Mr. Mullins has 20 years operations related management experience, 11 based outside the United States. From September 2006 to October 2007, Mr. Mullins served as COO/VP Operations for American Racing, an automotive supply company. From September 2004 to July 2006, Mr. Mullins served as SBU global General Manager of Ingersoll-Rand s industrial tool and pump business based in Shanghai, China. Prior to that, Mr. Mullins served as General Manager of TRW Automotive s North American aftermarket business from June 2000 to July 2002.

EXECUTIVE COMPENSATION

Executive Compensation

The table below summarizes the total compensation paid to or earned by each of the named executive officers for the fiscal years ended December 31, 2008 and 2007:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($)(A)	Options Awards ($)(B)	All Other Compensation ($)(C)	Total ($)
Michael Staran	2008	$249,653		$107,000		$51,911	$408,564

Chief Executive Officer	2007	$206,916	$83,000	$81,780	$12,495	$63,351	$447,542
Jarett Fenton	2008	$183,007				$14,379	$197,306
Chief Financial Officer	2007	$148,185	$72,000	$22,650		$4,816	$247,651
William Frederiksen	2008	$176,678		$6,000	$58,364	$241,042	
Chief Operating Officer	2007						

(A) Stock awards issued to employees as compensation for services are valued at issuance in accordance with FAS 123R.

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(B) Although no options were awarded in 2006 or 2007, the amounts shown are calculated in accordance with SEC rules to reflect previously issued options that vested in 2006 and 2007 as computed in accordance with FAS 123R consistent with the assumptions set forth in Note 12 to the financial statements in this Annual Report on Form 10-K.

(C) For Mr. Staran, the amount shown attributable to 2008 consists of (i) $35,475 for lease of apartment and related insurance; (ii) $1,490 for apartment utilities; (iii) $729 for auto insurance; (iv) $2,218 value of life insurance premiums paid; and (v) $11,998 in medical insurance premiums. For Mr. Fenton, the amount shown attributable to 2008 consists of (i) $2,218 value of life insurance premiums paid; (ii) $4,020 in medical insurance premiums paid; iii) $6,599 in car allowance and (iv) $1,543 in phone charges. For Mr. Frederiksen, the amount attributable to 2008 consists of: (i) $24,000 for lease of apartment; (ii) $17,885 in medical insurance premiums; (iii) $15,833 in severance benefits and (iv) $646 in phone and utilities charges.

Employment Agreement

Michael Staran

Prior to his appointment as Chief Executive Officer, Mr. Staran s compensation was governed by a letter agreement executed on March 27, 2007 retroactive to January 22, 2007 when he served as Executive Vice President. Pursuant to the letter agreement, Mr. Staran received an annual salary of $190,000, was eligible to participate in the executive bonus program, received health and life insurance benefits, and received living and transportation reimbursements. We also agreed to issue Mr. Staran 5,000 shares of common stock.

Upon his appointment as Chief Executive Officer on August 28, 2007, the Board of Directors increased Mr. Staran s annual salary from $190,000 to $235,000 retroactive to July 1, 2007. In addition the Board granted Mr. Staran 6,000 shares of Enova s common stock.

Effective February 11, 2008, we entered into an employment agreement with Mr. Staran to provide him an annual salary of $250,000 beginning as of January 1, 2008. On October 29, 2008, Mr. Staran was granted 12,000 shares of Enova s common stock. Pursuant to the February 11, 2008 employment agreement, we leased a car for Mr. Staran s use and pay for related expenses. Mr. Staran also is entitled to reimbursement for an apartment at the rate of $2,975 per month. The employment agreement further provides for life, medical and disability benefits and 15 days of annual accrued vacation.

Outstanding Equity Awards at 2008 Fiscal Year-End

	Option Awards				**Stock Awards**	
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**

Michael Staran	23,000		$	4.35	9/21/2015	50,000	$	20,000.00
	33,333	66,667	$	3.81	3/23/2018			
Jarett Fenton	23,333	46,667	$	3.81	3/23/2018			
William Frederiksen(A)	23,333	46,667	$	3.81	3/23/2018			

(A) Mr. Frederiksen resigned his position as Chief Operating Officer effective December 1, 2008. He was awarded a total of 19,500 shares in 2008, which were issued in the first quarter of 2009. Mr. Frederiksen forfeited his vested options 90 days after his resignation on February 28, 2009.

Current Equity Incentive Plans

We presently have only one active stock-based compensation plan. The 2006 Equity Compensation Plan authorizes the Compensation Committee to grant stock options and other stock awards to employees and consultants, including executives, and such grants are currently approved by the whole board of directors. The determination of whether option grants are appropriate each year is based upon individual measures established for each individual within the subjective determination of the board of directors. Options are not necessarily granted to each executive during each year. Options granted to executive officers generally vest in conjunction with the attainment of the performance goals of the company. In 2008, Mr. Staran and Mr. Fenton were granted 100,000 stock options and 70,000 stock options, respectively, vesting over three years, with the first tranche vested on December 31, 2008 and each year thereafter.

Change of Control and Retirement Arrangements

The terms of his February 11, 2008 employment agreement, as modified on February 17, 2009, with our current Chief Executive provides that in the event Mr. Staran s employment is terminated by us without cause, he is entitled to receive as severance (i) three months of health benefits, (ii) his contingent bonus, (iii) 18 months payment of his current base salary on a monthly basis and (iv) a relocation allowance of $20,000. If his duties or responsibilities are materially diminished or if he is assigned duties that are demeaning or otherwise materially inconsistent with the duties then currently performed by him, Mr. Staran will have the right to receive the same severance payment as if his employment had been terminated without cause.

On February 17, 2009, the Board of Directors entered into a severance agreement with Jarett Fenton, the Chief Financial Officer of Enova. Mr. Fenton s agreement provides for a 12 month severance provision. In the event that Mr. Fenton s employment is terminated by Enova without cause, he is entitled to receive as severance three months of health benefits and 12 months payment of his current base salary, to be paid on a monthly basis. If Mr. Fenton s duties or responsibilities are materially diminished or he is assigned duties that are demeaning or otherwise materially inconsistent with the duties then currently performed, he will have the right to terminate his agreement and receive the same severance payment as if his employment had been terminated without cause.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below sets forth information as to (a) any person, including their address, known to us to own beneficially more than 5% of our voting securities, (b) equity securities beneficially owned by each of our named executive officers and directors; and (c) equity securities beneficially owned by the current executive officers and directors as a group. Beneficial ownership is determined in accordance with the SEC s Regulation 13D-G. Accordingly, the information below reflects stock options, warrants, and other securities beneficially held by the specified person that may be exercised or converted into common stock within 60 days. Except as indicated in the footnotes to this table and subject to applicable community property laws, the persons named in the table to our knowledge have sole voting and investment power with respect to all shares of securities shown as beneficially owned by them. The information in this table is as of October 1, 2009 based upon an aggregate of 21,095,776 voting shares from (i) 21,012,565 shares of common stock outstanding and (ii) potential conversion of Series A Preferred Stock and Series B Preferred Stock into 83,211 shares of common stock.

Table of Beneficial Ownership

Owner	Number of Shares of Common Stock(1)	Percent of Common Stock	Percent of Common Stock, Series A and Series B Preferred Stock, and Common Stock Voting Together
Jagen, Pty., Ltd.(2) 9 Oxford Street, South Ybarra 3141 Melbourne, Victoria Australia	3,222,222	15.3%	15.3%
Shell Asset Management BV(3) Sir Winston Churchillaan 366H, 2285 SJ Rijswijk ZH, The Netherlands	2,880,000	13.7%	13.7%
J O Hambro Capital Management Group Limited Ground Floor, Ryder Court 14 Ryder Street London, United Kingdom SW1Y 6QB	2,227,500	10.6%	10.6%
GAM Holdings AG Klaustrasse 10 8008 Zurich, Switzerland	1,514,305	7.2%	7.2%
Lehman Brothers Holdings Inc. (in administration)	1,183,700	5.6%	5.6%
Jarett Fenton(5)	51,666	0.2%	0.2%
Michael Staran(6)	158,166	0.8%	0.7%
Bjorn Ahlstrom	67,292	0.3%	0.3%
Malcolm R. Currie	79,960	0.4%	0.4%
Richard Davies(2)(4)	3,222,222	15.3%	15.3%
John J. Micek	79,584	0.4%	0.4%
Roy S. Roberts	47,191	0.2%	0.2%
John R. Wallace	67,884	0.3%	0.3%

Edwin O. Riddell(7)	126,585	0.6%	0.6%
All Executive Officers and Directors as a group	3,900,820	18.5%	18.5%

(1) Based upon Shareholder Registry records as of October 1, 2009.

(2) Jagen Pty. Ltd. (Jagen) shares beneficial ownership with Jagen s controlling shareholder, the B. Liberman Family Trust and its trustee, Jagen Nominees, Pty. Ltd. Mr. Davies is Managing Director for Jagen. Boris and Helen Liberman possess ultimate voting and discretionary authority over the shares.

(3) Shell Asset Management Company BV manages assets of The Shell Group and its subsidiaries and affiliates, including certain pension plans organized for the benefit of employees of The Shell Group. As such, The Shell Group and such subsidiaries and affiliates, including such pension plans, have the right to the receipt of dividends from, and the proceeds from the sale of, the shares of common stock.

(4) Mr. Davies has elected not to receive quarterly compensation for his services as director.

(5) Includes 23,333 shares of common stock underlying stock options that are exercisable within 60 days.

(6) Includes 56,333 shares of common stock underlying stock options that are exercisable within 60 days.

(7) Includes 52,222 shares of common stock underlying stock options that are exercisable within 60 days.

(8) Mr. William Frederiksen resigned as the Chief Operating Officer of Enova on December 1, 2008. He was the beneficial owner of 19,500 shares of common stock awarded in the year ended December 31, 2008 which were issued in the first quarter of 2009.

AIM Ownership Information

In addition to the NYSE Amex, the shares of our common stock also trade on the Alternative Investment Market (AIM) of the London Stock Exchange. The rules of AIM require that persons notify us upon attaining more than 3% of our outstanding common stock. The table below solely reflects information that has been submitted to us and disclosed in a regulatory press release via the AIM since January 1, 2007. The table below is not a substitute for the SEC-mandated table of beneficial ownership above. Because the information speaks only as of the notice date indicated, it may not reflect continuing ownership on or near the record date for the Annual Meeting. The table also does not necessarily reflect all shareholders who may have a greater than 3% ownership in our common stock.

Owner	Date of Notice	Common Stock Owned per Notice(A)	Percentage Ownership per Notice
Jagen PTY Ltd.	September 1, 2009	3,222,222	15.30%
Shell Asset Management Company	July 31, 2008(B)	2,880,000	13.70%
JO Hambro Capital Management Ltd.	April 11, 2007	2,227,500	10.60%
GAM International Management Ltd.	February 11, 2009(C)	1,514,305	7.20%
Lehman Brothers	May 9, 2008	1,183,700	5.60%

(A) Based on Shareholder Registry records as of October 1, 2009.

(B) Shell Asset Management Ltd. previously submitted a notice on April 10, 2008 disclosing ownership of 1,500,000 (7.80%) shares of common stock.

(C) GAM International Management Ltd. previously submitted a notice on January 10, 2007 disclosing ownership of 1,050,000 (7.09%) shares of common stock.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors and beneficial owners of greater than 10% owners of our common stock to file reports of ownership and changes in ownership with the SEC and provide copies to us. Based solely on a review of Section 16 reports and written representations from officers and directors, we believe that during the fiscal year ended December 31, 2008, our officers, directors, and greater than 10% owners timely filed all reports they were required to file under Section 16(a), except: (i) Mr. Staran belatedly reported an April 9, 2008 award of 100,000 options and 75,000 common shares on April 21, 2008 when the due date was April 11, 2008; (ii) Mr. Fenton belatedly reported an April 9, 2008 award of 70,000 options on April 21, 2008 when the due date was April 11, 2008; (iii) Mr. Riddell, a non-executive director, belatedly reported his first quarter stock award of 1,348 shares on April 8, 2008, when it was due on April 2, 2008; (iv) Mr. Micek, a non-executive director, belatedly reported his first quarter stock award of 1,348 shares on April 28, 2008, when it was due on April 2, 2008; (v) each non-executive director, Messrs. Ahlstrom, Currie, Dreyer, Rawlinson, and Wallace, belatedly reported their first quarter stock award of 1,348 shares each on April 4, 2008 when the due date was April 2, 2008.

TRANSACTIONS WITH RELATED PERSONS

Item 404 of Regulation S-K of the SEC rules requires that we disclose any transaction in which a related person has a direct or indirect material interest and where the amount exceeds $120,000. In the fiscal year ended December 31, 2008 and including any currently proposed transaction, there were no transactions that fit the Rule 404 criteria.

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PMB Helin Donovan LLP served as our registered independent auditor for the most recently completed fiscal year, and has served in that role since its appointment by the Audit Committee on January 31, 2007.

Pre-Approval of Audit and Permissible Non-Audit Services

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

Audit Fees

The following table sets forth the aggregate fees billed or to be billed by our principal accountant for the following services for the years ended December 31, 2008 and 2007:

	2008	2007
Audit Fees	$ 212,000	$ 236,000
Audit-Related Fees		
Tax Fees	$ 13,000	$ 9,800
All Other Fees		
Total	$ 235,000	$ 250,000

The tax fees above were pre-approved by our Audit Committee as appropriate, which concluded that the provision of such services by PMB Helin Donovan was compatible with the maintenance of that firm s independence in the conduct of its auditing functions.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On January 31, 2007, Enova Systems dismissed Windes & McClaughry Accountancy Corporation (Windes) as our registered public accounting firm and engaged PMB Helin Donovan, LLP as our new independent registered public accounting firm. The decision regarding the end of the Windes engagement and the commencement of the PMB Helin Donovan, LLP engagement was made and approved by the Audit Committee after consideration of our then current needs and position. Concurrent with the change in auditor, we also undertook changes to our finance and operations departments, including a change in our Chief Financial Officer. In light of these organization changes and given the disagreement between us and Windes with respect to the filing of our Form 10-Q for the fiscal quarter ended September 30, 2006 filed November 13, 2006 (the Form 10-Q), the Audit Committee believed that engagement of a new auditor would lead to enhanced communications with respect to audit matters.

During the course of its engagement, Windes did not provide an audit report on our financial statements. Therefore, there is no applicable disclosure within the meaning of Item 304(a)(1)(ii) of Regulation S-K.

During our two most recent fiscal years, Enova Systems and Windes had the following three disagreements within the meaning of Item 304(a)(1)(iv) of Regulation S-K on matters of accounting principles or practices, financial statement disclosure, or auditing or review scope or procedure, which if not resolved to the satisfaction of Windes would have caused it to make reference to the subject matter of the disagreement in its reports on our financial statements:

First, as reflected in the Current Reports on Form 8-K dated November 29, 2006 and December 5, 2006, Windes and Enova Systems disagreed whether Windes authorized the Form 10-Q filing. After numerous discussions among Windes and us involving management and the Audit Committee, the disagreement was resolved by filing the requisite Item 4.02 Form 8-K and later filing the amended Form 10-Q for the fiscal period ended September 30, 2006 on December 29, 2006 (the Form 10-Q/A).

Second, Windes and Enova Systems disagreed whether we followed the appropriate accounting policy and accounting literature to record revenue. This disagreement was resolved upon further analysis and by reversing the recorded revenue and related expenses in the Form 10-Q/A.

Third, Windes and Enova Systems disagreed whether adequate documentation had been produced to support a material debt forgiveness transaction which, although negotiated in the 2005 fiscal year, was completed in the first quarter of the 2006 fiscal year and therefore included in our year-to-date operations. Consistent with the Form 10-Q/A s Item 4 Controls and Procedures disclosure, we were unable to locate original documentation to support the accounting treatment for the transaction. This disagreement was resolved when we obtained replacement copies to reflect the original documentation and the accounting treatment.

The Audit Committee discussed the subject matter of all three disagreements above with Windes and we authorized Windes to respond fully to inquiries of PMB Helin Donovan, LLP concerning the subject matter of these disagreements.

During our two most recent fiscal years, the following were reportable events within the meaning of Item 304(a)(1)(v) of Regulation S-K:

(A) Consistent with the Item 4 Controls and Procedures disclosure in the Form 10-Q/A, Windes advised that material weaknesses existed in our internal controls, and thereby our financial statement preparation and disclosure, regarding the (i) correct application of relevant accounting standards; (ii) ability to produce original documentation to support an accounting treatment; and (iii) internal and external communication by us in ensuring there was appropriate independent accountant review and authorization to file periodic reports such as the Form 10-Q for the fiscal period ended September 30, 2006.

(B) Given the three disagreements cited above, Windes expressed concern about its ability to rely on management representations. As a result, consistent with its Item 4 Controls and Procedures disclosure in the Form 10-Q/A, we agreed to dedicate additional time and resources to internal control matters and specifically agreed to (1) retain a consultant to review our accounting, documentation, and internal control policies and (2) implement more stringent oversight policies to ensure proper auditor authorization is received prior to making SEC filings.

(C) Given the third disagreement cited above with respect to adequate documentation, Windes further advised us it would need to expand significantly the scope of its audit within the meaning of Item 304(a)(1)(v)(C) to ensure that proper and sufficient documentation existed to support accounting conclusions reached in prior fiscal periods including the cited debt forgiveness transaction.

During the two most recent fiscal years, we did not consult with PMB Helin Donovan, LLP regarding (1) the application of accounting principles to a specified transaction, whether completed or proposed, (2) the type of audit opinion that might be rendered with respect to our financial statements, or (3) any matter that was either the subject of a disagreement or a reportable event as those terms are defined in Item 304(a)(1)(iv) and (v), respectively, of Regulation S-K.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee reviews our financial reporting process on behalf of the Board of Directors. Management has primary responsibility for this process, including our system of internal controls, and for the preparation of our consolidated financial statements in accordance with generally accepted accounting principles. Our independent auditors, and not the Audit Committee, are responsible for auditing and expressing an opinion on the conformity of our audited financial statements to generally accepted accounting principles.

The Audit Committee reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2008 with management and the independent auditors. The Audit Committee also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended. In addition, the Audit Committee received from the independent auditors the written disclosures and the letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding independent auditor s communications with the Audit Committee

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concerning independence and discussed with the independent auditors their independence from Enova Systems and its management.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, that the audited financial statements be included in our Annual Report on SEC Form 10-K for the year ended December 31, 2008 for filing with the SEC.

Submitted by the Audit Committee

John J. Micek (Chair)
Bjorn Ahlstrom
Roy S. Roberts

The material in the Report of the Audit Committee is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference into any filing by Enova Systems under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

ADDITIONAL INFORMATION

Shareholder Proposals for Annual Meetings

Proposals of shareholders intended to be presented at the next annual meeting must be received by us at our offices at Enova Systems, Inc., 1560 West 190th Street, Torrance, California 90501, Attention: Secretary, no later than July 13, 2010, a date not less than one hundred twenty (120) days prior to a one year anniversary of our initial mailing to shareholders of this proxy statement. Any shareholder proposals must satisfy the conditions established by the SEC for inclusion in our proxy materials.

Annual Meeting Date

On December 4, 2007, the Board amended the Bylaws to permit the Board to set the date of the annual meeting. On May 8, 2008, we held an annual meeting for the fiscal year ended December 31, 2007. The annual meeting for the fiscal year ended December 31, 2008 is the subject of this Proxy Statement and is scheduled for December 8, 2009.

Annual Report to Shareholders

Our 2008 Annual Report on Form 10-K, including financial statements for the fiscal year ended December 31, 2008, is being mailed to shareholders concurrently with this proxy statement. The Annual Report, however, is not part of the proxy solicitation material. **A copy of our Annual Report on Form 10-K filed with the SEC may be obtained free of charge by writing to Enova Systems, Inc., 1560 West 190th Street, Torrance, California 90501, Attention: Chief Financial Officer or by accessing the Investor Relations section of our website (www.enovasystems.com).**

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VOTE BY INTERNET www.proxyvote.com Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. ***ENOVA SYSTEMS, INC. 1560 WEST 190TH STREET*** **Electronic Delivery of Future PROXY MATERIALS** ***TORRANCE, CA 90501*** If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet 1 Investor Address Line 1 and, when prompted, indicate that you agree to receive or access proxy materials Investor Address Line 2 electronically in future years. Investor Address Line 3 1 1 OF Investor Address Line 4 **VOTE BY PHONE 1-800-690-6903** Investor Address Line 5 Use any touch-tone telephone to transmit your voting instructions up until 11:59 John Sample P.M. Eastern Time the day before the cut-off date or meeting date. Have your 1234 ANYWHERE STREET 2 proxy card in hand when you call and then follow the instructions. ANY CITY, ON A1A 1A1 **VOTE BY MAIL** Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. CONTROL # 000000000000 NAME THE COMPANY NAME INC. COMMON SHARES 123,456,789,012.12345 THE COMPANY NAME INC. CLASS A 123,456,789,012.12345 THE COMPANY NAME INC. - CLASS B 123,456,789,012.12345 THE COMPANY NAME INC. CLASS C 123,456,789,012.12345 THE COMPANY NAME INC. CLASS D 123,456,789,012.12345 THE COMPANY NAME INC. CLASS E 123,456,789,012.12345 THE COMPANY NAME INC. CLASS F 123,456,789,012.12345 THE COMPANY NAME INC. 401 K 123,456,789,012.12345 *PAGE 1 OF 2* x TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: KEEP THIS PORTION FOR YOUR RECORDS DETACH AND RETURN THIS PORTION ONLY THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. **For Withhold For All** To withhold authority to vote for any **All All Except** individual nominee(s), mark For All Except and write the number(s) of the **The Board of Directors recommends that you** nominee(s) on the line below. **vote FOR the following:** 0 0 0 **1.** Election of Directors **Nominees** 01 Richard Davies 02 John J. Micek 03 Edwin O. Riddell 04 Roy S. Roberts 05 Michael Staran 06 John R. Wallace **The Board of Directors recommends you vote FOR the following proposal(s): For Against Abstain 2** To ratify the selection of PMB Helin Donovan, LLP as the Company s independent auditors for the year ending December 31, 0 0 0 2009. **3** To approve a potential issuance of up to 10,347,960 shares of common stock in accordance with a Purchase Agreement and 0 0 0 Placing Agreement each dated October 29, 2009. **NOTE:** Such other business as may properly come before the meeting or any adjournment thereof. **Yes No** Investor Address Line 1 Investor Address Line 2 Please indicate if you plan to attend this meeting 0 0 Investor Address Line 3 Investor Address Line 4 Investor Address Line 5 Please sign exactly as your name(s) appear(s) hereon. When signing as John Sample attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must 1234 ANYWHERE STREET sign. If a corporation or partnership, please sign in full corporate or ANY CITY, ON A1A 1A1 partnership name, by authorized officer. SHARES CUSIP # JOB # SEQUENCE # Signatu re [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Form 10-K, Notice & Proxy Statement is/are available at www.proxyvote.com . **ENOVA SYSTEMS, INC. Annual Meeting of Shareholders December 8, 2009 10:00 AM Local Time This proxy is solicited by the Board of Directors** The undersigned shareholder of Common Stock and/or Series A and Series B Preferred Stock of Enova Systems, Inc., a California corporation (the Company) hereby appoints Michael Staran and Jarett Fenton and each of them, as proxies for the undersigned, each with full power of substitution, to attend the Annual Meeting of Shareholders to be held at Enova Systems, Inc. s principle executive office, located at 1560 West 190th Street, Torrance, California 90501 on December 8, 2009, 10:00 a.m. local time, and any adjournments or postponements thereof (the Annual Meeting), to cast on behalf of the undersigned all votes that the undersigned is entitled to cast at the Annual Meeting and otherwise to represent the undersigned with all of the powers the undersigned would possess if personally present at the Annual meeting. The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting of Shareholders and of the Proxy Statement, the terms of each of which are incorporated herein by reference, and revokes any proxy heretofore given with respect to the Annual Meeting. **This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors recommendations. Continued and to be signed on reverse side**

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Proceeds from sale of fixed assets	26,500	-
Proceeds from sale of foreclosed assets	399,100	186,075
Net cash used in investing activities	(25,846,675)	(9,343,598)
Cash flows from financing activities:		
Net (decrease) increase in demand deposits and savings accounts	(6,745,685)	17,216,235
Net (decrease) increase in certificates of deposits	(6,183,601)	1,460,533
Net (decrease) increase in securities sold under agreements to repurchase	(2,701,830)	144,920
Proceeds from Federal Home Loan Bank advances	18,000,000	-
Redemption of preferred stock	-	(9,550,000)
Issuance of preferred stock	-	19,973,208
Dividends paid on preferred stock	(116,438)	(87,542)
Dividends paid on common stock	(493,356)	(251,877)
Exercise of stock options		

	24,368	15,230
Purchase of treasury stock	--	--
Net cash provided by financing activities	1,783,458	28,920,707
(Decrease) increase in cash and cash equivalents	(24,415,043)	20,945,748
Cash and cash equivalents at beginning of period	33,421,099	33,895,706
Cash and cash equivalents at end of period	$9,006,056	$54,841,454
Supplemental disclosures of		
Cash flow information:		
Noncash investing and financing activities:		
Conversion of loans to foreclosed real estate	$20,000	$292,000
Conversion of foreclosed real estate to loans	45,000	507,050
Conversion of loans to repossessed assets	105,500	110,005
Cash paid during the period for:		
Interest (net of interest credited)	$1,914,897	$634,616
Income taxes	1,541,084	2,831,570

See Notes to Condensed Consolidated Financial Statements

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

Note 1: Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission (SEC) Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all material adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The consolidated balance sheet of the Company as of June 30, 2012, has been derived from the audited consolidated balance sheet of the Company as of that date. Operating results for the three-month periods ended September 30, 2012, are not necessarily indicative of the results that may be expected for the entire fiscal year. For additional information, refer to the audited consolidated financial statements included in the Company's June 30, 2012, Form 10-K, which was filed with the SEC.

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: Organization and Summary of Significant Accounting Policies

Organization. Southern Missouri Bancorp, Inc., a Missouri corporation (the Company) was organized in 1994 and is the parent company of Southern Bank (the Bank). Substantially all of the Company's consolidated revenues are derived from the operations of the Bank, and the Bank represents substantially all of the Company's consolidated assets and liabilities.

The Bank is primarily engaged in providing a full range of banking and financial services to individuals and corporate customers in its market areas. The Bank and Company are subject to competition from other financial institutions. The Bank and Company are subject to regulation by certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation. The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America and general practices within the banking industry. In the normal course of business, the Company encounters two significant types of risk: economic and regulatory. Economic risk is comprised of interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities reprice on a different basis than its interest-earning assets. Credit risk is the risk of default on the Company's investment or loan portfolios resulting from the borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of the investment portfolio, collateral underlying loans receivable, and the value of the Company's investments in real estate.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, estimated fair values of purchased loans, other-than-temporary impairments (OTTI), and fair value of financial instruments.

Cash and Cash Equivalents. For purposes of reporting cash flows, cash and cash equivalents includes cash, due from depository institutions and interest-bearing deposits in other depository institutions with original maturities of three months or less. Interest-bearing deposits in other depository institutions were $6,582, 000 and $31,048,000 at September 30 and June 30, 2012, respectively. The deposits are held in various commercial banks in amounts not exceeding the FDIC’s deposit insurance limits, as well as at the Federal Reserve, the Federal Home Loan Bank of Des Moines, and the Federal Home Loan Bank of Dallas.

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Available for Sale Securities. Available for sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses, net of tax, are reported in accumulated other comprehensive income, a component of stockholders' equity. All securities have been classified as available for sale.

Premiums and discounts on debt securities are amortized or accreted as adjustments to income over the estimated life of the security using the level yield method. Realized gains or losses on the sale of securities is based on the specific identification method. The fair value of securities is based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

The Company does not invest in collateralized mortgage obligations that are considered high risk.

When the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. As a result, the Company's balance sheet as of the dates presented reflects the full impairment (that is, the difference between the security's amortized cost basis and fair value) on debt securities that the Company intends to sell or would more likely than not be required to sell before the expected recovery of the amortized cost basis. For available-for-sale debt securities that management has no intent to sell and believes that it more likely than not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the noncredit loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Federal Reserve Bank and Federal Home Loan Bank Stock. The Bank is a member of the Federal Reserve and the Federal Home Loan Bank (FHLB) systems. Capital stock of the Federal Reserve and the FHLB is a required investment based upon a predetermined formula and is carried at cost.

Loans. Loans are generally stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees.

Interest on loans is accrued based upon the principal amount outstanding. The accrual of interest on loans is discontinued when, in management's judgment, the collectibility of interest or principal in the normal course of business is doubtful. The Company complies with regulatory guidance which indicates that loans should be placed in nonaccrual status when 90 days past due, unless the loan is both well-secured and in the process of collection. A loan that is "in the process of collection" may be subject to legal action or, in appropriate circumstances, through other collection efforts reasonably expected to result in repayment or restoration to current status in the near future. A loan is considered delinquent when a payment has not been made by the contractual due date. Interest income previously accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. Cash receipts on a nonaccrual loan are applied to principal and interest in accordance with its contractual terms unless full payment of principal is not expected, in which case cash receipts, whether designated as principal or interest, are applied as a reduction of the carrying value of the loan. A nonaccrual loan is generally returned to accrual status when principal and interest payments are current, full collectability of principal and interest is reasonably assured, and a consistent record of performance has been demonstrated.

The allowance for losses on loans represents management's best estimate of losses probable in the existing loan portfolio. The allowance for losses on loans is increased by the provision for losses on loans charged to expense and reduced by loans charged off, net of recoveries. Loans are charged off in the period deemed uncollectible, based on management's analysis of expected cash flow (for non-collateral dependent loans) or collateral value (for collateral-dependent loans). Subsequent recoveries of loans previously charged off, if any, are credited to the allowance when received. The provision for losses on loans is determined based on management's assessment of several factors: reviews and evaluations of specific loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry groups, historical loan loss experience, the level of classified and nonperforming loans and the results of regulatory examinations.

Loans are considered impaired if, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Depending on a particular loan's circumstances, we measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. Valuation allowances are established for collateral-dependent impaired loans for the difference between the loan amount and fair value of collateral less estimated selling costs. For impaired loans that are not collateral dependent, a valuation allowance is established for the difference between the loan amount and the present value of expected future cash flows discounted at the historical effective interest rate or the observable market price of the loan. Impairment losses are recognized through an increase in the required allowance for loan losses. Cash receipts on loans deemed impaired are recorded based on the loan's separate status as a nonaccrual loan or an accrual status loan.

As a result of the acquisition of the former First Southern Bank, Batesville, Arkansas, the Company acquired certain loans with an outstanding principal balance of $14.2 million for which it was deemed probable that we would be unable to collect all contractually required payments. These loans are accounted for in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The Company recorded a fair value discount of $3.9 million related to these loans acquired with deteriorated credit quality ("purchased credit impaired loans"), and began carrying them at a value of $10.3 million. For these loans, we determined the contractual amount and timing of undiscounted principal and interest payments (the "undiscounted contractual cash flows"), and estimated the amount and timing of undiscounted expected principal and interest payments, including expected prepayments (the "undiscounted expected cash flows"). Under acquired impaired loan accounting, the difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is the nonaccretable difference. The nonaccretable difference is an estimate of the loss exposure of principal and interest related to the purchased credit impaired loans, and the amount is subject to change over time based on the performance of the loans. The carrying value of purchased credit impaired loans is initially determined as the discounted expected cash flows. The excess of expected cash flows at acquisition over the initial fair value of the purchased credit impaired loans is referred to as the "accretable yield" and is recorded as interest income over the estimated life of the acquired loans using the level-yield method, if the timing and amount of the future cash flows is reasonably estimable. The carrying value of purchased credit impaired loans is reduced by payments received, both principal and interest, and increased by the portion of the accretable yield recognized as interest income. Subsequent to acquisition, the Company evaluates the purchased credit impaired loans on a quarterly basis. Increases in expected cash flows compared to those previously estimated increase the accretable yield and are recognized as interest income prospectively. Decreases in expected cash flows compared to those previously estimated decrease the accretable yield and may result in the establishment of an allowance for loan losses and a provision for loan losses. Purchased credit impaired loans are generally considered accruing and performing loans, as the loans accrete interest income over the estimated life of the loan when expected cash flows are reasonably estimable. Accordingly, purchased credit impaired loans that are contractually past due are still considered to be accruing and performing as long as there is an expectation that the estimated cash flows will be received. If the timing and amount of cash flows is not reasonably estimable, the loans may be classified as nonaccrual loans.

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans.

Foreclosed Real Estate. Real estate acquired by foreclosure or by deed in lieu of foreclosure is initially recorded at fair value less estimated selling costs. Costs for development and improvement of the property are capitalized.

Valuations are periodically performed by management, and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its estimated fair value, less estimated selling costs.

Loans to facilitate the sale of real estate acquired in foreclosure are discounted if made at less than market rates. Discounts are amortized over the fixed interest period of each loan using the interest method.

Premises and Equipment. Premises and equipment are stated at cost less accumulated depreciation and include expenditures for major betterments and renewals. Maintenance, repairs, and minor renewals are expensed as incurred. When property is retired or sold, the retired asset and related accumulated depreciation are removed from the accounts and the resulting gain or loss taken into income. The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment loss recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets.

Depreciation is computed by use of straight-line and accelerated methods over the estimated useful lives of the assets. Estimated lives are generally 10 to 40 years for premises, five to seven years for equipment, and three years for software.

Intangible Assets. Identifiable intangible assets are being amortized on a straight-line basis over periods ranging from five to fifteen years. Such assets are periodically evaluated as to the recoverability of their carrying value. Goodwill is tested periodically for impairment.

Income Taxes. The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences

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between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiary.

Equity Incentive Plan. The Company accounts for its Equity Incentive Plan (EIP) and Management Recognition Plan (MRP) in accordance with ASC 718, “Share-Based Payment.” Compensation expense is based on the market price of the Company’s stock on the date the shares are granted and is recorded over the vesting period.

Outside Directors’ Retirement. The Bank adopted a directors’ retirement plan in April 1994 for outside directors. The directors’ retirement plan provides that each non-employee director (participant) shall receive, upon termination of service on the Board on or after age 60, other than termination for cause, a benefit in equal annual installments over a five year period. The benefit will be based upon the product of the participant’s vesting percentage and the total Board fees paid to the participant during the calendar year preceding termination of service on the Board. The vesting percentage shall be determined based upon the participant’s years of service on the Board.

In the event that the participant dies before collecting any or all of the benefits, the Bank shall pay the participant’s beneficiary. No benefits shall be payable to anyone other than the beneficiary, and shall terminate on the death of the beneficiary.

Stock Options. 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. Stock-based compensation has been recognized for all stock options granted or modified after July 1, 2005.

Earnings Per Share. Basic earnings per share available to common stockholders is computed using the weighted-average number of common shares outstanding. Diluted earnings per share available to common stockholders includes the effect of all weighted-average dilutive potential common shares (stock options and warrants) outstanding during each period.

Comprehensive Income. Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities, unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income, and changes in the funded status of defined benefit pension plans.

Treasury Stock. Treasury stock is stated at cost. Cost is determined by the first-in, first-out method.

Reclassification. Certain amounts included in the consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on net income.

The following paragraphs summarize the impact of new accounting pronouncements:

In July 2012, the Financial Accounting Standards board (FASB) issued Accounting Standards Update (ASU) 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amendments in this ASU allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. An entity would not be required to calculate the fair value of an indefinite-lived intangible assets unless the entity determines, based on qualitative assessment, that it is more likely than not the indefinite-lived intangible asset is impaired. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15 2012. The

Company adopted the standard on July 1, 2012, and adoption did not have a significant impact on the Company's financial statements.

In October 2012, the FASB issued ASU 2012-04, Technical Corrections and Improvements. The amendments in this ASU make technical corrections, clarifications, and limited-scope improvements to various Topics throughout the Codification. This ASU is effective for public entities for fiscal periods beginning after December 15, 2012.

Note 3: Securities

The amortized cost, gross unrealized gains, gross unrealized losses, and approximate fair value of securities available for sale consisted of the following:

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$14,033,274	$55,190	$(1,633)	$14,086,831
State and political subdivisions	36,832,089	2,129,587	(80,612)	38,881,064
Other securities	2,643,778	42,014	(1,233,735)	1,452,057
Mortgage-backed: GSE residential	11,317,686	533,408	-	11,851,094
Mortgage-backed: other U.S. government agencies	5,706,837	47	(4,032)	5,702,852
Total investments and mortgage-backed securities	$70,533,664	$2,760,246	$(1,320,012)	$71,973,898

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Investment and mortgage backed securities:				
U.S. government-sponsored enterprises (GSEs)	$18,046,654	$53,348	$(384)	$18,099,618
State and political subdivisions	34,656,284	1,823,625	(98,656)	36,381,253
Other securities	2,646,719	14,310	(1,267,772)	1,393,257
Mortgage-backed: GSE residential	15,657,921	565,989	(7,861)	16,216,049
Mortgage-backed: other U.S. government agencies	3,036,637	31	-	3,036,668
Total investments and mortgage-backed securities	$74,044,215	$2,457,303	$(1,374,673)	$75,126,845

The amortized cost and estimated fair value of investment and mortgage-backed securities, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	September 30, 2012	
	Amortized Cost	Estimated Fair Value
Available for Sale:		
Within one year	$215,000	$215,168
After one year but less than five years	8,327,233	8,392,528
After five years but less than ten years	16,409,641	16,960,995
After ten years	28,557,267	28,851,261
Total investment securities	53,509,141	54,419,952
Mortgage-backed securities	17,024,523	17,553,946
Total investments and mortgage-backed securities	$70,533,664	$71,973,898

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30 and June 30, 2012:

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	September 30, 2012					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored enterprises (GSEs)	$993,918	$1,633	$-	$-	$993,918	$1,633
State and political subdivisions	5,529,636	80,612	-	-	5,529,636	80,612
Other securities	-	-	318,844	1,233,735	318,844	1,233,735
Mortgage-backed: other U.S. government agencies	2,823,396	4,032	-	-	2,823,396	4,032
Total investments and mortgage-backed securities	$9,346,950	$86,277	$318,844	$1,233,735	$9,665,794	$1,320,012

	June 30, 2012					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government-sponsored enterprises (GSEs)	$999,616	$384	$-	$-	$999,616	$384
State and political subdivisions	5,525,825	98,656	-	-	5,525,825	98,656
Other securities	-	-	282,639	1,267,772	282,639	1,267,772
Mortgage-backed: GSE residential	1,943,968	7,861	-	-	1,943,968	7,861
Total investments and mortgage-backed securities	$8,469,409	$106,901	$282,639	$1,267,772	$8,752,048	$1,374,673

Other securities. At September 30, 2012, there were four pooled trust preferred securities with an estimated fair value of $319,000 and unrealized losses of $1.2 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 September 30, 2012, cash flow analysis for three of these securities showed it is probable the Company will receive all contracted principal and related interest projected. 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 three securities included prepayments by banks of $15 billion or more in assets of all fixed rate securities by mid-2013; adjustable rate securities are expected to prepay based on spreads. For banks of less than $15 billion in assets, the only material prepayments are assumed to be those with relatively high fixed rates. No recoveries are assumed for issuers currently in default; recoveries of 29% to 32% on currently deferred issuers within the next two years; no net new deferrals for the next two years; and annual defaults of 36 basis points (with 10% recoveries, lagged two years) thereafter.

One of these three securities continues to receive cash interest payments in full and our cash flow analysis indicates that these payments are likely to continue. Because the Company does not intend to sell this security and it is not more-likely-than-not that the Company will be required to sell the security prior to recovery of its amortized cost basis, which may be maturity, the Company does not consider this investment to be other-than-temporarily impaired at June 30, 2012.

For the other two of these three securities, the Company is receiving principal-in-kind (PIK), in lieu of cash interest. These securities all allow, under the terms of the issue, for issuers to defer interest for up to five consecutive years. After five years, if not cured, the securities are considered to be in default and the trustee may demand payment in full of principal and accrued interest. Issuers are also considered to be in default in the event of the failure of the issuer or a subsidiary. Both deferred and defaulted issuers are considered non-performing, and the trustee calculates, on a quarterly or semi-annual basis, certain coverage tests prior to the payment of cash interest to owners of the various tranches of the securities. The tests must show that performing collateral is sufficient to meet requirements for senior tranches, both in terms of cash flow and collateral value, before cash interest can be paid to subordinate tranches. If the tests are not met, available cash flow is diverted to pay down the principal balance of senior tranches until the coverage tests are met, before cash interest payments to subordinate tranches may resume. The Company is receiving PIK for these two securities due to failure of the required coverage tests described above at senior tranche levels of these securities. The risk to holders of a tranche of a security in PIK status is that the pool's total cash flow will not be sufficient to repay all principal and accrued interest related to the investment. The impact of payment of PIK to subordinate tranches is to strengthen the position of senior tranches, by reducing the senior tranches' principal balances relative to available collateral and cash flow, while increasing principal balances, decreasing cash flow, and increasing credit risk to the tranches receiving PIK. For our securities in receipt of PIK, the principal balance is increasing, cash flow has stopped, and, as a result, credit risk is increasing. The Company expects these securities to remain in PIK status for a period of five to seven years. Despite these facts, because the Company does not intend to sell these two securities and it is not more-likely-than-not that the Company will be required to sell these two securities prior to recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2012.

At December 31, 2008, analysis of the fourth pooled 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, and resulting projected cash flows were discounted based on the yield anticipated at the time the security was purchased. 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 and the twelve months ended June 30, 2009. At September 30, 2012, cash flow analyses showed it is probable the Company will receive all of the remaining cost basis and related interest projected for the security. The cash flow analysis used in making this determination was based similar inputs and factors as those described above. Assumptions for these three securities included prepayments by banks of $15 billion or more in assets of all fixed rate securities by mid-2013; adjustable rate securities are expected to prepay based on spreads. For banks of less than $15 billion in assets, the only material prepayments are assumed to be those with relatively high fixed rates. No recoveries are assumed for issuers currently in default; recoveries of 48% on currently deferred issuers within the next two years; no net new deferrals for the next two years; and annual defaults of 36 basis points (with 10% recoveries, lagged two years) thereafter. This security is in PIK status due to similar criteria and factors as those described above, with similar impact to the Company. This security is projected to remain in PIK status for a period of two years. 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 September 30, 2012.

The Company does not believe any other individual unrealized loss as of September 30, 2012, represents OTTI. However, given the continued disruption in the financial markets, the Company may be required to recognize OTTI losses in future periods with respect to its available for sale investment securities portfolio. The amount and timing of any additional OTTI will depend on the decline in the underlying cash flows of the securities. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in the period the other-than-temporary impairment is identified.

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 three-month period ended September 30, 2012 and 2011.

	Accumulated Credit Losses, Three-Month Period Ended September 30,	
	2012	2011

Credit losses on debt securities held		
Beginning of period	$375,000	$375,000
Additions related to OTTI losses not previously recognized	-	-
Reductions due to sales	-	-
Reductions due to change in intent or likelihood of sale	-	-
Additions related to increases in previously-recognized OTTI losses	-	-
Reductions due to increases in expected cash flows	-	-
End of period	$375,000	$375,000

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Note 4: Loans and Allowance for Loan Losses

Classes of loans are summarized as follows:

	September 30, 2012	June 30, 2012
Real Estate Loans:		
Conventional	$206,916,266	$201,012,698
Construction	31,279,237	40,181,979
Commercial	221,912,242	200,957,429
Consumer loans	28,349,963	28,985,905
Commercial loans	140,553,260	137,004,222
	629,010,968	608,142,233
Loans in process	(12,400,777)	(17,370,404)
Deferred loan fees, net	160,127	184,746
Allowance for loan losses	(8,080,838)	(7,492,054)
Total loans	$608,689,480	$583,464,521

The Company'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 Company has also occasionally purchased loan participation interests originated by other lenders and secured by properties generally located in the states of Missouri and Arkansas.

Residential Mortgage Lending. The Company actively originates loans for the acquisition or refinance of one- to four-family residences. This category includes both fixed-rate and adjustable-rate mortgage ("ARM") loans amortizing over periods of up to 30 years, and the properties securing such loans may be owner-occupied or non-owner-occupied. Single-family residential loans do not generally exceed 90% of the lower of the appraised value or purchase price of the secured property. Substantially all of the one- to four-family residential mortgage originations in the Company's portfolio are located within the Company's primary market area.

The Company also originates loans secured by multi-family residential properties that are generally located in the Company's primary market area. The majority of the multi-family residential loans that are originated by the Bank are amortized over periods generally up to 20 years, with balloon maturities typically up to five years. Both fixed and adjustable interest rates are offered and it is typical for the Company to include an interest rate "floor" in the loan agreement. Generally, multi-family residential loans do not exceed 85% of the lower of the appraised value or purchase price of the secured property.

Commercial Real Estate Lending. The Company actively originates loans secured by commercial real estate including land (improved, unimproved, and farmland), strip shopping centers, retail establishments and other businesses generally located in the Company's primary market area.

Most commercial real estate loans originated by the Company generally are based on amortization schedules of up to 20 years with monthly principal and interest payments. Generally, the interest rate received on these loans is fixed for a maturity for up to five years, with a balloon payment due at maturity. Alternatively, for some loans, the interest rate adjusts at least annually after an initial period up to five years. The Company typically includes an interest rate “floor” in the loan agreement. Generally, improved commercial real estate loan amounts do not exceed 80% of the lower of the appraised value or the purchase price of the secured property. Agricultural real estate terms offered differ slightly, with amortization schedules of up to 25 years with an 80% loan-to-value ratio, or 30 years with a 75% loan-to-value ratio.

Construction Lending. The Company originates real estate loans secured by property or land that is under construction or development. Construction loans originated by the Company are generally secured by mortgage loans for the construction of owner occupied residential real estate or to finance speculative construction secured by residential real estate, land development, or owner-operated or non-owner occupied commercial real estate. During construction, these loans typically require monthly interest-only payments and have maturities ranging from six to twelve months. Once construction is completed, permanent construction loans may be converted to monthly payments using amortization schedules of up to 30 years on residential and generally up to 20 years on commercial real estate.

While the Company typically utilizes maturity periods ranging from 6 to 12 months to closely monitor the inherent risks associated with construction loans for these loans, weather conditions, change orders, availability of materials and/or labor, and other factors may contribute to the lengthening of a project, thus necessitating the need to renew the construction loan at the balloon maturity. Such extensions are typically executed in incremental three month periods to facilitate project completion. The Company’s average term of construction loans is approximately 14 months. During construction, loans typically require monthly interest only payments which may allow the Company an opportunity to monitor for early signs of financial difficulty should the borrower fail to make a required monthly payment. Additionally, during the construction phase, the Company typically obtains interim inspections completed by an independent third party. This monitoring further allows the Company opportunity to assess risk. At September 30, 2012, construction loans outstanding included 16 loans, totaling $5.8 million, for which a modification had been agreed to; At June 30, 2012, construction loans outstanding included 18 loans, totaling $11.0 million, for which a modification had been agreed to. All modifications were solely for the purpose of extending the maturity date due to conditions described above. None of these modifications were executed due to financial difficulty on the part of the borrower and, therefore, were not accounted for as TDRs.

Consumer Lending. The Company offers a variety of secured consumer loans, including home equity, direct and indirect automobile loans, second mortgages, mobile home loans and loans secured by deposits. The Company originates substantially all of its consumer loans in its primary market area. Usually, consumer loans are originated with fixed rates for terms of up to five years, with the exception of home equity lines of credit, which are variable, tied to the prime rate of interest and are for a period of ten years.

Home equity lines of credit (HELOCs) are secured with a deed of trust and are issued up to 100% of the appraised or assessed value of the property securing the line of credit, less the outstanding balance on the first mortgage and are typically issued for a term of ten years. Interest rates on the HELOCs are generally adjustable. Interest rates are based upon the loan-to-value ratio of the property with better rates given to borrowers with more equity.

Automobile loans originated by the Company include both direct loans and a smaller amount of loans originated by auto dealers. The Company generally pays a negotiated fee back to the dealer for indirect loans. Typically, automobile loans are made for terms of up to 60 months for new and used vehicles. Loans secured by automobiles have fixed rates and are generally made in amounts up to 100% of the purchase price of the vehicle.

Commercial Business Lending. The Company's commercial business lending activities encompass loans with a variety of purposes and security, including loans to finance accounts receivable, inventory, equipment and operating lines of credit, including agricultural production and equipment loans. The Company offers both fixed and adjustable rate commercial business loans. Generally, commercial loans secured by fixed assets are amortized over periods up to five years, while commercial operating lines of credit or agricultural production lines are generally for a one year period.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans (excluding loans in process and deferred loan fees) based on portfolio segment and impairment methods as of September 30, 2012, and June 30, 2012, and activity in the allowance for loan losses for the three-month periods ended September 30, 2012 and 2011:

	At period end for the three months ended September 30, 2012						
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, beginning of period	$1,635,346	$243,169	$2,985,838	$483,597	$2,144,104	$-	$7,492,054
Provision charged to expense	92,776	(51,385)	469,519	45,363	54,416	-	610,689
Losses charged off	(13,872)	-	(227)	(8,589)	(3,244)	-	(25,932)
Recoveries	113	-	1,630	2,284	-	-	4,027
Balance, end of period	$1,714,363	$191,784	$3,456,760	$522,655	$2,195,276	$-	$8,080,838
Ending Balance: individually evaluated for impairment	$-	$-	$347,815	$-	$-	$-	$347,815
Ending Balance: collectively evaluated for impairment	$1,714,363	$191,784	$3,097,996	$522,655	$1,685,289	$-	$7,212,087
Ending Balance: loans acquired with deteriorated credit quality	$-	$-	$10,949	$-	$509,987	$-	$520,936
Loans:							
Ending Balance: individually evaluated for impairment	$-	$-	$963,384	$-	$-	$-	$963,384
Ending Balance: collectively evaluated for impairment	$205,329,331	$18,878,460	$219,261,405	$28,349,963	$139,241,974	$-	$611,061,133
Ending Balance: loans acquired	$1,586,935	$-	$1,687,453	$-	$1,311,286	$-	$4,585,674

with deteriorated credit quality

	For three months ended September 30, 2011						
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, beginning of period	$1,618,285	$ 192,752	$ 2,671,482	$ 441,207	$ 1,514,725	$ -	$6,438,451
Provision charged to expense	165,494	182,546	(389,686)	174,723	383,606	-	516,683
Losses charged off	(76,918)	-	(24,825)	(96,604)	(11,156)	-	(209,503)
Recoveries	4,605	233	-	1,592	-	-	6,430
Balance, end of period	$1,711,466	$ 375,531	$ 2,256,971	$ 520,918	$ 1,887,175	$ -	$6,752,061
Ending Balance: individually evaluated for impairment	$-	$ -	$ 109,481	$ -	$ -	$ -	$109,481
Ending Balance: collectively evaluated for impairment	$1,711,466	$ 375,531	$ 2,024,010	$ 520,918	$ 1,775,054	$ -	$6,406,979
Ending Balance: loans acquired with deteriorated credit quality	$-	$ -	$ 123,480	$ -	$ 112,121	$ -	$235,601

	June 30, 2012						
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Unallocated	Total
Allowance for loan losses:							
Balance, end of period	$1,635,346	$243,169	$2,985,838	$483,597	$2,144,104	$-	$7,492,054
Ending Balance: individually evaluated for impairment	$-	$-	$347,815	$-	$-	$-	$347,815
Ending Balance: collectively evaluated for impairment	$1,635,346	$243,169	$2,632,679	$483,597	$1,767,967	$-	$6,762,758
Ending Balance: loans acquired	$-	$-	$5,344	$-	$376,137	$-	$381,481

with deteriorated credit quality							
Loans:							
Ending Balance: individually evaluated for impairment	$-	$-	$976,881	$-	$-	$-	$976,881
Ending Balance: collectively evaluated for impairment	$205,418,257	$18,878,460	$219,251,243	$28,349,963	$139,198,551	$-	$611,096,474
Ending Balance: loans acquired with deteriorated credit quality	$1,498,009	$-	$1,684,118	$-	$1,354,709	$-	$4,536,836

Management's opinion as to the ultimate collectability of loans is subject to estimates regarding future cash flows from operations and the value of property, real and personal, pledged as collateral. These estimates are affected by changing economic conditions and the economic prospects of borrowers.

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The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to cover probable credit losses inherent in the loan portfolio at the balance sheet date. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when an amount is determined to be uncollectible, based on management's analysis of expected cash flow (for non-collateral-dependent loans) or collateral value (for collateral-dependent loans). Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

Under the Company's methodology, loans are first segmented into 1) those comprising large groups of smaller-balance homogeneous loans, including single-family mortgages and installment loans, which are collectively evaluated for impairment, and 2) all other loans which are individually evaluated. Those loans in the second category are further segmented utilizing a defined grading system which involves categorizing loans by severity of risk based on conditions that may affect the ability of the borrowers to repay their debt, such as current financial information, collateral valuations, historical payment experience, credit documentation, public information, and current trends. The loans subject to credit classification represent the portion of the portfolio subject to the greatest credit risk and where adjustments to the allowance for losses on loans as a result of provisions and charge offs are most likely to have a significant impact on operations.

During fiscal 2011, the Company changed its allowance methodology to consider, as the primary quantitative factor, average net charge offs over the most recent twelve-month period. The Company had previously considered average net charge offs over the most recent five-year period as the primary quantitative factor. The impact of the modification was minimal.

A loan is considered impaired when, based on current information and events, it is probable that the scheduled payments of principal or interest will not be able to be collected when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and agricultural loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, individual consumer and residential loans are not separately identified for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

The general component covers non-impaired loans and is based on quantitative and qualitative factors. The loan portfolio is stratified into homogeneous groups of loans that possess similar loss characteristics and an appropriate loss ratio adjusted for qualitative factors is applied to the homogeneous pools of loans to estimate the incurred losses in the loan portfolio.

Included in the Company's loan portfolio are certain loans accounted for in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. These loans were written down at acquisition to an amount estimated to be collectible. As a result, certain ratios regarding the Company's loan portfolio and credit quality cannot be used to compare the Company to peer companies or to compare the Company's current credit quality to prior periods. The ratios particularly affected by accounting under ASC 310-30 include the allowance for loan losses as a percentage of loans, nonaccrual loans, and nonperforming assets, and nonaccrual loans and nonperforming loans as a percentage of total loans.

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The following tables present the credit risk profile of the Company's loan portfolio (excluding loans in process and deferred loan fees) based on rating category and payment activity as of September 30 and June 30, 2012. These tables include purchased credit impaired loans, which are reported according to risk categorization after acquisition based on the Company's standards for such classification:

	September 30, 2012				
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial
Pass	$203,819,521	$18,878,460	$213,507,013	$28,300,076	$133,830,481
Special Mention	1,845,891	-	1,319,007	32,451	5,167,861
Substandard	1,250,854	-	7,086,222	17,436	1,554,918
Doubtful	-	-	-	-	-
Total	$206,916,266	$18,878,460	$221,912,242	$28,349,963	$140,553,260

	June 30, 2012				
	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial
Pass	$198,847,363	$22,811,575	$194,280,920	$28,967,594	$129,572,873
Special Mention	1,561,263	-	149,940	-	5,398,255
Substandard	604,072	-	6,526,569	18,311	2,033,094
Doubtful	-	-	-	-	-
Total	$201,012,698	$22,811,575	$200,957,429	$28,985,905	$137,004,222

The above amounts include purchased credit impaired loans. At September 30, 2012, these loans comprised $1.6 million of credits rated "Pass"; no credits rated "Special Mention"; $3.0 million of loans rated "Substandard"; and no credits rated "Doubtful". At June 30, 2012, these loans comprised $1.5 million of credits rated "Pass"; no credits rated "Special Mention"; $3.0 million of credits rated "Substandard"; and no credits rated "Doubtful".

Credit Quality Indicators. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on all loans at origination, and is updated on a quarterly basis for loans risk rated "Special Mention", "Substandard", or "Doubtful". In addition, lending relationships over $250,000 are subject to an independent loan review following origination, and lending relationships in excess of $2.5 million are subject to an independent loan review annually, as are a sample of lending relationships between $1.0 million and $2.5 million, in order to verify risk ratings.

The Company uses the following definitions for risk ratings:

Watch – Loans classified as watch exhibit weaknesses that require more than usual monitoring. Issues may include deteriorating financial condition, payments made after due date but within 30 days, adverse industry conditions or management problems.

Special Mention – Loans classified as special mention exhibit signs of further deterioration but still generally make payments within 30 days. This is a transitional rating and loans should typically not be rated Special Mention for more than 12 months

Substandard – Loans classified as substandard possess weaknesses that jeopardize the ultimate collection of the principal and interest outstanding. These loans exhibit continued financial losses, ongoing delinquency, overall poor financial condition, and insufficient collateral. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses of substandard loans, and have deteriorated to the level that there is a high probability of substantial loss.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans.

The following tables present the Company's loan portfolio aging analysis (excluding loans in process and deferred loan fees) as of September 30 and June 30, 2012. These tables include purchased credit impaired loans, which are reported according to aging analysis after acquisition based on the Company's standards for such classification:

	September 30, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate Loans:							
Conventional	$1,237,723	$-	$476,979	$1,714,702	$205,201,564	$206,916,266	$-
Construction	-	-	-	-	18,878,460	18,878,460	-
Commercial	577,110	-	2,855,511	3,432,621	218,479,621	221,912,242	-
Consumer loans	202,316	14,287	-	216,603	28,133,360	28,349,963	-
Commercial loans	135,168	10,346	-	145,514	140,407,746	140,553,260	-
Total loans	$2,152,317	$24,633	$3,332,490	$5,509,440	$611,100,751	$616,610,191	$-

	June 30, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days & Accruing
Real Estate Loans:							
Conventional	$310,046	$66,586	$59,142	$435,774	$200,576,924	$201,012,698	$-
Construction	-	-	-	-	22,811,575	22,811,575	-
Commercial	176,642	41,187	796,794	1,014,623	199,942,806	200,957,429	-
Consumer loans	78,762	-	-	78,762	28,907,143	28,985,905	-
Commercial loans	694,044	-	80,000	774,044	136,230,178	137,004,222	-
Total loans	$1,259,494	$107,773	$935,936	$2,303,203	$588,468,626	$590,771,829	$-

The above amounts include purchased credit impaired loans. At September 30, 2012, these loans comprised $487,000 credits 30-59 Days Past Due; $0 credits 60-89 Days Past Due; $0 credits Greater Than 90 Days Past Due; $487,000 of Total Past Due credits; $4.1 million of credits Current; and $0 Loans > 90 Days & Accruing. At June 30, 2012, there were no purchased credit impaired loans that were past due.

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

The tables below present impaired loans (excluding loans in process and deferred loan fees) as of September 30 and June 30, 2012. These tables include purchased credit impaired loans. Purchased credit impaired loans are those for which it was deemed probable, at acquisition, that the Company would be unable to collect all contractually required payments receivable. In an instance where, subsequent to the acquisition, the Company determines it is probable, for a specific loan, that cash flows received will exceed the amount previously expected, the Company will recalculate the amount of accretable yield in order to recognize the improved cash flow expectation as additional interest income over the remaining life of the loan. These loans, however, will continue to be reported as impaired loans. In an instance where, subsequent to the acquisition, the Company determines it is probable, for a specific loan, that cash flows received will be less than the amount previously expected, the Company will allocate a specific allowance under the terms of ASC 310-10-35.

	September 30, 2012		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Conventional real estate	$1,586,935	$2,122,666	$-
Construction real estate	99,200	99,200	-
Commercial real estate	2,931,965	3,261,015	-
Consumer loans	-	-	-
Commercial loans	754,139	770,277	-
Loans with a specific valuation allowance:			
Conventional real estate	$-	$-	$-
Construction real estate	-	-	-
Commercial real estate	1,029,330	1,085,684	358,764
Consumer loans	-	-	-
Commercial loans	896,773	1,466,650	509,987
Total:			
Conventional real estate	$1,586,935	$2,122,666	$-
Construction real estate	$99,200	$99,200	$-
Commercial real estate	$3,961,295	$4,346,699	$358,764
Consumer loans	$-	$-	$-
Commercial loans	$1,650,912	$2,236,927	$509,987

	June 30, 2012		
	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Conventional real estate	$1,531,881	$2,160,350	$-
Construction real estate	-	-	-
Commercial real estate	2,563,744	2,935,620	-
Consumer loans	-	-	-
Commercial loans	845,692	868,844	-
Loans with a specific valuation allowance:			
Conventional real estate	$-	$-	$-
Construction real estate	-	-	-
Commercial real estate	982,884	1,014,082	353,159
Consumer loans	-	-	-
Commercial loans	930,123	1,500,000	376,137
Total:			
Conventional real estate	$1,531,881	$2,160,350	$-
Construction real estate	$-	$-	$-
Commercial real estate	$3,546,628	$3,949,702	$353,159
Consumer loans	$-	$-	$-
Commercial loans	$1,775,815	$2,368,844	$376,137

The above amounts include purchased credit impaired loans. At September 30, 2012, these loans comprised $3.6 million of impaired loans without a specific valuation allowance; $963,000 of loans with a specific valuation allowance; and $4.6 million of total impaired loans. At June 30, 2012, these loans comprised $3.6 million of impaired loans without a specific valuation allowance; $935,000 of loans with a specific valuation allowance; and $4.5 million of total impaired loans.

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The following tables present information regarding interest income recognized on impaired loans:

	For the three-month period ended September 30, 2012	
	Average Investment in Impaired Loans	Interest Income Recognized
Conventional Real Estate	$1,543	$128
Construction Real Estate	-	-
Commercial Real Estate	2,656	50
Consumer Loans	-	-
Commercial Loans	1,333	25
Total Loans	$5,532	$203

	For the period three-months ended September 30, 2011	
	Average Investment in Impaired Loans	Interest Income Recognized
Conventional Real Estate	$1,556	$79
Construction Real Estate	-	-
Commercial Real Estate	3,173	121
Consumer Loans	-	-
Commercial Loans	2,723	329
Total Loans	$7,451	$529

Interest income on impaired loans recognized on a cash basis in the three-month periods ended September 30, 2012 and 2011, was immaterial.

For the three-month period ended September 30, 2012, the amount of interest income recorded for impaired loans that represented a change in the present value of cash flows attributable to the passage of time was approximately $117,000, as compared to $386,000 for the three-month period ended September 30, 2011.

The following table presents the Company's nonaccrual loans at September 30 and June 30, 2012. This table includes purchased impaired loans. Purchased credit impaired loans are placed on nonaccrual status in the event the Company cannot reasonably estimate cash flows expected to be collected. The table excludes performing troubled debt restructurings.

	September 30, 2012	June 30, 2012
Conventional real estate	$1,090,106	$395,374
Construction real estate	99,200	-
Commercial real estate	3,229,790	976,881
Consumer loans	14,765	15,971
Commercial loans	1,060,789	1,010,123
Total loans	$5,494,650	$2,398,349

The above amounts include purchased credit impaired loans. At September 30, 2012, and June 30, 2012, these loans comprised $900,000 and $930,000 of nonaccrual loans, respectively.

Included in certain loan categories in the impaired loans are troubled debt restructurings (TDRs), where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities, and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower's sustained repayment performance for a reasonable period of at least six months.

When loans and leases are modified into a TDR, the Company evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, and uses the current fair value of the collateral, less selling costs, for collateral dependent loans. If the Company determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs, and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, the Company evaluates all TDRs, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance.

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During the three-month periods ended September 30, 2011 and 2012, certain loans were classified as TDRs. They are shown, segregated by class, in the table below:

	For the three-month periods ended			
	September 30, 2012		September 30, 2011	
	Number of modifications	Recorded Investment	Number of modifications	Recorded Investment
Conventional real estate	-	$-	1	$97,783
Construction real estate	1	99,200	-	-
Commercial real estate	2	600,000	5	1,005,830
Consumer loans	-	-	-	-
Commercial loans	4	304,016	3	1,019,712
Total	7	$1,003,216	9	$2,123,326

At September 30 and June 30, 2012, the Company had $3.5 and $3.1, respectively, of commercial real estate loans, $1.6 and $1.7, respectively, of commercial loans, and $99,000 and $0, respectively, of construction loans, and $6,000 and $40,000 respectively, of conventional real estate loans that were modified in TDRs and considered impaired. All loans classified as TDRs at September 30, 2012, and June 30, 2012, were so classified due to interest rate concessions.

Performing loans classified as troubled debt restructurings and outstanding at September 30 and June 30, 2012, segregated by class, are shown in the table below. Nonperforming TDRs are shown as nonaccrual loans.

	September 30, 2012		June 30, 2012	
	Number of modifications	Recorded Investment	Number of modifications	Recorded Investment
Conventional real estate	1	$5,691	2	$39,835
Construction real estate	-	-	-	-
Commercial real estate	11	2,711,221	10	2,290,986
Consumer loans	-	-	-	-
Commercial loans	7	553,927	6	807,386
Total	19	$3,270,839	18	$3,138,207

Note 5: Accounting for Certain Loans Acquired in a Transfer

The Company acquired loans in a transfer during the fiscal year ended June 30, 2011. At acquisition, certain transferred loans evidenced deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Management estimated the cash flows expected to be collected at acquisition using our internal risk models, which incorporate the estimate of current key assumptions, such as default rates, severity and prepayment speeds.

The carrying amount of those loans is included in the balance sheet amounts of loans receivable at September 30 and June 30, 2012. The amounts of these loans at September 30 and June 30, 2012, are as follows:

	September 30, 2012	June 30, 2012
Real Estate Loans:		
Conventional	$2,122,666	$2,126,478
Construction	-	-
Commercial	2,072,857	2,087,192
Consumer loans	-	-
Commercial loans	1,897,301	1,947,738
Outstanding balance	$6,092,824	$6,161,408
Carrying amount, net of fair value adjustment of $1,507,150 and $1,624,572 at September 30, 2012 and June 30, 2012, respectively	$4,585,674	$4,536,836

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

	Three-months period ending September 30, 2012	Three-month period ending September 30, 2011
Balance at beginning of period	$489,356	$792,942
Additions	-	-
Accretion	(147,606)	(420,959)
Reclassification from nonaccretable difference	496,299	570,893
Disposals	-	-
Balance at end of period	$838,049	$942,876

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During the three-month periods ended September 30, 2012 and 2011, the Company increased the allowance for loan losses by a charge to the income statement of $141,777 and $112,121, respectively, related to these purchased credit impaired loans. During the same periods, allowance for loan losses of $2,000 and $0, respectively, was reversed.

Note 6: Deposits

Deposits are summarized as follows:

	September 30, 2012	June 30, 2012
Non-interest bearing accounts	$52,867,795	$54,812,645
NOW accounts	189,211,569	193,870,344
Money market deposit accounts	19,920,614	18,099,265
Savings accounts	84,753,806	86,717,214
Certificates	225,130,554	231,314,155
Total Deposit Accounts	$571,884,338	$584,813,623

Note 7: Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended September 30,	
	2012	2011
Net income	$2,590,254	$2,850,392
Charge for early redemption of preferred stock issued at discount	-	94,365
Dividend payable on preferred stock	195,115	136,033
Net income available to common shareholders	$2,395,139	$2,619,994
Average Common shares – outstanding basic	3,248,369	2,095,923
Stock options under treasury stock method	135,071	70,999
Average Common shares – outstanding diluted	3,383,440	2,166,922
Basic earnings per common share	$0.74	$1.25
Diluted earnings per common share	$0.71	$1.21

At September 30, 2012 and 2011, no options outstanding had an exercise price exceeding the market price.

Note 8: Income Taxes

The Company files income tax returns in the U.S. Federal jurisdiction and various states. The Company is no longer subject to federal and state examinations by tax authorities for fiscal years before 2009. The Company recognized no interest or penalties related to income taxes.

The Company's income tax provision is comprised of the following components:

	For the three-month period ended September 30, 2012	September 30, 2011
Income taxes		
Current	$1,140,886	$1,444,207
Deferred	-	-
Total income tax provision	$1,140,886	$1,444,207

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The components of net deferred tax assets (liabilities) are summarized as follows:

	September 30, 2012	June 30, 2012
Deferred tax assets:		
Provision for losses on loans	$3,448,182	$3,247,995
Accrued compensation and benefits	173,696	171,113
Other-than-temporary impairment on available for sale securities	261,405	261,405
NOL carry forwards acquired	159,613	159,613
Unrealized loss on other real estate	37,400	47,600
Total deferred tax assets	4,080,296	3,887,726
Deferred tax liabilities:		
FHLB stock dividends	188,612	188,612
Purchase accounting adjustments	893,549	893,549
Depreciation	531,644	552,633
Prepaid expenses	106,759	123,704
Unrealized gain on available for sale securities	529,050	400,554
Other	299,588	69,083
Total deferred tax liabilities	2,549,201	2,228,135
Net deferred tax asset	$1,531,095	$1,659,591

As of September 30, 2012, and June 30, 2012, the Company had approximately $515,000 of federal and state net operating loss carryforwards, which were acquired in the July 2009 acquisition of Southern Bank of Commerce. The amount reported is net of the IRC Sec. 382 limitation, or state equivalent, related to utilization of net operating loss carryforwards of acquired corporations. Unless otherwise utilized, the net operating losses will begin to expire in 2027.

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax is shown below:

	For the three-month period ended September 30, 2012	September 30, 2011
Tax at statutory rate	$1,268,588	$1,460,164
Increase (reduction) in taxes resulting from:		
Nontaxable municipal income	(124,268)	(104,370)
State tax, net of Federal benefit	92,400	116,655
Cash surrender value of Bank-owned life insurance	(42,779)	(24,328)
Other, net	(53,055)	(3,914)
Actual provision	$1,140,886	$1,444,207

Tax credit benefits in the amount of $125,000 were recognized in the three-month period ended September 30, 2012, as compared to $73,000 recognized in the three-month period ended September 30, 2011, under the flow-through method of accounting for investments in tax credits.

Note 9: 401(k) Retirement Plan

The Company established a tax-qualified ESOP in April 1994. During fiscal 2011, the plan was merged with the Company's 401(k) Retirement Plan (the Plan). The Plan covers substantially all employees who are at least 21 years of age and who have completed one year of service. In fiscal 2012, the Company converted the Plan to provide a safe harbor matching contribution of up to 4% of eligible compensation, and also made additional, discretionary profit-sharing contributions for fiscal 2012; for fiscal 2013, the Company has maintained the safe harbor matching contribution of 4%, and expects to continue to make additional, discretionary profit-sharing contributions. During the three-month period ended September 30, 2012, retirement plan expenses recognized were approximately $112,000, as compared to $100,000 for the three-month period ended September 30, 2011.

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: Small Business Lending Fund

On July 21, 2011, as part of the Small Business Lending Fund (SBLF) of the United States Department of the Treasury (Treasury), the Company entered into a Small Business Lending Fund-Securities Purchase Agreement (Purchase Agreement) with the Secretary of the Treasury, pursuant to which the Company (i) sold 20,000 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series A (SBLF Preferred Stock) to the Secretary of the Treasury for a purchase price of $20,000,000. The SBLF Preferred Stock was issued pursuant to the SBLF program, a $30 billion fund established under the Small Business Jobs Act of 2010 that was created to encourage lending to small business by providing capital to qualified community banks with assets of less than $10 billion.

The SBLF Preferred Stock qualifies as Tier 1 capital. The SBLF Preferred Stock is entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first 10 quarters during which the SBLF Preferred Stock is outstanding, based upon changes in the Bank's level of Qualified Small Business Lending (QBSL), as defined in the Purchase Agreement. Based upon the increase in the Bank's level of QBSL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period was set at 2.8155%. For the second through ninth calendar quarters, the dividend rate may be adjusted to between one percent (1%) and five percent (5%) per annum, to reflect the amount of change in the Bank's level of QBSL. The dividend rate for the quarter ended March 31, 2012, was 1%. For the tenth calendar quarter through four and one half years after issuance, the dividend rate will be fixed at between one percent (1%) and seven percent (7%) based upon the increase in QBSL as compared to the baseline. After four and one half years from issuance, the dividend rate will increase to 9% (including a quarterly lending incentive fee of 0.5%).

The SBLF Preferred Stock is non-voting, except in limited circumstances. In the event that the Company misses five dividend payments, the holder of the SBLF Preferred Stock will have the right to appoint a representative as an observer on the Company's Board of Directors. In the event that the Company misses six dividend payments, then the holder of the SBLF Preferred Stock will have the right to designate two directors to the Board of Directors of the Company.

The SBLF Preferred Stock may be redeemed at any time at the Company's option, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends to the date of redemption for the current period, subject to the approval of its federal banking regulator.

As required by the Purchase Agreement, $9,635,000 of the proceeds from the sale of the SBLF Preferred Stock was used to redeem the 9,550 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A issued in 2008 to the Treasury in the Troubled Asset Relief Program (TARP), plus the accrued dividends owed on those preferred shares. As part of the 2008 TARP transaction, the Company issued a ten-year warrant to Treasury to purchase 114,326 shares of the Company's common stock at an exercise price of $12.53 per share. The Company has not repurchased the warrant, which is still held by Treasury.

Note 12: 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:

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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

Recurring Measurements. The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30 and June 30, 2012:

		Fair Value Measurements at September 30, 2012, Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government sponsored enterprises (GSEs)	$14,086,831	$-	$14,086,831	$-
State and political subdivisions	38,881,064	-	38,881,064	-
Other securities	1,452,057	-	1,409,057	43,000
FHLMC preferred stock	-	-	-	-
Mortgage-backed GSE residential	17,553,946	-	17,553,946	-

		Fair Value Measurements at June 30, 2012, Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government sponsored enterprises (GSEs)	$18,099,618	$-	$18,099,618	$-
State and political subdivisions	36,381,253	-	36,381,253	-
Other securities	1,393,257	-	1,360,657	32,600
FHLMC preferred stock	-	-	-	-
Mortgage-backed GSE residential	19,252,717	-	19,252,717	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarch. There have been no significant changes in the valuation techniques during the period ended September 30, 2012.

Available-for-sale Securities. When quoted market prices are available in an active market, securities are classified within Level 1. The Company does not have Level 1 securities. If quoted market prices are not available, then fair values are estimated using pricing models, or quoted prices of securities with similar characteristics. For these securities, our Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. Level 2 securities include U.S. Government-sponsored enterprises, state and political subdivisions, other securities and mortgage-backed GSE residential securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following table presents a reconciliation of activity for available for sale securities measured at fair value based on significant unobservable (Level 3) information for the three-month periods ended September 30, 2012 and 2011:

	Three months ended	
	September 30, 2012	September 30, 2011
Available-for-sale securities, beginning of year	$32,600	$71,004
Total unrealized gain (loss) included in comprehensive income	10,400	(42,004)
Transfer from Level 2 to Level 3	-	-
Available-for-sale securities, end of period	$43,000	$29,000

Nonrecurring Measurements. The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the ASC 820 fair value hierarchy in which the fair value measurements fell at September 30 and June 30, 2012:

	Fair Value Measurements at September 30, 2012, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent)	$1,071,000	$-	$-	$1,071,000
Foreclosed and repossessed assets held for sale	1,138,000	-	-	1,138,000

	Fair Value Measurements at June 30, 2012, Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent)	$1,214,000	$-	$-	$1,214,000
Foreclosed and repossessed assets held for sale	1,435,000	-	-	1,435,000

The following table presents gains and (losses) recognized on assets measured on a non-recurring basis for the three-month periods ended September 30, 2012 and 2011:

For the three months ended

	September 30, 2012	September 30, 2011
Impaired loans (collateral dependent)	$(171,000)	$146,000
Foreclosed and repossessed assets held for sale	(13,000)	(102,000)
Total gains (losses) on assets measured on a non-recurring basis	$(184,000)	$44,000

The following is a description of valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarch. For assets classified within Level 3 of fair value hierarchy, the process used to develop the reported fair value process is described below.

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

On a quarterly basis, loans classified as special mention, substandard, doubtful, or loss are evaluated including the loan officer's review of the collateral and its current condition, the Company's knowledge of the current economic environment in the market where the collateral is located, and the Company's recent experience with real estate in the area. The date of the appraisal is also considered in conjunction with the economic environment and any decline in the real estate market since the appraisal was obtained. For all loan types, updated appraisals are obtained if considered necessary. Of the Company's $5.5 million (carrying value) in impaired loans (collateral-dependent and purchased credit-impaired) at September 30, 2012, the Company utilized a real estate appraisal performed in the past 12 months to serve as the primary basis of our valuation for approximately $2.5 million. Older real estate appraisals were available for impaired loans with an carrying value of approximately $2.1 million. The remaining $933,000 was secured by collateral such as closely-held stock, an assignment of notes receivable, accounts receivable, or inventory. In instances where the economic environment has worsened and/or the real estate market declined since the last appraisal, a higher distressed sale discount would be applied to the appraised value.

The Company records collateral dependent impaired loans based on nonrecurring Level 3 inputs. If a collateral dependent loan's fair value, as estimated by the Company, is less than its carrying value, the Company either records a charge-off of the portion of the loan that exceeds the fair value or establishes a specific reserve as part of the allowance for loan losses.

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

Unobservable (Level 3) Inputs. The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

	Fair value at September 30, 2012		Valuation technique	Unobservable inputs	Range of Discounts applied	Weighted-average discount applied
Available-for-sale securities (pooled trust preferred security)	$	43,000	Discounted cash flow	Discount rate	n/a	7.6%
				Prepayment rate	n/a	1% annually (1)
				Projected defaults and deferrals (% of pool balance)	n/a	40.9%
				Anticipated recoveries (% of pool balance)	n/a	4.5%
Impaired loans (collateral dependent)		1,071,000	Internal or third-	Discount to reflect	19.9% - 100%	40.3%

		party appraisal	realizable value		
Foreclosed and repossessed assets	1,138,000	Third party appraisal	Marketability discount	0.0% - 35.7%	18.2%

(1) The Level 3 fair value measurement also assumes that issuers of asset size of $15 billion and above will generally prepay during 2013, unless issued at a
variable rate with a spread of less than 150 basis points over LIBOR; other issuers are expected to prepay at a rate of 1% annually, unless issued at a fixed
rate of 8% or more by a bank reasonably expected to be able to prepay, based on financial strength.

Fair Value of Financial Instruments. The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fell at September 30 and June 30, 2012.

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	September 30, 2012			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$9,006	$9,006	$-	$-
Interest-bearing time deposits	2,154	-	2,154	-
Stock in FHLB	2,819	-	2,819	-
Stock in Federal Reserve Bank of St. Louis	1,001	-	1,001	-
Loans receivable, net	608,689	-	-	612,921
Accrued interest receivable	4,432	-	4,432	-
Financial liabilities				
Deposits	571,884	346,308	-	226,135
Securities sold under agreements to repurchase	22,941	-	22,941	-
Advances from FHLB	42,500	-	28,094	-
Accrued interest payable	545	-	545	-
Subordinated debt	7,217	-	-	5,404
Unrecognized financial instruments (net of contract amount)				
Commitments to originate loans	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

	June 30, 2012			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets				
Cash and cash equivalents	$33,421	$33,421	$-	$-
Interest-bearing time deposits	1,273	-	1,273	-
Stock in FHLB	2,018	-	2,018	-
Stock in Federal Reserve Bank of St. Louis	1,001	-	1,001	-
Loans receivable, net	583,465	-	-	587,955
Accrued interest receivable	3,694	-	3,694	-
Financial liabilities				
Deposits	584,814	353,212		232,583
Securities sold under agreements to repurchase	25,642	-	25,642	-
Advances from FHLB	24,500	-	27,923	-
Accrued interest payable	627	-	627	-
Subordinated debt	7,217	-	-	5,103

Unrecognized financial instruments				
(net of contract amount)				
Commitments to originate loans	-	-	-	-
Letters of credit	-	-	-	-
Lines of credit	-	-	-	-

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

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

The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities. Non-maturity deposits and securities sold under agreements are valued at their carrying value, which approximates 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.

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 by the Deposit Insurance Fund (DIF), which is administered by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2012, the Bank conducts its business through its home office located in Poplar Bluff, and 17 full service branch facilities in Poplar Bluff (3), Van Buren, Dexter, Kennett, Doniphan, Qulin, Sikeston, Matthews, and Springfield, Missouri, and Paragould, Jonesboro, Brookland, Leachville, Batesville, and Searcy, 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, 2012, 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 condensed consolidated financial condition at September 30, 2012, and results of operations for the three- month periods ended September 30, 2012 and 2011.

Forward Looking Statements

This document contains statements about the Company and its subsidiaries which we believe are "forward-looking statements" 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," "in 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 this filing and in our other 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;
- fluctuations in interest rates and in real estate values;
- monetary and fiscal policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) and the U.S. Government and other governmental initiatives affecting the financial services industry;
- the risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses;
- our ability to access cost-effective funding;
- 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;

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expected cost savings, synergies and other benefits from our merger and acquisition activities might not be realized within the anticipated time frames or at all, and costs or difficulties relating to integration matters, including but not limited to customer and employee retention, might be greater than expected;

- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- legislative or regulatory changes that adversely affect our business;
- results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses or to write-down assets;
- the impact of technological changes; 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.

Non-GAAP Disclosures

The following financial measures contain information determined by methods other than in accordance with accounting principles generally accepted in the United States (commonly referred to as GAAP):

- net income available to common shareholders excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;
- return on average assets excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;
- return on average common equity excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;
- net interest margin excluding the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits;

These measurers indicate what net income available to common shareholders, return on average assets, return on average common equity, and net interest margin would have been without the impact of the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits resulting from the December 2010 acquisition of most of the assets and assumption of substantially all of the liabilities of the former First Southern Bank, Batesville, Arkansas (the Acquisition). Management believes that showing these measures excluding these items provides useful information by which to evaluate the Company’s operating performance on an ongoing basis from period to period.

These non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures. Because not all companies use identical calculations, these non-GAAP financial measures might not be comparable to other similarly-titled measures as determined and disclosed by other companies. Reconciliations to GAAP of these non-GAAP financial measures presented are set forth below.

The following table presents reconciliation to GAAP of net income available to common stockholders excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits:

	For the three months ended	
(dollars in thousands)	September 30, 2012	September 30, 2011
Net income available to common stockholders	$ 2,395	$ 2,620
	331	736

Less: impact of excluding accretion of fair value discount on acquired loans, amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax				
Net income available to common shareholders - excluding excluding accretion of fair value discount on acquired loans, amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax	$	2,064	$	1,884

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The following table presents reconciliation to GAAP of return on average assets excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits:

	For the three months ended			
	September 30, 2012		September 30, 2011	
Return on average assets	1.41	%	1.62	%
Less: impact of excluding accretion of fair value discount on acquired loans, amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax	0.18	%	0.42	%
Return on average assets - excluding excluding accretion of fair value discount on acquired loans, amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax	1.23	%	1.20	%

The following table presents reconciliation to GAAP of return on average common equity excluding accretion of fair value discount on acquired loans, amortization of fair value premium on assumed time deposits, and bargain purchase gain:

	For the three months ended			
	September 30, 2012		September 30, 2011	
Return on average common equity	12.64	%	22.03	%
Less: impact of excluding accretion of fair value discount on acquired loans, amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax	1.74	%	6.18	%
Return on average common equity - excluding excluding accretion of fair value discount on acquired loans, amortization of fair value premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax	10.89	%	15.84	%

The following table presents reconciliation to GAAP of net interest margin excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits:

	For the three months ended			
	September 30, 2012		September 30, 2011	
Net interest margin	4.30	%	4.42	%

Less: impact of excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition	0.31	%	0.70	%
Net interest margin - excluding accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits related to the Acquisition	4.00	%	3.72	%

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 2012 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 58 in the Company's 2012 Annual Report.

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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. This difference in longer term and shorter term interest rates is often referred to as the steepness of the 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 three months of fiscal 2013, we grew our balance sheet by $4.4 million. Asset growth reflected a $25.2 million increase in net loans receivable, partially offset by a $24.4 million decrease in cash and cash equivalents. Deposits decreased $12.9 million, and securities sold under agreements to repurchase decreased $2.7 million. Advances from the Federal Home Loan Bank (FHLB) increased $18.0 million. The increase in loan balances was primarily the result of growth in commercial real estate, conventional real estate, and commercial operating loans, partially offset by a decline in construction loans. The decrease in deposits was primarily the result of declines in certificates of deposit, interest-bearing transaction accounts, savings accounts, and noninterest-bearing transaction accounts, partially offset by an increase in money market deposit accounts.

Net income for the first three months of fiscal 2013 decreased 9.1% to $2.6 million, as compared to $2.9 million earned during the same period of the prior year. After accounting for dividends on preferred stock of $195,000, net earnings available to common shareholders were $2.4 million in the three-month period ended September 30, 2012, a decrease of 8.6% as compared to the same period of the prior fiscal year. The decrease in net income compared to the year-ago period was attributable to higher noninterest expense, higher provisions for loan losses, lower net interest income, and lower noninterest income, partially offset by a lower provision for income taxes. Diluted net income available to common shareholders was $0.71 per share for the first three months of fiscal 2013, as compared to $1.21 per share for the same period of the prior year. The decrease was primarily due to the additional average shares outstanding as a result of the common offering completed in November 2011, as well as the lower net income available to common shareholders. For the first three months of fiscal 2013, noninterest expense increased $355,000, or 9.4%; provision for loan losses increased $94,000, or 18.2%; net interest income decreased $58,000, or 0.8%; noninterest income decreased $57,000, or 5.1%; and provision for income taxes decreased $303,000, or 21.0%, as compared to the same period of the prior fiscal year. For more information see "Results of Operations."

Interest rates during the first three months of fiscal 2013 remained near historical lows. Across the yield curve, rates declined in medium-term securities and increased in longer-term securities from June 30, 2012 through September 30, 2012. Our average yield on earning assets increased, primarily due to a lower percentage of earning assets held as cash and cash equivalents (see "Results of Operations: Comparison of the three-month periods ended September 30, 2012 and 2011 – Net Interest Income"). Relative to recent historical norms, the curve remained relatively steep, and a 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, it detailed its plan to purchase long-term mortgage-backed securities, agency debt, and long-term Treasuries. A second securities purchase program focused on US Treasuries. More recently, the Federal Reserve has continued its quantitative easing program, focused now on lowering real estate borrowing costs through purchases of mortgage-backed securities, and extending the average life of its securities portfolio. It has also indicated that it anticipates continuing its extraordinarily low short-term rate policy through at least mid-2015. In this rate environment, our net interest margin declined when comparing the first three months of fiscal 2013 to the same period of the prior year; however, the decline was attributable to fair value accounting for the Acquisition, whereby the Company acquired loans at a discount. Net interest income resulting from the accretion of that discount (and a smaller premium on acquired time deposits) declined in the first quarter of fiscal 2013 to $529,000, as compared to $1.2 million in the first quarter of fiscal 2012. The decrease of $648,000 equates to 38 basis points impact on the net interest margin. Our core net interest margin, excluding this income, improved to 4.00% in the current quarter, as compared to 3.72% in the year-ago period, primarily as a result of a decline in lower-yielding cash and cash equivalent balances, along with an increase in relatively higher-yielding loan balances. The Company expects that as the acquired loan portfolio continues to pay down, the positive impact on net interest income will continue to be reduced.

The Company's net income is also affected by the level of its noninterest income and noninterest expenses. Non-interest income generally consists primarily of deposit account service charges, bank card network income, loan-related fees, increases in the cash value of bank-owned life insurance, gains on sales of loans, and other general operating income. Noninterest expenses consist primarily of compensation and employee benefits, occupancy-related expenses, deposit insurance assessments, professional fees, advertising, postage and office expenses, insurance, bank card network expenses, the amortization of intangible assets, and other general operating expenses. During the three-month period ended September 30, 2012, noninterest income decreased $57,000, or 5.1%, as compared to the same period of the prior year, due primarily to the inclusion in the year-ago period's results of a one-time increase due to the settlement of a legal claim obtained through the Acquisition; also contributing to the decline was a decrease in gains on secondary market loan sales, partially offset by an increase in deposit account service charges, earnings on Bank-owned life insurance, and bank card transaction fees. Noninterest expense increased $355,000, or 9.4%, during the first three months of fiscal 2013, compared to the same period of the prior year, due primarily to higher expenses for compensation and benefits, occupancy expenses, business development expenses, and a decline in gains on sales of foreclosed real estate, partially offset by declines in electronic banking, advertising, and postage and office supplies expenses.

We expect, over time, to continue to grow our assets modestly through the origination and occasional purchase of loans, and purchases of investment securities. The primary funding for this asset growth is expected to come from retail deposits, short- and long-term FHLB borrowings, and, as needed, brokered certificates of deposit. We have grown and intend to continue to grow deposits by offering desirable deposit products for our current customers and by attracting new depository relationships. We will also continue to explore strategic expansion opportunities in market areas that we believe will be attractive to our business model.

Comparison of Financial Condition at September 30 and June 30, 2012

The Company's total assets increased by $4.4 million, or 0.6%, to $743.6 million at September 30, 2012, as compared to $739.2 million at June 30, 2012. Balance sheet growth consisted of an increase in net loans receivable, other assets (investment in a limited partnership to generate tax credits), and fixed assets, partially offset by a decline in cash and cash equivalents and available-for-sale securities. Balance sheet growth was funded by an increase in FHLB advances and stockholder equity, partially offset by a decline in deposits and securities sold under agreements to repurchase.

Loans, net of the allowance for loan losses, increased $25.2 million, or 4.3%, to $608.7 million at September 30, 2012, as compared to $583.5 million at June 30, 2012. Growth consisted of increases in commercial real estate, conventional real estate, and commercial operating loan balances, partially offset by a decline in construction loan balances.

Available-for-sale investment balances decreased by $3.2 million, or 4.2%, to $72.0 million at September 30, 2012, as compared to $75.1 million at June 30, 2012, as declines in the obligations of US government agencies and mortgage-backed securities were partially offset by an increase in obligations of state and political subdivision. Cash and cash equivalents decreased $24.4 million, or 73.1%, to $11.2 million at September 30, 2012, as compared to $33.4 million at June 30, 2012.

Deposit balances declined $12.9 million, or 2.2%, to $571.9 million at September 30, 2012, as compared to $584.8 million at June 30, 2012. The decrease in deposits was primarily the result of declines in certificates of deposit, interest-bearing transaction accounts, savings accounts, and noninterest-bearing transaction accounts, partially offset by an increase in money market deposit accounts.

Total stockholders' equity increased $2.3 million, or 2.4%, to $97.0 million at September 30, 2012, as compared to $94.7 million at June 30, 2012. The increase was due primarily to the retention of net income, as well as an increase accumulated other comprehensive income, partially offset by cash dividends paid on common and preferred stock.

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Average Balance Sheet, Interest, and Average Yields and Rates for the Three-Month Periods Ended September 30, 2012 and 2011

The tables below present certain information regarding our financial condition and net interest income for the three-month periods ended September 30, 2012 and 2011. 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 September 30, 2012			Three-month period ended September 30, 2011		
	Average Balance	Interest and Dividends	Yield/ Cost (%)	Average Balance	Interest and Dividends	Yield/ Cost (%)
Interest earning assets:						
Mortgage loans (1)	$439,859,319	$6,502,347	5.91	$406,546,705	$6,931,593	6.82
Other loans (1)	163,135,408	2,351,587	5.77	159,419,777	2,623,531	6.58
Total net loans	602,994,727	8,853,934	5.87	565,966,482	9,555,124	6.75
Mortgage-backed securities	18,442,670	125,763	2.73	22,518,812	276,567	4.91
Investment securities (2)	56,605,134	362,703	2.56	44,259,519	353,177	3.19
Other interest earning assets	11,908,352	19,249	0.65	44,280,701	29,034	0.26
Total interest earning assets (1)	689,950,883	9,361,649	5.43	677,025,514	10,213,902	6.03
Other noninterest earning assets (3)	44,957,394	-		27,855,344	-	
Total assets	$734,908,277	$9,361,649		$704,880,858	$10,213,902	
Interest bearing liabilities:						
Savings accounts	85,320,620	118,717	0.56	95,452,979	249,553	1.05
NOW accounts	189,644,077	582,187	1.23	155,972,696	839,857	2.15
Money market deposit accounts	18,418,271	25,609	0.56	15,505,109	46,334	1.20
Certificates of deposit	227,377,837	853,187	1.50	265,118,574	1,147,240	1.73
Total interest bearing deposits	520,760,805	1,579,700	1.21	532,049,358	2,282,984	1.72
Borrowings:						
Securities sold under agreements to repurchase	24,567,244	48,303	0.79	25,789,630	59,701	0.93
FHLB advances	34,128,913	254,712	2.99	33,500,000	339,391	4.05
Subordinated debt	7,217,000	59,126	3.28	7,217,000	54,048	3.00
Total interest bearing liabilities	586,673,962	1,941,841	1.32	598,555,988	2,736,124	1.83
Noninterest bearing demand deposits	52,113,697	-		36,967,657	-	
Other noninterest bearing liabilities	314,514	-		4,415,680	-	
Total liabilities	639,102,173	1,941,841		639,939,325	2,736,124	

Stockholders’ equity	95,806,104	-		64,941,533	-	
Total liabilities and stockholders' equity	$734,908,277	$1,941,841		$704,880,858	$2,736,124	
Net interest income		$7,419,808			$7,477,778	
Interest rate spread (4)			4.11 %			4.20 %
Net interest margin (5)			4.30 %			4.42 %
Ratio of average interest-earning assets to average interest-bearing liabilities	117.60 %			113.11 %		

(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 $12.7 million and $16.0 million, respectively, for the three-month period ended September 30, 2012, as compared to $8.3 million and $8.1 million, respectively, 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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Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on the Company's net interest income for the three-month period ended September 30, 2012. Information is provided with respect to (i) effects on interest income and expense attributable to changes in volume (changes in volume multiplied by the prior rate), (ii) effects on interest income and expense attributable to change in rate (changes in rate multiplied by prior volume), and (iii) changes in rate/volume (change in rate multiplied by change in volume).

	Three-month period ended September 30, 2012 Compared to three-month period ended September 30, 2011, Increase (Decrease) Due to			
(dollars in thousands)	Rate	Volume	Rate/ Volume	Net
Interest-earnings assets:				
Loans receivable (1)	$(1,245)	$625	$(81)	$(701)
Mortgage-backed securities	(123)	(50)	22	(151)
Investment securities (2)	(79)	98	(21)	(2)
Other interest-earning deposits	87	(21)	(64)	2
Total net change in income on interest-earning assets	(1,360)	652	(144)	(852)
Interest-bearing liabilities:				
Deposits	(653)	-	(50)	(703)
Securities sold under agreements to repurchase	(9)	(3)	-	(12)
Subordinated debt	5	-	-	5
FHLB advances	(89)	6	(1)	(84)
Total net change in expense on interest-bearing liabilities	(746)	3	(51)	(794)
Net change in net interest income	$(614)	$649	$(93)	$(58)

(1) Does not include interest on loans placed on nonaccrual status.
(2) Does not include dividends earned on equity securities.

Results of Operations – Comparison of the three-month periods ended September 30, 2012 and 2011

General. Net income for the three-month period ended September 30, 2012, was $2.6 million, a decrease of $260,000, or 9.1%, as compared to the $2.9 million in net income earned in the same period of the prior fiscal year. After preferred dividends of $195,000 paid in the three-month period ended September 30, 2012, net income available to common shareholders was $2.4 million, a decrease of $225,000, or 8.6%, as compared to the $2.6 million in net income available to common shareholders, after preferred dividends of $136,000 and a charge for the early redemption of preferred stock of $94,000 paid in the same period of the prior fiscal year. For the three-month period ended September, 2012, basic and fully-diluted net income per share available to common shareholders was $0.74 and $0.72, respectively, decreases of $0.51, or 40.8%, and $0.49, or 40.5%, respectively, as compared to the same period of the prior year. The decrease is primarily attributable to the additional average common shares outstanding following the November 2011 common offering. Our annualized return on average assets for the three-month period ended September 30, 2012, was 1.41%, as compared to 1.62% for the same period of the prior fiscal year. For the three-month period ended September 30, 2012, return on average assets excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits was 1.23%, as compared to 1.20% for the same period of the prior year. Our return on average common stockholders' equity for the three-month period ended September 30, 2012, was 12.6%, as compared to 22.0% in the same period of the prior fiscal year. For the three-month period ended September 30, 2012, return on average common stockholders' equity excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits was 10.9%, as compared to 15.8% in the same period of the prior fiscal year.

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Net Interest Income. Net interest income for the three-month period ended September 30, 2012, was $7.4 million, a decrease of $58,000, or 0.8%, as compared to the same period of the prior fiscal year. Net interest income attributable to the accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits was $529,000 in the current period, as compared to $1.2 million in the same period of the prior fiscal year.

Our net interest margin for the three-month period ended September 30, 2012, determined by dividing annualized net interest income by total average interest-earning assets, was 4.30%, as compared to 4.42% in the same period of the prior fiscal year. Our net interest margin excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits was 4.00% for the three-month period ended September 30, 2012, as compared to 3.72% for the same period of the prior fiscal year.

Our average net interest rate spread for the three-month period ended September 30, 2012, was 4.11%, as compared to 4.20% for the same period of the prior fiscal year. For the three-month period ended September 30, 2012, the nine basis point decline in the net interest rate spread, compared to the same period a year ago, resulted from a 60 basis point decrease in the average yield on interest-earning assets, partially offset by a 51 basis point decrease in the average cost of interest-bearing liabilities. The decline in net interest spread was attributable to the reduction in net interest income attributable to accretion of fair value discount on acquired loans and amortization of fair value premium on acquired time deposits: this component of net interest income declined from $1.2 million in the first quarter of fiscal 2012 to $529,000 in the first quarter of fiscal 2013. On our average earning asset total of $683.0 million, the decline accounted for a 38 basis point decline in the yield on average earning assets. Our growth initiatives resulted in an increase of $12.9 million, or 1.9% in the average balance of interest-earning assets, when comparing the three-month period ended September 30, 2012, with the same period of the prior fiscal year; however, more importantly, average interest-bearing cash equivalents declined by $32.3 million, while the average balance of other interest-bearing assets increased by $45.3 million.

Interest Income. Total interest income for the three-month period ended September 30, 2012, was $9.4 million, a decrease of $852,000, or 8.3%, as compared to the amount earned in the same period of the prior fiscal year. The decrease was attributed to a 60 basis point decline in the average yield on interest-earning assets, as compared to the same period of the prior fiscal year, as yields on the Company’s loan and investment securities portfolios declined with market rates, partially offset by a lower percentage of interest-earning assets held in relatively low-yielding cash equivalents. The decline in the average yield was partially offset by an increase of $12.9 million, or 1.9%, in the average balance of interest-earning assets for current period, as compared to the same period of the prior fiscal year.

Interest Expense. Total interest expense for the three-month period ended September 30, 2012, was $1.9 million, a decrease of $794,000, or 29.0%, as compared to the same period of the prior fiscal year. The decrease was due to the 51 basis point decline in the average cost of interest-bearing liabilities, combined with a decrease of $11.9 million, or 2.0%, in the average balance of those liabilities for the three-month period ended September 30, 2012, as compared to the same period of the prior fiscal year. For the three-month period ended September 30, 2012, the average interest rate on interest-bearing liabilities was 1.32%, as compared to 1.83% for the same period of the prior fiscal year. The decline was attributed to a reduced cost of funds resulting from lower market rates, as well the replacement of some higher-cost FHLB advances with overnight borrowings.

Provisions for Loan Losses. Provisions for loan losses for the three-month period ended September 30, 2012, were $611,000, as compared to $517,000, for the same period of the prior fiscal year. The increase in provisioning was attributed to strong loan growth, a slight increase in classified loans, and an increase in past-due and nonperforming credits. For the first quarter of fiscal 2013, provisioning represents an annualized charge of 0.41% of average loan balances, while net charge offs were 0.01%, as compared to provisioning of 0.37% and net charge offs of 0.14% for the same period of the prior fiscal year. By comparison, for fiscal years 2012 and 2011, provisions totaled 32 and 47 basis points, respectively, as a percentage of average gross loans outstanding, as compared to net charge offs of 13 and nine basis points, respectively, in those fiscal years. 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”).

Noninterest Income. Noninterest income for the three-month period ended September 30, 2012, was $1.1 million, a decrease of $57,000, or 5.1%, as compared to the same period of the prior fiscal year. The decrease was attributable primarily to the inclusion in the prior period’s results of the settlement of a legal claim obtained as a result of the Acquisition. Apart from that item, increased deposit account service charges and fees (resulting from transaction account growth and increased NSF activity), increases in the cash value of Bank-owned life insurance (resulting from an additional investment in such policies in March 2012), and higher bank card network interchange revenues (resulting from additional bank card transaction volume) were partially offset by lower gains on secondary market loan sales.

Noninterest Expense. Noninterest expense for the three-month period ended September 30, 2012, was $4.1 million, an increase of $355,000, or 9.4%, as compared to the same period of the prior fiscal year. The increase was primarily attributable to higher compensation and occupancy expenses, and reduced gains on the sale of foreclosed real estate, partially offset by a decline in the cost of providing internet and mobile banking services. For the three-month period ended September 30, 2012, our efficiency ratio, determined by dividing total noninterest expense by the sum of net interest income and noninterest income, was 48.8%, as compared to 44.0% for the same period of the prior fiscal year. The deterioration for the three-month period was the result of a 1.3% decrease in revenues, combined with a 9.4% increase in noninterest expense. 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.

Income Taxes. Provisions for income taxes for the three-month period ended September 30, 2012, were $1.1 million, a decrease of $303,000, or 21.0%, as compared to the same period of the prior fiscal year. The effective tax rate for the three-month period was 30.6%, as compared to 33.6% during the same period of the prior fiscal year. The decline was attributed primarily to additional tax-advantaged investments by the Company.

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 loans, 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 three-month periods ended September 30, 2012 and 2011:

	Three months ended September 30,	
	2012	2011
Balance, beginning of period	$7,492,054	$6,438,451
Loans charged off:		
Residential real estate	(13,872)	(76,918)
Construction	-	-
Commercial business	(3,244)	(11,156)
Commercial real estate	(227)	(24,825)
Consumer	(8,589)	(96,604)
Gross charged off loans	(25,932)	(209,503)
Recoveries of loans previously charged off:		
Residential real estate	113	4,605
Construction	-	233
Commercial business	-	-
Commercial real estate	1,630	-
Consumer	2,284	1,592
Gross recoveries of charged off loans	4,027	6,430
Net charge offs	(21,905)	(203,073)
Provision charged to expense	610,689	516,683
Balance, end of period	$8,080,838	$6,752,061

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 increased $589,000 to $8.1 million at September 30, 2012, from $7.5 million at June 30, 2012. The increase was necessary in order to bring the allowance for loan losses to a level that reflects management's estimate of the incurred loss in the Company's loan portfolio at September 30, 2012.

At September 30, 2012, the Company had $18.3 million, or 2.96% of total loans, adversely classified ($18.3 million classified "substandard"; $0 classified "doubtful"; and $0 classified "loss"), as compared to $16.3 million, or 1.52% of total loans, adversely classified ($16.3 million classified "substandard"; none classified "doubtful"; and none classified "loss") at June 30, 2012, and $6.8 million, or 1.19% of total loans, adversely classified ($6.8 million classified "substandard"; $1,000 classified "doubtful"; and none classified "loss") at September 30, 2011. Classified loans were generally comprised of loans secured by commercial and agricultural real estate loans, while a smaller amount of commercial operating loans and residential real estate loans were also classified. All loans were classified due to concerns as to the borrowers' ability to continue to generate sufficient cash flows to service the debt. Of our classified loans, the Company had ceased recognition of interest on loans with a carrying value of $5.5 million at September 30, 2012. The Company's investment in the Trapeza 4 CDO (see "Executive Summary" and "Nonperforming Assets") was also treated as a non-accrual asset.

In its quarterly evaluation of the adequacy of its allowance for loan losses, the Company employs historical data including past due percentages, charge offs, and recoveries for the previous five years for each loan category. During fiscal year 2011, the Company modified its allowance methodology to also consider the most recent twelve-month period's average net charge offs and to use this information as one of the primary factors for evaluation of allowance adequacy. Average net charge offs are calculated as net charge offs by portfolio type for the period as a percentage of the average balance of respective portfolio type over the same period. As the Company and the industry have seen increases in loan defaults in the past several years, the Company believes that it is prudent to emphasize more recent historical factors in the allowance evaluation. The impact of the modification was minimal.

The following table sets forth the Company's historical net charge offs as of September 30, 2012, and June 30, 2012:

Portfolio segment	September 30, 2012 Net charge offs – 12-month historical	June 30, 2012 Net charge offs – 12-month historical
Real estate loans:		
Conventional	0.01%	0.05%
Construction	0.00%	0.00%
Commercial	0.01%	0.03%
Consumer loans	0.36%	0.59%
Commercial loans	0.33%	0.41%

Additionally, in its quarterly evaluation of the adequacy of the allowance for loan losses, the Company evaluates changes in the financial condition of individual borrowers; changes in local, regional, and national economic conditions; the Company's historical loss experience; and changes in market conditions for property pledged to the Company as collateral. The Company has identified specific qualitative factors that address these issues and subjectively assigns a percentage to each factor. Qualitative factors are reviewed quarterly and may be adjusted as necessary to reflect improving or declining trends. At September 30, 2012, these qualitative factors included:

· Changes in lending policies
· National, regional, and local economic conditions
· Changes in mix and volume of portfolio
· Experience, ability, and depth of lending management and staff
· Entry to new markets
· Levels and trends of delinquent, nonaccrual, special mention and
· classified loans
· Concentrations of credit
· Changes in collateral values
· Agricultural economic conditions
· Regulatory risk

The qualitative factors are applied to the allowance for loan losses based upon the following percentages by loan type:

Portfolio segment	Qualitative factor	Qualitative factor

	applied at interim period September 30, 2012	applied at fiscal year ended June 30, 2012
Real estate loans:		
Conventional	0.85%	0.83%
Construction	1.10%	1.10%
Commercial	1.33%	1.32%
Consumer loans	1.70%	1.38%
Commercial loans	1.08%	1.38%

At September 30, 2012, the amount of our allowance for loan losses attributable to these qualitative factors was approximately $6.7 million, as compared to $6.3 million at June 30, 2012. The lack of substantive change in our qualitative factors was attributed to a stable lending environment.

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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 nonperforming 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:

	September 30, 2012	June 30, 2012	September 30, 2011
Nonaccruing loans:			
Residential real estate	$1,090,106	$395,374	$107,100
Construction	99,200	-	0
Commercial real estate	3,229,790	976,881	421,638
Consumer	14,765	15,971	56,724
Commercial business	1,060,789	1,010,123	1
Total	$5,494,650	$2,398,349	$585,463
Loans 90 days past due accruing interest:			
Residential real estate	$-	$-	$-
Commercial real estate	-	-	-
Consumer	-	-	9,028
Commercial business	-	-	9,891
Total	$-	$-	$18,919
Total nonperforming loans	$5,494,650	$2,398,349	$604,382
Nonperforming investments	125,000	125,000	125,000
Foreclosed assets held for sale:			
Real estate owned	1,112,000	1,426,126	1,259,712
Other nonperforming assets	25,500	9,100	47,722
Total nonperforming assets	$6,757,150	$3,958,575	$2,036,816

At September 30, 2012, troubled debt restructurings (TDRs) totaled $5.2 million, of which $2.0 was considered nonperforming and was included in the nonaccrual loan total above. The remaining $3.2 million in TDRs have complied with the modified terms for a reasonable period of time and are therefore considered by the Company to be accrual status loans. In general, these loans were subject to classification as TDRs at September 30, 2012, on the basis of guidance under ASU No. 2011-02, which indicates that the Company may not consider the borrower's effective borrowing rate on the old debt immediately before the restructuring in determining whether a concession has been granted. At June 30, 2012, troubled debt restructurings (TDRs) totaled $4.9 million, of which $1.7 was considered nonperforming and was included in the nonaccrual loan total above. The remaining $3.1 million in TDRs have complied with the modified terms for a reasonable period of time and are therefore considered by the Company to be accrual status loans.

At September 30, 2012, nonperforming assets totaled $6.8 million, as compared to $4.0 million at June 30, 2012, and $2.0 million at September 30, 2011. The increase in nonperforming assets from fiscal year end was attributed primarily to a single relationship, previously classified, for which $2.6 million was moved to nonaccrual status during the quarter ended September 30, 2012. The loans were secured by commercial real estate and a single family residence. 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 September 30, 2012, the Company had outstanding commitments and approvals to fund approximately $78.0 million in mortgage and non-mortgage loans. These commitments and approvals are expected to be funded through existing cash balances, cash flow from normal operations and, if needed, advances from the FHLB or the Federal Reserve's discount window. At September 30, 2012, 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 $190 million, of which $42.5 million had been advanced (additionally, letters of credit totaling $4 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 35% of Bank assets, or $260.2 million, subject to available collateral. Also, at September 30, 2012, the Bank had pledged a total of $97 million in loans secured by farmland and agricultural production loans to the Federal Reserve, providing access to $65.0million in primary credit borrowings from the Federal Reserve's discount window. Management believes its liquid resources will be sufficient to meet the Company's liquidity needs.

Regulatory Capital

The Company and Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory—and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Furthermore, the Company and Bank's regulators could require adjustments to regulatory capital not reflected in the condensed consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total capital and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average total assets (as defined). Management believes, as of September 30, 2012, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of September 30, 2012, the most recent notification from the Federal Reserve categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The tables below summarize the Company and Bank's actual and required regulatory capital:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
As of September 30, 2012	Amount	Ratio	Amount	Ratio	Amount	Ratio

Total Capital (to Risk-Weighted Assets)									
Consolidated	$109,336	18.59	%	$47,061	8.00	%	n/a	n/a	
Southern Bank	86,398	14.88	%	46,464	8.00	%	58,080	10.00	%
Tier I Capital (to Risk-Weighted Assets)									
Consolidated	101,969	17.33	%	23,531	4.00	%	n/a	n/a	
Southern Bank	79,122	13.62	%	23,232	4.00	%	34,848	6.00	%
Tier I Capital (to Average Assets)									
Consolidated	101,969	13.90	%	29,344	4.00	%	n/a	n/a	
Southern Bank	79,122	10.89	%	29,064	4.00	%	36,330	5.00	%

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As of June 30, 2012	Actual Amount	Actual Ratio		For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio		To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio	
Total Capital (to Risk-Weighted Assets)									
Consolidated	$106,796	19.08	%	$44,772	8.00	%	n/a	n/a	
Southern Bank	83,992	15.21	%	44,170	8.00	%	55,213	10.00	%
Tier I Capital (to Risk-Weighted Assets)									
Consolidated	99,788	17.83	%	22,386	4.00	%	n/a	n/a	
Southern Bank	77,077	13.96	%	22,085	4.00	%	33,128	6.00	%
Tier I Capital (to Average Assets)									
Consolidated	99,788	13.47	%	29,635	4.00	%	n/a	n/a	
Southern Bank	77,077	10.52	%	29,296	4.00	%	36,620	5.00	%

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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 three months of fiscal year 2012, fixed rate 1- to 4-family residential loan production totaled $3.3 million, as compared to $4.9 million during the same period of the prior fiscal year. At September 30, 2012, the fixed rate residential loan portfolio was $100.5 million with a weighted average maturity of 183 months, as compared to $114.3 million at September 30, 2011, with a weighted average maturity of 174 months. The Company originated $9.8 million in adjustable-rate 1- to 4-family residential loans during the three-month period ended September 30, 2012, as compared to $3.1 million during the same period of the prior fiscal year. At September 30, 2012, fixed rate loans with remaining maturities in excess of 10 years totaled $65.1 million, or 10.7% of net loans receivable, as compared to $82.2 million, or 14.6% of net loans receivable at September 30, 2011. The Company originated $20.0 million of fixed rate commercial and commercial real estate loans during the three-month period ended September 30, 2012, as compared to $11.5 million during the same period of the prior fiscal year. At September 30, 2012, the fixed rate commercial and commercial real estate loan portfolio was $238.7 million with a weighted average maturity of 35 months, compared to $219.7 million at September 30, 2011, with a weighted average maturity of 33.2 months. The Company originated $14.1 million in adjustable rate commercial and commercial real estate loans during the three-month period ended September 30, 2012, as compared to $12.3 million during the same period of the prior fiscal year. At September 30, 2012, adjustable-rate home equity lines of credit totaled $15.7 million, as compared to $14.7 million at September 30, 2011. At September 30, 2012, the Company's investment portfolio had an expected weighted-average life of 4.4 years, compared to 2.8 at September 30, 2011. 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 September 30, 2012, 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 in Rates	Estimated Net Portfolio Value $ Amount	$ Change	% Change	NPV as % of PV of Assets NPV Ratio	Change
+300	$ 91,295	$ (8,470)	-8 %	12.16 %	-1.01 %
+200	93,851	(5,914)	-6 %	12.48 %	-0.69 %
+100	96,437	(3,328)	-3 %	12.78 %	-0.38 %
NC	99,765	-	-	13.17 %	-
-100	102,719	(2,954)	3 %	13.51 %	0.34 %
-200	106,313	6,547	7 %	13.93 %	0.76 %
-300	109,794	10,029	10 %	14.34 %	1.17 %

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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 seven 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 September 30, 2012, was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, and several other members of our senior management. The Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2012, 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 September 30, 2012, 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 Company is not a party to any pending claims or lawsuits that are expected to have a material effect on the Company's financial condition or operations. Periodically, there have been various claims and lawsuits involving the Company mainly as a defendant, such as claims to enforce liens, condemnation proceedings on properties in which the Company 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 Company's ordinary business, the Company is not a party to any material pending legal proceedings that would have a material effect on the financial condition or operations of the Company.

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, 2012.

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
7/1/2012 thru 7/31/2012	-	-	-	-
8/1/2012 thru 8/31/2012	-	-	-	-
9/1/2012 thru 9/30/2012	-	-	-	-
Total	-	-	-	-

Item 3: Defaults upon Senior Securities

Not applicable

Item 4: Mine Safety Disclosures

Not applicable

Item 5: Other Information

None

Item 6: Exhibits

(a) Exhibits

3 (a)	Articles of Incorporation of the Registrant+		
3 (b)	Certificate of Designation for the Registrant’s Senior Non-Cumulative Perpetual Preferred Stock, Series A++		
3 (c)	Bylaws of the Registrant+++		
4	Form of Stock Certificate of Southern Missouri Bancorp++++		
10	Material Contracts		
	(a)	Registrant’s 2008 Equity Incentive Plan+++++	
	(b)	Registrant’s 2003 Stock Option and Incentive Plan++++++	
	(c)	Registrant’s 1994Stock Option and Incentive Plan+++++++	
	(d)	Southern Missouri Savings Bank, FSB Management Recognition and Development Plan+++++++	

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(e)	Employment Agreements		
	(i)		Greg A. Steffens*
(f)	Director's Retirement Agreements		
	(i)	Samuel H. Smith**	
	(ii)	Sammy A. Schalk***	
	(iii)	Ronnie D. Black***	
	(iv)	L. Douglas Bagby***	
	(v)	Rebecca McLane Brooks****	
	(vi)	Charles R. Love****	
	(vii)	Charles R. Moffitt****	
	(viii)	Dennis Robison*****	
	(ix)	David Tooley******	
(g)	Tax Sharing Agreement***		

31 Rule 13a-14(a) Certification

32 Section 1350 Certification

101 Attached as Exhibit 101 are the following financial statements from the Southern Missouri Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of income, (iii) consolidated statements of cash flows and (iv) the notes to consolidated financial statements.

+	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 Current Report on Form 8-K filed on July 26, 2011.
+++	Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on December 6, 2007.
++++	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.
+++++	Field as an attachment to the Registrant's definitive proxy statement filed on September 19, 2008.
++++++	Filed as an attachment to the Registrant's definitive proxy statement filed on September 17, 2003.
+++++++	Filed as an attachment 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.
******	Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011.

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: November 14, 2012	/s/ Greg A. Steffens Greg A. Steffens President & Chief Executive Officer (Principal Executive Officer)
Date: November 14, 2012	/s/ Matthew T. Funke Matthew T. Funke Chief Financial Officer (Principal Financial and Accounting Officer)