GREAT SOUTHERN BANCORP INC
Form 10-Q
May 19, 2008

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

FORM 10-Q

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

For the Quarterly Period ended March 31, 2008

Commission File Number 0-18082

GREAT SOUTHERN BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland	43-1524856
(State of Incorporation)	(IRS Employer Identification Number)

1451 E. Battlefield, Springfield, Missouri	65804
(Address of Principal Executive Offices)	(Zip Code)

(417) 887-4400
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
(Check one):

Large accelerated filer / / Accelerated filer /X/ Non-accelerated filer / /(Do not check if a smaller reporting company) Smaller reporting company / /

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes / / No /X/

The number of shares outstanding of each of the registrant's classes of common stock: 13,380,969 shares of common stock, par value $.01, outstanding at May 15, 2008.

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except number of shares)

	MARCH 31, 2008 (Unaudited)	DECEMBER 31, 2007
ASSETS		
Cash	$ 76,560	$ 79,552
Interest-bearing deposits in other financial institutions	3,410	973
Cash and cash equivalents	79,970	80,525
Available-for-sale securities	464,600	425,028
Held-to-maturity securities (fair value $1,551 – March 2008; $1,508 - December 2007)	1,420	1,420
Mortgage loans held for sale	3,983	6,717
Loans receivable, net of allowance for loan losses of $26,492 - March 2008; $25,459 - December 2007	1,828,892	1,813,394
Interest receivable	14,195	15,441
Prepaid expenses and other assets	25,188	14,904
Foreclosed assets held for sale, net	22,935	20,399
Premises and equipment, net	29,800	28,033
Goodwill and other intangible assets	1,851	1,909
Investment in Federal Home Loan Bank stock	10,151	13,557
Refundable income taxes	8,892	1,701
Deferred income taxes	10,354	8,704
Total Assets	$ 2,502,231	$ 2,431,732
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 1,929,814	$ 1,763,146
Federal Home Loan Bank advances	123,213	213,867
Short-term borrowings	222,463	216,721
Subordinated debentures issued to capital trust	30,929	30,929
Accrued interest payable	4,498	6,149
Advances from borrowers for taxes and insurance	694	378
Accounts payable and accrued expenses	19,044	10,671
Total Liabilities	2,330,655	2,241,861
Stockholders' Equity:		
Capital stock		
Serial preferred stock, $.01 par value; authorized 1,000,000 shares; none issued	--	--
Common stock, $.01 par value; authorized 20,000,000 shares; issued and outstanding March 2008 - 13,389,303 shares; December 2007 - 13,400,197 shares	134	134
Additional paid-in capital	19,460	19,342
Retained earnings	152,981	170,933

Accumulated other comprehensive income (loss)	(999)	(538)
Total Stockholders' Equity	171,576	189,871
Total Liabilities and Stockholders' Equity	$ 2,502,231	$ 2,431,732

See Notes to Consolidated Financial Statements

2

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	THREE MONTHS ENDED MARCH 31,	
	2008	2007
	(Unaudited)	
INTEREST INCOME		
Loans	$ 32,739	$ 34,677
Investment securities and other	5,601	4,781
TOTAL INTEREST INCOME	38,340	39,458
INTEREST EXPENSE		
Deposits	16,900	18,226
Federal Home Loan Bank advances	1,582	1,863
Short-term borrowings	1,597	1,743
Subordinated debentures issued to capital trust	418	440
TOTAL INTEREST EXPENSE	20,497	22,272
NET INTEREST INCOME	17,843	17,186
PROVISION FOR LOAN LOSSES	37,750	1,350
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	(19,907)	15,836
NONINTEREST INCOME		
Commissions	2,640	2,480
Service charges and ATM fees	3,566	3,503
Net realized gains on sales of loans	393	175
Net realized gains on sales of available for-sale securities	6	---
Late charges and fees on loans	219	163
Change in interest rate swap fair value net of change in hedged deposit fair value	2,977	296
Other income	373	348
TOTAL NONINTEREST INCOME	10,174	6,965
NONINTEREST EXPENSE		
Salaries and employee benefits	8,276	7,136
Net occupancy and equipment expense	2,048	1,942
Postage	564	532
Insurance	614	221
Advertising	278	247
Office supplies and printing	219	232
Telephone	372	335
Legal, audit and other professional fees	378	249
Expense (income) on foreclosed assets	353	114
Other operating expenses	1,006	910
TOTAL NONINTEREST EXPENSE	14,108	11,918
INCOME (LOSS) BEFORE INCOME TAXES	(23,841)	10,883
PROVISION (CREDIT) FOR INCOME TAXES	(8,688)	3,548
NET INCOME (LOSS)	$ (15,153)	$ 7,335
BASIC EARNINGS PER COMMON SHARE	$(1.13)	$.54
DILUTED EARNINGS PER COMMON SHARE	$(1.13)	$.53
DIVIDENDS DECLARED PER COMMON SHARE	$.18	$.16

See Notes to Consolidated Financial Statements

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	THREE MONTHS ENDED MARCH 31,	
	2008	2007
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (15,153)	$ 7,335
Proceeds from sales of loans held for sale	24,742	11,268
Originations of loans held for sale	(18,030)	(7,882)
Items not requiring (providing) cash:		
Depreciation	610	644
Amortization	98	92
Provision for loan losses	37,750	1,350
Net gains on loan sales	(393)	(175)
Net gains on sale of available-for-sale investment securities	(6)	--
Net gains on sale of premises and equipment	(10)	(10)
Gain on sale of foreclosed assets	(29)	(85)
Amortization of deferred income, premiums and discounts	(716)	(1,097)
Change in interest rate swap fair value net of change in hedged deposit fair value	(2,977)	(296)
Deferred income taxes	(1,402)	(439)
Changes in:		
Interest receivable	1,246	(579)
Prepaid expenses and other assets	(10,600)	826
Accounts payable and accrued expenses	8,931	(11,444)
Income taxes refundable/payable	(7,191)	3,976
Net cash provided by operating activities	16,870	3,484
CASH FLOWS FROM INVESTING ACTIVITIES		
Net increase in loans	(61,086)	(44,885)
Purchase of loans	(1,647)	(1,320)
Proceeds from sale of student loans	208	945
Purchase of additional business units	--	(730)
Purchase of premises and equipment	(2,381)	(917)
Proceeds from sale of premises and equipment	14	14
Proceeds from sale of foreclosed assets	4,080	804
Capitalized costs on foreclosed assets	(146)	--
Proceeds from sales of available-for-sale investment securities	51,421	--
Proceeds from maturing available-for-sale investment securities	21,000	120,000
Proceeds from called investment securities	45,500	5,250
Principal reductions on mortgage-backed securities	17,430	14,524
Purchase of available-for-sale securities	(175,659)	(177,650)
Redemption of Federal Home Loan Bank stock	3,406	1,604
Net cash used in investing activities	(97,860)	(82,361)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in certificates of deposit	87,175	19,412
Net increase in checking and savings deposits	80,541	33,965

Proceeds from Federal Home Loan Bank advances	503,000	341,000
Repayments of Federal Home Loan Bank advances	(593,654)	(399,750)
Net increase in short-term borrowings	5,742	51,503
Advances from borrowers for taxes and insurance	316	355
Stock repurchases	(408)	(617)
Dividends paid	(2,412)	(2,188)
Stock options exercised	135	545
Net cash provided by financing activities	80,435	44,225
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(555)	(34,652)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	80,525	133,150
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 79,970	$ 98,498

See Notes to Consolidated Financial Statements

4

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Great Southern Bancorp, Inc. (the "Company" or "Great Southern") 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 Regulation S-X. The financial statements presented herein reflect all adjustments which are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company for the periods presented. Those adjustments consist only of normal recurring adjustments. Operating results for the three months ended March 31, 2008 and 2007 are not necessarily indicative of the results that may be expected for the full year. The consolidated statement of financial condition of the Company as of December 31, 2007, has been derived from the audited consolidated statement of financial condition 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 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for 2007 filed with the Securities and Exchange Commission.

NOTE 2: OPERATING SEGMENTS

The Company's banking operation is its only reportable segment. The banking operation is principally engaged in the business of originating residential and commercial real estate loans, construction loans, commercial business loans and consumer loans and funding these loans through deposits attracted from the general public and correspondent account relationships, brokered deposits and borrowings from the Federal Home Loan Bank ("FHLBank") and others. The operating results of this segment are regularly reviewed by management to make decisions about resource allocations and to assess performance.

Revenue from segments below the reportable segment threshold is attributable to three operating segments of the Company. These segments include insurance services, travel services and investment services. Selected information is not presented separately for the Company's reportable segment, as there is no material difference between that information and the corresponding information in the consolidated financial statements.

For the three months ended March 31, 2008, the travel, insurance and investment divisions reported gross revenues of $1.7 million, $408,000 and $525,000, respectively, and net income of $57,000, $53,000 and $114,000, respectively. For the three months ended March 31, 2007, the travel, insurance and investment divisions reported gross revenues of $1.6 million, $380,000 and $520,000, respectively, and net income of $178,000, $65,000 and $8,000, respectively.

NOTE 3: COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, requires the reporting of comprehensive income and its components. Comprehensive income is defined as the change in equity from transactions and other events and circumstances from non-owner sources, and excludes investments by and distributions to owners. Comprehensive income includes net income and other items of comprehensive income meeting the above criteria. The Company's only component of other comprehensive income is the unrealized gains and losses on available-for-sale securities.

5

	Three Months Ended March 31, 2008	2007
	(In thousands)	
Net income (loss)	$(15,153)	$ 7,335
Unrealized holding gains (losses), net of income taxes	(457)	583
Less: reclassification adjustment for gains (losses) included in net income, net of income taxes	4	--
	(461)	583
Comprehensive income (loss)	$(15,614)	$ 7,918

NOTE 4: RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, and does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in generally accepted accounting principles. SFAS No. 157 emphasizes that fair value is a market-based measurement based on an exchange transaction between market participants in which an entity sells an asset or transfers a liability. SFAS No. 157 also establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. This hierarchy is the basis for the disclosure requirements, with fair value estimates based on the least reliable inputs requiring more extensive disclosures about the valuation method used and the gains and losses associated with those estimates. The Company adopted SFAS No. 157 on January 1, 2008, as required. The adoption of this standard did not have a material effect on the Company's financial position or results of operations. See Note 10, Fair Value Measurement, for additional disclosures.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 provides companies with the option to report selected financial assets and liabilities at fair value. Under the option, any changes in fair value would be included in earnings. This Statement seeks to reduce both complexity in accounting and volatility in earnings caused by differences in the existing accounting rules. Existing accounting principles use different measurement attributes for different assets and liabilities, which can lead to earnings volatility. SFAS No. 159 helps to mitigate this type of accounting-induced volatility by enabling companies to achieve a more consistent accounting for changes in the fair value of related assets and liabilities without having to apply complex hedge accounting provisions. Under this Statement, entities may measure at fair value financial assets and liabilities selected on a contract-by-contract basis. They are required to display those values separately from those measured under different attributes on the face of the statement of financial condition. Furthermore, companies must provide additional information that would help investors and other users of financial statements to more easily understand the effect on earnings. The Company adopted SFAS No. 159 on January 1, 2008, as required. The Company did not choose to report additional assets and liabilities at fair value other than those required to be accounted for at fair value prior to the adoption of SFAS No. 159. Therefore, the adoption of this standard did not have a material effect on the Company's financial position or results of operations.

In November 2007, the Securities and Exchange Commission Staff issued Staff Accounting Bulletin ("SAB") No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings. This SAB supersedes the guidance previously issued in SAB No. 105, Application of Accounting Principles to Loan Commitments. SAB No. 109 expresses the current view of the staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB No. 109 was effective for the Company on January 1, 2008 and did not have a material effect on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised), Business Combinations. SFAS No. 141(revised) retains the fundamental requirements in Statement 141 that the acquisition method of accounting be used for business combinations, but broadens the scope of Statement 141 and contains improvements to the application of this method. The Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Costs incurred to effect the acquisition are to be recognized separately from the acquisition. Assets and liabilities arising from contractual contingencies must be measured at fair value as of the acquisition date. Contingent consideration must also be measured at fair value as of the acquisition date. SFAS No. 141 (revised) applies to business combinations occurring after January 1, 2009. Based on its current activities, the Company does not expect the adoption of this Statement will have a material effect on the Company’s financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an Amendment of ARB No. 51. SFAS No. 160 requires that a noncontrolling interest in a subsidiary be accounted for as equity in the consolidated statement of financial position and that net income include the amounts for both the parent and the noncontrolling interest, with a separate amount presented in the income statement for the noncontrolling interest share of net income. SFAS No. 160 also expands the disclosure requirements and provides guidance on how to account for changes in the ownership interest of a subsidiary. SFAS No. 160 is effective for the Company on January 1, 2009. Based on its current activities, the Company does not expect the adoption of this Statement will have a material effect on the Company’s financial position or results of operations.

In January 2008, the FASB issued Statement 133 Implementation Issue No. E23 – Issues Involving the Application of the Shortcut Method Under Paragraph 68. This Implementation Issue amends the accounting and reporting requirements of paragraph 68 of Statement 133 (the shortcut method) to address certain practice issues. It addresses a limited number of issues that have caused implementation difficulties in the application of paragraph 68 of Statement 133. The objective is to improve financial reporting related to the shortcut method to increase comparability in financial statements. This pronouncement was effective for hedging relationships designated on or after January 1, 2008 and did not have a material effect on the Company’s financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133, which requires enhanced disclosures about an entity’s derivative and hedging activities intended to improve the transparency of financial reporting. Under SFAS No. 161, entities will be required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company expects to adopt SFAS No. 161 effective January 1, 2009. The adoption of this standard is not anticipated to have a material effect on the Company’s financial position or results of operations.

NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses derivative financial instruments (primarily interest rate swaps) to assist in its interest rate risk management. In accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities, all derivatives are measured and reported at fair value on the Company's consolidated statement of financial condition as either an asset or a liability. For derivatives that are designated and qualify as a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in the fair values. For all hedging relationships, derivative gains and losses that are not effective in hedging the changes in fair value of the hedged item are recognized immediately in current earnings during the period of the change. Similarly, the changes in the fair value of derivatives that do not qualify for hedge accounting under SFAS 133 are also reported currently in earnings in noninterest income.

7

The net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. The net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income.

At the inception of the hedge and quarterly thereafter, a formal assessment is performed to determine whether changes in the fair values of the derivatives have been highly effective in offsetting the changes in the fair values of the hedged item and whether they are expected to be highly effective in the future. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking the hedge. This process includes identification of the hedging instrument, hedged item, risk being hedged and the method for assessing effectiveness and measuring ineffectiveness. In addition, on a quarterly basis, the Company assesses whether the derivative used in the hedging transaction is highly effective in offsetting changes in fair value of the hedged item and measures and records any ineffectiveness. The Company discontinues hedge accounting prospectively when it is determined that the derivative is or will no longer be effective in offsetting changes in the fair value of the hedged item, the derivative expires, is sold or terminated or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

The estimates of fair values of the Company's derivatives and related liabilities are calculated by an independent third party using proprietary valuation models. The fair values produced by these valuation models are in part theoretical and reflect assumptions which must be made in using the valuation models. Small changes in assumptions could result in significant changes in valuation. The risks inherent in the determination of the fair value of a derivative may result in income statement volatility.

The Company uses derivatives to modify the repricing characteristics of certain assets and liabilities so that changes in interest rates do not have a significant adverse effect on net interest income and cash flows and to better match the repricing profile of its interest bearing assets and liabilities. As a result of interest rate fluctuations, certain interest-sensitive assets and liabilities will gain or lose market value. In an effective fair value hedging strategy, the effect of this change in value will generally be offset by a corresponding change in value on the derivatives linked to the hedged assets and liabilities.

At March 31, 2008 and December 31, 2007, the Company's fair value hedges include interest rate swaps to convert the economic interest payments on certain brokered CDs from a fixed rate to a floating rate based on LIBOR. At March 31, 2008, these fair value hedges were considered to be highly effective and any hedge ineffectiveness was deemed not material. The notional amounts of the liabilities being hedged were $230.1 million and $419.2 million at March 31, 2008 and December 31, 2007, respectively. At March 31, 2008, swaps in a net settlement receivable position totaled $230.1 million and swaps in a net settlement payable position totaled $-0-. At December 31, 2007, swaps in a net settlement receivable position totaled $225.7 million and swaps in a net settlement payable position totaled $193.5 million. The net gains recognized in earnings on fair value hedges were $3.0 million and $296,000 for the three months ended March 31, 2008 and 2007, respectively.

NOTE 6: STOCKHOLDERS' EQUITY

Previously, the Company's stockholders approved the Company's reincorporation to the State of Maryland. Under Maryland law, there is no concept of "Treasury Shares." Instead, shares purchased by the Company constitute authorized but unissued shares under Maryland law. Accounting principles generally accepted in the United States of America state that accounting for treasury stock shall conform to state law. The cost of shares purchased by the Company has been allocated to Common Stock and Retained Earnings balances.

8

NOTE 7: INVESTMENT SECURITIES

	March 31, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value	Tax Equivalent Yield
	(Dollars in thousands)				
AVAILABLE -FOR-SALE SECURITIES:					
U.S. government agencies	$112,526	$ 73	$456	$112,143	5.49%
Collateralized mortgage obligations	28,767	500	1,305	27,962	5.87
Mortgage-backed securities	259,045	1,277	299	260,023	5.05
Corporate bonds	1,501	---	85	1,416	