

GREAT SOUTHERN BANCORP INC
Form 10-Q
May 06, 2011

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, 2011

Commission File Number 0-18082

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

Maryland
(State of Incorporation)

43-1524856
(IRS Employer Identification Number)

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

65804
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data file required to be submitted and posted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes/ / No / /

Indicate by check mark whether the registrant is a 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 / / Smaller reporting company / /

(Do not check if a smaller reporting company)

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

The number of shares outstanding of each of the registrant's classes of common stock: 13,454,914 shares of common stock, par value \$.01, outstanding at May 4, 2011.

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, 2011 (Unaudited) | DECEMBER 31, 2010 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Cash | \$ 72,836 | \$ 69,756 |
| Interest-bearing deposits in other financial institutions | 389,461 | 360,215 |
| Cash and cash equivalents | 462,297 | 429,971 |
| Available-for-sale securities | 838,178 | 769,546 |
| Held-to-maturity securities (fair value \$1,270 – March 2011; \$1,300 - December 2010) | 1,125 | 1,125 |
| Mortgage loans held for sale | 7,401 | 22,499 |
| Loans receivable, net of allowance for loan losses of \$41,834 – March 2011; \$41,487 - December 2010 | 1,888,493 | 1,876,887 |
| FDIC indemnification asset | 87,410 | 100,878 |
| Interest receivable | 11,667 | 12,628 |
| Prepaid expenses and other assets | 50,674 | 52,390 |
| Foreclosed assets held for sale, net | 61,872 | 60,262 |
| Premises and equipment, net | 73,098 | 68,352 |
| Goodwill and other intangible assets | 5,188 | 5,395 |
| Investment in Federal Home Loan Bank stock | 11,524 | 11,572 |
| Total Assets | \$ 3,498,927 | \$ 3,411,505 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits | \$ 2,675,706 | \$ 2,595,893 |
| Federal Home Loan Bank advances | 152,261 | 153,525 |
| Securities sold under reverse repurchase agreements with customers | 266,220 | 257,180 |
| Short-term borrowings | 660 | 778 |
| Structured repurchase agreements | 53,129 | 53,142 |
| Subordinated debentures issued to capital trusts | 30,929 | 30,929 |
| Accrued interest payable | 3,558 | 3,765 |
| Advances from borrowers for taxes and insurance | 1,196 | 1,019 |
| Accounts payable and accrued expenses | 9,395 | 10,395 |
| Current and deferred income taxes | 670 | 870 |
| Total Liabilities | 3,193,724 | 3,107,496 |
| Stockholders' Equity: | | |
| Capital stock | | |
| Serial preferred stock, \$.01 par value; authorized 1,000,000 shares; issued | | |
| and outstanding 58,000 shares | 56,601 | 56,480 |

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| | | |
|---|--------------|--------------|
| Common stock, \$.01 par value; authorized 20,000,000 shares; issued and outstanding March 2011 - 13,454,489 shares; December 2010 - 13,454,000 shares | 134 | 134 |
| Stock warrants; 909,091 shares | 2,452 | 2,452 |
| Additional paid-in capital | 20,818 | 20,701 |
| Retained earnings | 222,653 | 220,021 |
| Accumulated other comprehensive gain | 2,545 | 4,221 |
| Total Stockholders' Equity | 305,203 | 304,009 |
| Total Liabilities and Stockholders' Equity | \$ 3,498,927 | \$ 3,411,505 |
| See Notes to Consolidated Financial Statements | | |

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

| | THREE MONTHS ENDED MARCH 31, | |
|---|---------------------------------|-----------|
| | 2011 | 2010 |
| | (Unaudited) | |
| INTEREST INCOME | | |
| Loans | \$ 42,084 | \$ 32,194 |
| Investment securities and other | 6,956 | 7,560 |
| TOTAL INTEREST INCOME | 49,040 | 39,754 |
| INTEREST EXPENSE | | |
| Deposits | 7,486 | 10,657 |
| Federal Home Loan Bank advances | 1,297 | 1,397 |
| Short-term borrowings and repurchase agreements | 756 | 993 |
| Subordinated debentures issued to capital trusts | 140 | 136 |
| TOTAL INTEREST EXPENSE | 9,679 | 13,183 |
| NET INTEREST INCOME | 39,361 | 26,571 |
| PROVISION FOR LOAN LOSSES | 8,200 | 5,500 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 31,161 | 21,071 |
| NON-INTEREST INCOME | | |
| Commissions | 2,437 | 2,066 |
| Service charges and ATM fees | 4,063 | 4,583 |
| Net realized gains on sales of loans | 907 | 793 |
| Late charges and fees on loans | 122 | 204 |
| Accretion (amortization) of income related to business acquisitions | (9,754) | 900 |
| Other income | 453 | 451 |
| TOTAL NON-INTEREST INCOME | (1,772) | 8,997 |
| NON-INTEREST EXPENSE | | |
| Salaries and employee benefits | 11,573 | 11,036 |
| Net occupancy and equipment expense | 3,690 | 3,489 |
| Postage | 755 | 832 |
| Insurance | 1,446 | 1,133 |
| Advertising | 275 | 218 |
| Office supplies and printing | 278 | 463 |
| Telephone | 625 | 542 |
| Legal, audit and other professional fees | 762 | 665 |
| Expense on foreclosed assets | 429 | 2,167 |
| Other operating expenses | 1,776 | 1,598 |
| TOTAL NON-INTEREST EXPENSE | 21,609 | 22,143 |
| INCOME BEFORE INCOME TAXES | 7,780 | 7,925 |
| PROVISION FOR INCOME TAXES | 1,887 | 2,387 |
| NET INCOME | 5,893 | 5,538 |

PREFERRED STOCK DIVIDENDS AND DISCOUNT

| | | | | |
|---|----|-------|----|-------|
| ACCRETION | | 845 | | 839 |
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS | \$ | 5,048 | \$ | 4,699 |
| BASIC EARNINGS PER COMMON SHARE | \$ | 0.38 | \$ | 0.35 |
| DILUTED EARNINGS PER COMMON SHARE | \$ | 0.36 | \$ | 0.34 |
| DIVIDENDS DECLARED PER COMMON SHARE | \$ | .18 | \$ | .18 |

See Notes to Consolidated Financial Statements

GREAT SOUTHERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

THREE MONTHS ENDED MARCH 31,

2011

2010

(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|---|-----------|----------|
| Net income | \$ 5,893 | \$ 5,538 |
| Proceeds from sales of loans held for sale | 52,100 | 33,441 |
| Originations of loans held for sale | (36,831) | (30,154) |
| Items not requiring (providing) cash: | | |
| Depreciation | 1,206 | 788 |
| Amortization | 561 | 264 |
| Compensation expense for stock option grants | 119 | 112 |
| Provision for loan losses | 8,200 | 5,500 |
| Net gains on loan sales | (907) | (793) |
| Net (gains) losses on sale of premises and equipment | 168 | (5) |
| Loss on sale of foreclosed assets | 266 | 858 |
| Amortization (accretion) of deferred income, premiums and discounts | 9,510 | (1,326) |
| Deferred income taxes | (4,245) | (285) |
| Changes in: | | |
| Interest receivable | 961 | 1,100 |
| Prepaid expenses and other assets | 4,988 | (81) |
| Accounts payable and accrued expenses | (1,207) | (249) |
| Income taxes refundable/payable | 4,947 | (4,583) |
| Net cash provided by operating activities | 45,729 | 10,125 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net (increase) decrease in loans | (27,545) | 19,687 |
| Purchase of loans | -- | (11,242) |
| Proceeds from sale of student loans | -- | 17,527 |
| Purchase of additional business units | (2) | -- |
| Purchase of premises and equipment | (3,537) | (1,785) |
| Proceeds from sale of premises and equipment | 86 | 22 |
| Proceeds from sale of foreclosed assets | 4,635 | 6,852 |
| Capitalized costs on foreclosed assets | (164) | (267) |
| Proceeds from maturing held-to-maturity investment securities | 1,202 | -- |
| Proceeds from called investment securities | 6,645 | 2,110 |
| Principal reductions on mortgage-backed securities | 32,999 | 38,750 |
| Purchase of available-for-sale securities | (112,823) | (9,992) |
| Redemption of Federal Home Loan Bank stock | 48 | 142 |
| Net cash (used in) provided by investing activities | (98,456) | 61,804 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in certificates of deposit | 19,967 | 30,470 |
| Net increase in checking and savings deposits | 60,188 | 51,656 |
| Repayments of Federal Home Loan Bank advances | (1,059) | (3,181) |
| | 8,922 | (26,456) |

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| | | |
|--|------------|------------|
| Net increase (decrease) in short-term borrowings and structured repo | | |
| Advances from borrowers for taxes and insurance | 177 | (7) |
| Dividends paid | (3,146) | (3,137) |
| Stock options exercised | 4 | 301 |
| Net cash provided by financing activities | 85,053 | 49,646 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 32,326 | 121,575 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 429,971 | 444,576 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 462,297 | \$ 566,151 |
| See Notes to Consolidated Financial Statements | | |

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 condition, 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, 2011 and 2010 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, 2010, has been derived from the audited consolidated statement of financial condition of the Company as of that date. Certain prior periods' amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income.

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 2010 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.

NOTE 3: COMPREHENSIVE INCOME

The FASB's Accounting Standards Codification ("FASB ASC") Topic 220 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.

| | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2011 | 2010 |
| | (In Thousands) | |
| Net unrealized loss on available-for-sale securities | \$ (2,712) | \$ (602) |
| Net unrealized gain (loss) on available-for-sale debt securities for which a portion of an other-than-temporary impairment has been recognized | 134 | (435) |
| Other comprehensive loss, before tax effect | (2,578) | (1,037) |
| Tax benefit | (902) | (363) |
| Change in unrealized loss on available-for-sale securities, net of income taxes | \$ (1,676) | \$ (674) |

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

| | March 31, 2011 | December 31, 2010 |
|---|-------------------|----------------------|
| | (In Thousands) | |
| Net unrealized gain on available-for-sale securities | \$ 4,567 | \$ 7,279 |
| Net unrealized loss on available-for-sale debt securities for which a portion of an other-than-temporary impairment has been recognized in income | (651) | (785) |
| Tax expense | 3,916 | 6,494 |
| | 1,371 | 2,273 |
| Net-of-tax amount | \$ 2,545 | \$ 4,221 |

NOTE 4: RECENT ACCOUNTING PRONOUNCEMENTS

In April 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-03 to amend FASB ASC Topic 860, Transfers and Servicing. ASC 860 outlines when the transfer of financial assets under a repurchase agreement may or

may not be accounted for as a sale. Whether the transferring entity maintains effective control over the transferred financial assets provides the basis for such a determination. The previous requirement that the transferor must have the ability to repurchase or redeem the financial assets before the maturity of the agreement is removed from the assessment of effective control by this Update. The Update is effective on a prospective basis for interim and annual reporting periods beginning on or after December 15, 2011, and is not expected to have a material impact on the Company's financial position or results of operations.

In April 2011, the FASB issued ASU No. 2011-02 to amend FASB ASC Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors. The statement clarifies guidance used by creditors to identify troubled debt restructurings and to result in more consistent application of GAAP for debt restructurings. The guidance is effective

for interim and annual reporting periods beginning after June 15, 2011, and is not expected to have a material impact on the Company's financial position or results of operations.

In December 2010, the FASB issued ASU No. 2010-28, Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. The update modifies step one of the impairment test for reporting units with zero or negative carrying amounts. Entities with such reporting units must now perform step two of the impairment test when qualitative factors indicate it is more likely than not that impairment exists. The amendment was effective for the Company January 1, 2011. The adoption of this Update did not have a material impact on the Company's financial position or results of operations.

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowances for Credit Losses. This Update requires expanded disclosures to help financial statement users understand the nature of credit risks inherent in a creditor's portfolio of financing receivables; how that risk is analyzed and assessed in arriving at the allowance for credit losses; and the changes, and reasons for those changes, in both the receivables and the allowance for credit losses. The disclosures should be prepared on a disaggregated basis and provide a roll-forward schedule of the allowance for credit losses and detailed information on financing receivables including, among other things, recorded balances, nonaccrual status, impairments, credit quality indicators, details for troubled debt restructurings and an aging of past due financing receivables. Disclosures required as of the end of a reporting period were effective for the Company December 31, 2010, while disclosures required for activity occurring during a reporting period were effective for the Company January 1, 2011. The adoption of this Update did not have a material impact on the Company's financial position or results of operations.

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements (FASB ASU 2010-09), which amends FASB ASC Subtopic 820-10, Fair Value Measurements and Disclosures. This Update requires new disclosures to show significant transfers in and out of Level 1 and Level 2 fair value measurements as well as discussion regarding the reasons for the transfers. It also clarifies existing disclosures requiring fair value measurement disclosures for each class of assets and liabilities. The Update describes a class as being a subset of assets and liabilities within a line item on the statement of financial condition which will require management judgment to designate. Use of the terminology "classes of assets and liabilities" represents an amendment from the previous terminology "major categories of assets and liabilities." Clarification is also provided for disclosures of Level 2 and Level 3 recurring and nonrecurring fair value measurements requiring discussion about the valuation techniques and inputs used. These provisions of the Update were effective January 1, 2010. Another new disclosure requires an expanded reconciliation of activity in Level 3 fair value measurements to present information about purchases, sales, issuances and settlements on a gross basis rather than netting the amounts in one number. This requirement was effective for the Company January 1, 2011. The adoption of this Update did not have a material impact on the Company's financial position or results of operations.

NOTE 5: 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.

NOTE 6: EARNINGS PER SHARE

| | Three Months Ended March 31, | |
|---|--|----------|
| | 2011 | 2010 |
| | (In Thousands, Except Per Share Data) | |
| Basic: | | |
| Average shares outstanding | 13,454 | 13,418 |
| Net income available to common shareholders | \$ 5,048 | \$ 4,699 |
| Per share amount | \$ 0.38 | \$ 0.35 |
| Diluted: | | |
| Average shares outstanding | 13,454 | 13,418 |
| Net effect of dilutive stock options and warrants – based on the treasury stock method using average market price | 569 | 599 |
| Diluted shares | 14,023 | 14,017 |
| Net income available to common shareholders | \$ 5,048 | \$ 4,699 |
| Per share amount | \$ 0.36 | \$ 0.34 |

Options to purchase 498,535 and 430,695 shares of common stock were outstanding during the three months ended March 31, 2011 and 2010, respectively, but were not included in the computation of diluted earnings per share for each period because the options' exercise price was greater than the average market price of the common shares.

NOTE 7: INVESTMENT SECURITIES

| | March 31, 2011 | | | | |
|--|-------------------|------------------------------|-------------------------------|---------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Tax Equivalent Yield |
| | (In Thousands) | | | | |
| AVAILABLE-FOR-SALE SECURITIES: | | | | | |
| U.S. government agencies | \$ 23,943 | \$ — | \$ 74 | \$ 23,869 | 2.56% |
| Collateralized mortgage obligations | 6,462 | 157 | 809 | 5,810 | 6.85 |
| Mortgage-backed securities | 648,201 | 9,380 | 3,352 | 654,229 | 3.21 |
| Small Business Administration loan pools | 59,557 | 729 | — | 60,286 | 2.02 |
| Corporate bonds | 49 | 120 | — | 169 | 41.87 |
| States and political subdivisions | 94,820 | 451 | 3,846 | 91,425 | 6.18 |
| Equity securities | 1,230 | 1,160 | — | 2,390 | 0.17 |
| Total available-for-sale securities | \$ 834,262 | \$ 11,997 | \$ 8,081 | \$ 838,178 | 3.47% |

HELD-TO-MATURITY
SECURITIES:

| | | | | | | | | | |
|-----------------------------------|----|-------|----|-----|----|---|----|-------|-------|
| States and political subdivisions | \$ | 1,125 | \$ | 145 | \$ | — | \$ | 1,270 | 7.31% |
|-----------------------------------|----|-------|----|-----|----|---|----|-------|-------|

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| | December 31, 2010 | | | | |
|---|-------------------|------------------------------|---|---------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses (In Thousands) | Fair Value | Tax Equivalent Yield |
| AVAILABLE-FOR-SALE SECURITIES: | | | | | |
| U.S. government agencies | \$ 4,000 | \$ — | \$ 20 | \$ 3,980 | 2.35% |
| Collateralized mortgage obligations | 8,311 | 183 | 814 | 7,680 | 6.48 |
| Mortgage-backed securities | 590,085 | 10,879 | 1,753 | 599,211 | 3.30 |
| Small Business Administration loan pools | 60,063 | 851 | — | 60,914 | 1.93 |
| States and political subdivisions | 99,314 | 378 | 4,075 | 95,617 | 6.16 |
| Corporate bonds | 49 | — | 28 | 21 | 74.97 |
| Equity securities | 1,230 | | | | |