

Edgar Filing: NAVISITE INC - Form 8-K/A

NAVISITE INC  
Form 8-K/A  
October 22, 2003

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

FORM 8-K/A  
(Amendment No.1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) August 8, 2003

NaviSite, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

52-2137343  
(I.R.S. Employer  
Identification No.)

000-27597  
(Commission File Number)

400 Minuteman Road  
Andover, Massachusetts  
01810  
(Address of principal executive offices)  
(zip code)

(978) 682-8300 Phone  
(Registrant's telephone number, including area code)

On August 22, 2003, NaviSite, Inc. (the "Registrant" or "NaviSite") filed a report on Form 8-K with respect to the acquisition of certain assets and the assumption of certain liabilities of ClearBlue Technologies, Inc., a Delaware corporation ("CLEARBLUE" or "CBT") pursuant to a Stock and Asset Acquisition Agreement, dated as of August 8, 2003. At that time it was impracticable to provide the financial statements and pro forma information required to be filed therewith relative to the acquired assets and assumed liabilities, and the Registrant stated in such Form 8-K that it intended to file the required financial statements and pro forma financial information as soon as practicable,

## Edgar Filing: NAVISITE INC - Form 8-K/A

but no later than October 22, 2003. By this amendment to such Form 8-K, the Registrant is amending and restating Item 7 thereof to include the required financial statements and pro forma financial information.

### Item 5. Other Events.

#### Information about ClearBlue

##### Nature of the Business

ClearBlue deploys and manages large-scale facilities for the co-location and hosting of mission critical services to support Internet, telecommunications and data markets. ClearBlue offers a comprehensive range of infrastructure solutions and services such as Web hosting, data storage, load balancing and firewalls.

##### Principal Source of Revenue and Types of Operating Expenses

ClearBlue's revenue consists of monthly recurring fees from Internet data center services, which include monthly storage, power service, cross-connection and related installation services. See Item 7 of this Report for detailed information about ClearBlue's sources of revenue and operating expenses.

Operating expenses consist of:

- o Cost of service, which includes labor and related costs, facilities rental, power, telecommunications and depreciation
- o General and administrative which includes labor and related costs and all other administrative expenses
- o Sales and marketing which includes labor and related costs and commission expense.

##### Material Fluctuations in Revenue, Expenses and Margins

ClearBlue's revenue declined from fiscal year ending July 31, 2002 to fiscal year ending July 31, 2003 due to the deteriorating economic conditions experienced by technology and telecom companies, which comprise a large portion of CBT's customer base. Due to the large percentage of fixed cost (compared to total cost), there were no material fluctuations in expenses year-to-year. Because of the forgoing, gross margin was negatively impacted in 2003 as compared to 2002.

##### Material Contractual Provisions with Customers

Material provisions of ClearBlue's contracts provide:

- o Term of 12 to 24 months
- o Automatic renewal upon expiration of initial term
- o Non-cancellation--other than for breach
- o Service level guarantees
- o Limitation of liability
- o Monthly recurring fees

##### Key Metrics

ClearBlue's key metrics for its co-location business are 1) data center utilization, which measures the actual space generating revenue, within a data center as compared to overall available space, 2) gross margin, which measures the contribution that customers make toward the profitability of the data center and 3) customer churn, which measures lost customer revenue during a period.

### Item 7. Financial Statements and Pro Forma Financial Information

## Edgar Filing: NAVISITE INC - Form 8-K/A

and Exhibits.

On August 8, 2003, NaviSite completed the acquisition of certain assets and the assumption of certain liabilities of ClearBlue Technologies, Inc. (ClearBlue), pursuant to a Stock and Asset Acquisition Agreement, dated as of August 8, 2003 (the Agreement).

Pursuant to the Agreement, ClearBlue sold to NaviSite all outstanding shares of each of the following wholly-owned subsidiaries of ClearBlue:

- ClearBlue Technologies/Chicago-Wells, Inc.;
- ClearBlue Technologies/Las Vegas, Inc.;
- ClearBlue Technologies/Los Angeles, Inc.;
- ClearBlue Technologies/Milwaukee, Inc.;
- ClearBlue Technologies/Oakbrook, Inc.; and
- ClearBlue Technologies/Vienna, Inc.

In addition, NaviSite assumed the revenue and expense, as of the date of the Agreement, of the following wholly-owned subsidiaries of ClearBlue, ownership of which will automatically be transferred under certain conditions to NaviSite for no additional consideration in February 2004:

- ClearBlue Technologies/Dallas, Inc.;
- ClearBlue Technologies/New York, Inc.;
- ClearBlue Technologies/San Francisco, Inc.; and
- ClearBlue Technologies/Santa Clara, Inc.

The ten ClearBlue subsidiaries referred to above are hereafter referred to as the Carve-Out Businesses of ClearBlue Technologies, Inc. or the Carve-Out Businesses. The four wholly-owned subsidiaries of ClearBlue, ownership of which will automatically be transferred under certain conditions to NaviSite for no additional consideration in February 2004 have been included in the audited historical combined financial statements of the Carve-Out Businesses and the unaudited pro forma condensed consolidated financial statements of NaviSite since NaviSite exercises effective control over these subsidiaries as of August 8, 2003.

On May 16, 2003, NaviSite completed the acquisition of substantially all of the assets relating to the managed infrastructure solutions business, encompassing messaging and collaboration, managed hosting, bundled-in managed security, and integrated and related professional services in the United States and in Europe, of Interliant, Inc., a Delaware corporation, and several of its subsidiaries (the Debtors) in the bankruptcy proceedings of the Debtors under Chapter 11 of the United States Bankruptcy Code pending in the Southern District of New York (White Plains), pursuant to an Asset Purchase Agreement, dated as of May 15, 2003 (the Agreement), by and between its subsidiary, Intrepid Acquisition Corp. (Intrepid) and the Debtors, approved by order of the Bankruptcy Court on May 15, 2003. Pursuant to the Agreement, the aggregate purchase price for the Interliant Assets was approximately \$7,204,000 after adjustments, based upon the Debtors' adjusted net

worth, comprised of approximately \$5,830,000 in cash, \$624,000 in the form of a credit of future distributions to be paid on the Interliant Notes, \$550,000 in principal amount of a non-interest bearing, 180-day promissory note, secured by the Interliant Debt and approximately \$200,000 in acquisition-related costs. On May 16, 2003, our subsidiary closed on the purchase of all of the Interliant assets, other than the Debtors' accounts receivable. On June 6, 2003, our subsidiary closed on the purchase of the accounts receivable. The source of the funds used for the initial closing was our cash on hand combined with the funds

## Edgar Filing: NAVISITE INC - Form 8-K/A

provided from and through financing of our accounts receivable with Silicon Valley Bank. Interliant's results of operations and cash flows for the two-and-one-half months ended July 31, 2003 are included in NaviSite's consolidated statement of operations and consolidated statement of cash flows for the year ended July 31, 2003. Intrepid is operated as a wholly-owned subsidiary of NaviSite.

On April 2, 2003, NaviSite acquired all of the outstanding stock of Conxion Corporation and Subsidiaries (Conxion) in exchange for \$1.925 million in cash. Conxion's results of operations and cash flows for the four months-ended July 31, 2003 are included in NaviSite's consolidated statement of operations and consolidated statement of cash flows for the year ended July 31, 2003. Conxion is operated as a wholly-owned subsidiary of NaviSite.

On December 31, 2002, NaviSite acquired all of the outstanding stock of ClearBlue Technologies Management, Inc. (CBTM) in exchange for 567,978 shares of NaviSite common stock, representing 4.5% of NaviSite's total outstanding stock, inclusive of the common stock issued as part of the acquisition. The market price of the NaviSite stock at the time of the transaction was \$2.25 per share. Immediately prior to its sale to NaviSite, CBTM was a wholly owned subsidiary of ClearBlue, NaviSite's parent company. As ClearBlue had a controlling interest in both companies at the time of the combination, the transaction was accounted for as a combination of entities under common control, similar to a pooling-of-interests, whereby the assets and liabilities of CBTM and NaviSite were combined at their historical amounts as of the date ClearBlue had control of both entities, September 11, 2002. CBTM's results of operations and cash flows for the eleven-months ended July 31, 2003 are included in NaviSite's consolidated statements of operations and consolidated statements of cash flows for the year ended July 31, 2003. CBTM is operated as a wholly-owned subsidiary of NaviSite.

The unaudited pro forma condensed consolidated balance sheet of NaviSite as of July 31, 2003 gives pro forma effect to the acquisition of the Carve-Out Businesses as if it had occurred as of July 31, 2003. The unaudited pro forma condensed consolidated statement of operations of NaviSite for the year ended July 31, 2003 gives pro forma effect to the acquisition of the Carve-Out Businesses, Intrepid, Conxion and CBTM as if they had occurred as of August 1, 2002.

The results of operations of NaviSite for the fiscal year ended July 31, 2003 have been combined with the results of operations of the Carve-Out Businesses for the twelve-months ended July 31, 2003; Intrepid for the nine-and-one-half months ended May 15, 2003; Conxion for the eight-months ended March 31, 2003; and CBTM for the one-month ended August 31, 2002.

The unaudited pro forma financial information is not necessarily indicative of the results of operations or financial position of NaviSite had the transactions assumed therein occurred, nor are they necessarily indicative of the results of operations which may be expected to occur in the future. Furthermore, the unaudited pro forma financial information is based on assumptions that NaviSite believes are reasonable and should be read in conjunction with NaviSite's Form 10-K previously filed.

The following combined financial statements and pro forma consolidated financial information are filed as exhibits to this report:

A. Combined Financial Statements for the Carve-Out Businesses of ClearBlue Technologies, Inc. as of July 31, 2003 and 2002 and for the year ended July 31,

## Edgar Filing: NAVISITE INC - Form 8-K/A

2003 and for the ten-months ended July 31, 2002 (audited). ClearBlue operated each of its co-location sites as wholly-owned subsidiaries. The ten co-location sites, representing the assets acquired and liabilities assumed on August 8, 2003 under that Asset and Stock Purchase Agreement, have been combined for financial reporting purposes in this filing.

B. Pro forma Consolidated Condensed Balance Sheet of NaviSite, Inc. as of July 31, 2003 and Condensed Consolidated Statement of Operations for the year ended July 31, 2003 (unaudited).

C. Exhibits:

Exhibit No. -----	Description -----
23.1	Consent of KPMG LLP.
99.1	Combined financial statements for the Carve-out Businesses of ClearBlue Technologies, Inc. as of July 31, 2002 (audited) and July 31, 2003 (audited) (see index to financial statements) and pro forma condensed consolidated balance sheet as of July 31, 2003 and condensed consolidated statement of operations of NaviSite for the year-ended July 31, 2003 (unaudited).

### SIGNATURES

Pursuant to the requirements of Section 13 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.

NAVISITE, INC.

Date: October 22, 2003

By: /s/ James W. Pluntze

-----  
James W. Pluntze  
Chief Financial Officer

### TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Combined Balance Sheets as of July 31, 2003 and July 31, 2002 (audited)	2
Combined Statements of Operations for the year ended July 31, 2003 and for the ten months-ended July 31, 2002 (audited)	3

## Edgar Filing: NAVISITE INC - Form 8-K/A

Combined Statements of Stockholder's Equity for the year ended July 31, 2003 and the ten-months ended July 31, 2002 (audited)	4
Combined Statements of Cash Flows for the year ended July 31, 2003 and the ten-months ended July 31, 2002 (audited)	5
Notes to Combined Financial Statements	6 - 16

### INDEPENDENT AUDITORS' REPORT

The Board of Directors  
NaviSite, Inc.

We have audited the accompanying combined balance sheets of the Carve-out Businesses of ClearBlue Technologies, Inc. as of July 31, 2003 and 2002, and the related combined statements of operations, stockholders' equity, and cash flows for the year ended July 31, 2003 and ten months ended July 31, 2002. These combined financial statements are the responsibility of the Carve-out Businesses' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying combined financial statements were prepared for the purposes of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion in the Current Report on Form 8/K-A of NaviSite, Inc. as described in note 1).

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Carve-out Businesses of ClearBlue Technologies, Inc. as of July 31, 2003 and 2002, and the combined results of its operations and its cash flows for the year ended July 31, 2003 and ten months ended July 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Boston, Massachusetts  
October 21, 2003

Edgar Filing: NAVISITE INC - Form 8-K/A

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.  
 Combined Balance Sheets  
 July 31, 2003 and 2002

ASSETS	2003	2002
	-----	-----
Current assets:		
Cash and cash equivalents	\$       --	\$ 539,021
Accounts receivable, net of allowance for doubtful accounts	1,688,007	532,980
of \$1,015,077 and \$272,304		
Intercompany receivable	2,792,111	2,973,333
Prepaid expenses and other current assets	103,529	142,059
Current portion of note receivable	900,000	900,000
	-----	-----
Total current assets	5,483,647	5,087,393
Property and equipment, net	5,873,452	8,062,010
Restricted cash	2,496,826	2,430,444
Note receivable	675,000	1,575,000
Intangible assets, net	2,349,807	5,060,503
Other assets	480,159	857,585
	-----	-----
	\$17,358,891	23,072,935
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	\$ 519,596	\$ 1,231,560
Accrued liabilities	1,774,828	1,295,495
Deferred and prepaid revenue	1,478,945	1,917,296
Current portion of capital lease obligation	344,259	764,567
	-----	-----
Total current liabilities	4,117,628	5,208,918
Deferred revenue	675,000	1,575,000
Long-term portion of capital lease obligation	--	425,169
Deferred rent	1,519,177	593,817
	-----	-----
Total liabilities	6,311,805	7,802,904
	-----	-----
Commitments		
Stockholder's equity:		
Common stock, at stated value	10,000	10,000
Additional paid-in capital	16,654,395	16,654,395
Accumulated deficit	(5,617,309)	(1,394,364)
	-----	-----
Total stockholder's equity	11,047,086	15,270,031
	-----	-----
Total liabilities and stockholder's equity	\$17,358,891	\$23,072,935
	=====	=====

See accompanying notes to combined financial statements.

Edgar Filing: NAVISITE INC - Form 8-K/A

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.  
 Combined Statements of Operations  
 Year ended July 31, 2003 and ten months ended July 31, 2002

	2003 -----	2002 -----
Service revenue	\$15,353,178	\$14,498,915
Cost of service revenue	15,503,083 -----	13,278,078 -----
Gross profit (loss)	(149,905)	1,220,837
Operating expenses:		
General and administrative	1,841,034	2,116,928
Sales and marketing	52,203	107,501
Impairment expense	1,979,261	--
Total operating expenses	3,872,498 -----	2,224,429 -----
Operating loss	(4,022,403)	(1,003,592)
Other income (expense):		
Interest income	66,383	56,829
Interest expense	(114,228)	(225,942)
Other expenses, net	(47,845)	(169,113)
Loss before income taxes	(4,070,248)	(1,172,705)
Provision for income taxes	152,697	221,659
Net loss	\$ (4,222,945) =====	\$ (1,394,364) =====

See accompanying notes to combined financial statements.

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.  
 Combined Statements of Stockholder's Equity  
 Year ended July 31, 2003 and ten months ended July 31, 2002

COMMON STOCK -----	ADDITIONAL PAID-IN	ACCUMULATED
-----------------------	-----------------------	-------------



Edgar Filing: NAVISITE INC - Form 8-K/A

	SHARES -----	AMOUNT -----	CAPITAL -----	DEFICIT -----
Balances at September 20, 2001	1,000,000	\$10,000	\$16,654,395	\$ --
Net loss	--	--	--	(1,394,364)
Balances at July 31, 2002	1,000,000	10,000	16,654,395	(1,394,364)
Net loss	--	--	--	(4,222,945)
Balances at July 31, 2003	1,000,000	\$10,000	\$16,654,395	\$(5,617,309)
	=====	=====	=====	=====

See accompanying notes to combined financial statements.

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.  
 Combined Statements of Cash Flows  
 Year ended July 31, 2003 and ten months ended July 31, 2002

	2003 -----	2002 -----
Cash flows from operating activities:		
Net loss	\$ (4,222,945)	\$ (1,394,364)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,992,286	3,160,820
Impairment charge	1,979,261	--
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(1,155,027)	(532,980)
Prepaid expenses and other current assets	(69,704)	(33,820)
Deposits and other receivables	900,000	(1,891,670)
Increase (decrease) in liabilities:		
Accounts payable	(711,964)	1,231,550
Accrued liabilities	964,993	809,830
Deferred revenue	(1,338,351)	3,492,290
Deferred rent	925,360	593,810
Net cash provided by operating activities	263,909	5,435,490
Net cash flow from investing activities:		
Purchase of property and equipment	(72,293)	(2,192,770)
Net cash used in investing activities	(72,293)	(2,192,770)
Net cash flow from financing activities:		
(Increase) decrease in due from affiliates	181,222	(2,936,600)
Increase in restricted cash	(66,382)	(56,820)
Increase in note receivable	--	(900,000)
Principal payments on capital lease obligations	(845,477)	--
Borrowings under capital lease obligations	--	1,189,730
Net cash used in financing activities	(730,637)	(2,703,690)

## Edgar Filing: NAVISITE INC - Form 8-K/A

Net (decrease) increase in cash and cash equivalents	(539,021)	539,021
Cash and cash equivalents, beginning of period	539,021	-
Cash and cash equivalents, end of period	\$ --	539,021

See accompanying notes to combined financial statements.

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.  
Notes to Combined Financial Statements  
July 31, 2003 and 2002

(1) ORGANIZATION AND BASIS OF PRESENTATION

ClearBlue Technologies, Inc. (ClearBlue) (formerly BJK Investments, Inc.) and its wholly-owned subsidiaries operate as a carrier-neutral collocation company. Operating across the United States of America, ClearBlue deploys and manages large-scale facilities for the collocation and hosting of mission-critical services to support Internet, telecommunications, and data markets. ClearBlue offers a comprehensive range of infrastructure solutions and services such as Web hosting, data storage, load balancing, and firewalls.

On September 20, 2001, ClearBlue purchased substantially all of the assets, including customer agreements, and assumed certain liabilities of Colo.com in the bankruptcy proceedings of Colo.com under Chapter 11 of the United States Bankruptcy Code.

The accompanying combined financial statements, which have been prepared as if the Carve-out Businesses had operated as a separate stand-alone entity for the periods presented, except as disclosed in the following paragraph, are designed to generally reflect on a carve-out basis the financial position and results of operations of certain wholly-owned subsidiaries (described below) of the Carve-Out Businesses and have been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission.

The combined financial statements of the Carve-out Businesses have been prepared in conformity with accounting principles generally accepted in the United States of America, on the basis of ClearBlue's historical cost of the assets and liabilities associated with its carrier-neutral collocation business. On January 1, 2003, ClearBlue entered into an Outsourcing Agreement with NaviSite whereby NaviSite provides certain management services as well as manages the day-to-day operations of ClearBlue's data centers. See note 10. Prior to January 1, 2003, ClearBlue historically operated other wholly-owned subsidiaries and provided certain services to all of its various subsidiaries on a centralized basis. The costs of these services have been allocated among the wholly-owned subsidiaries, based on the Carve-Out Businesses' share of expenses for centralized services. Management believes that the allocation methods used are reasonable; however, such allocated amounts may or may not be indicative of management fees that would have been incurred had the Carve-Out Businesses operated independently of ClearBlue. However, management does not believe it is practicable to determine what the costs of these services would have been had the wholly-owned subsidiaries acquired by ClearBlue operated as an

## Edgar Filing: NAVISITE INC - Form 8-K/A

independent entity during the historical periods and either performed such services internally or obtained them from an unaffiliated entity.

The following affiliated entities (collectively referred to as the Carve-out Businesses), which are owned by ClearBlue, are included in these combined financial statements:

ClearBlue Technologies/Chicago-Wells, Inc.

### CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC. Notes to Combined Financial Statements July 31, 2003 and 2002

ClearBlue Technologies/Las Vegas, Inc.  
ClearBlue Technologies/Los Angeles, Inc.  
ClearBlue Technologies/Milwaukee, Inc.  
ClearBlue Technologies/Oakbrook, Inc.  
ClearBlue Technologies/Vienna, Inc.  
ClearBlue Technologies/Dallas, Inc.  
ClearBlue Technologies/New York, Inc.  
ClearBlue Technologies/San Francisco, Inc.  
ClearBlue Technologies/Santa Clara, Inc.

All significant intercompany accounts and transactions have been eliminated in combination.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) CASH AND CASH EQUIVALENTS AND RESTRICTED CASH EQUIVALENTS

Cash and cash equivalents consisted of highly liquid investments with maturities at purchase of three months or less. As of July 31, 2003 and 2002, restricted cash equivalents consisted of certificates of deposit at one major financial institution and are recorded at cost, which approximates fair value. Certain cash is restricted pursuant to terms of lease agreements with landlords.

### (b) ACCOUNTS RECEIVABLE

Bad debts are provided on the allowance method based on historical experience and management evaluation of outstanding accounts receivable.

### (c) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from three to seven years.

Property and equipment under capital leases are stated at the lower of the present value of the minimum lease payments at the beginning of the lease term or the fair value at the inception of the lease. Amortization expense is recorded over the life of the related asset or lease term, if shorter. Leasehold improvements are amortized on a straight-line basis over the lesser of the useful lives or the term of the lease.

Repairs and maintenance are charged to expense as incurred, and costs of significant renewals and improvements are capitalized. The cost of assets sold or retired and the related accumulated depreciation or amortization are

## Edgar Filing: NAVISITE INC - Form 8-K/A

removed from the accounts; any resulting gain or loss is included in operations.

### CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC. Notes to Combined Financial Statements July 31, 2003 and 2002

#### (d) INTANGIBLE ASSETS

Intangible assets comprise amounts recorded in the business acquisition of Colo.com (see notes 4 and 7). The sum of the amounts assigned to assets acquired and liabilities assumed exceeded the cost of the acquired entity. That excess has been allocated as a pro rata reduction to certain noncurrent and intangible assets on the accompanying combined balance sheets. The intangible assets are being amortized on a straight-line basis over periods ranging from three to ten years.

#### (e) IMPAIRMENT OF LONG-LIVED ASSETS AND LONG-LIVED ASSETS TO BE DISPOSED OF

The Carve-out Businesses evaluate their long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets or intangibles may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. If an asset is to be disposed of, it is reported at the lower of the carrying amount or fair value less costs to sell.

#### (f) INCOME TAXES

The Carve-out Businesses' operating results historically have been included in ClearBlue's consolidated U.S. and state income tax returns. The provision for income taxes in the Carve-out Businesses' combined financial statements has been determined using the separate company return method.

The Carve-out Businesses use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement and tax bases of assets and liabilities and operating loss and tax credit carryforwards using enacted tax rates expected to apply to the year in which the differences are expected to affect taxable income. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in operations in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be recovered.

#### (g) REVENUE RECOGNITION

The Carve-out Businesses' revenues consist of monthly fees from Internet data center (IDC) services, which include monthly storage, power service, cross-connection, and related installation services.

The Carve-out Businesses recognize revenue when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery of the services or goods has occurred; the fee is fixed or determinable; and collectibility is reasonably assured. If collectibility is not considered reasonably assured, revenue is recognized when the fee is collected.

## Edgar Filing: NAVISITE INC - Form 8-K/A

Advance payments received from customers in connection with IDC services are recorded as deferred revenue. Monthly services are considered to be performed ratably over the term of the arrangement.

### (h) DEFERRED REVENUE

Deferred revenue results from advance payments by customers, last month's rent based on signed rental contracts, and payment in full for installation fees.

### CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC. Notes to Combined Financial Statements July 31, 2003 and 2002

The installation fees are amortized on a straight-line basis over the life of the customer agreement. The advance payments and last month's rent are recognized in the period earned.

A customer's fee is either fixed or determinable under the terms of the written contract prior to recognizing revenue. Fees for most monthly service and rentals are fixed under the terms of the written contract. The customer's fee is negotiated at the outset of the arrangement and is generally not subject to refund or subject to adjustment during the initial term of the arrangement.

### (i) 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 disclosure 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.

### (j) IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Carve-out Businesses adopted SFAS No. 141 upon issuance and adopted SFAS No. 142 on January 1, 2002. The Carve-out Businesses accounted for its acquisition of Colo.com in September 2001 in accordance with SFAS 141. See note 4. The adoption of

## Edgar Filing: NAVISITE INC - Form 8-K/A

### CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC. Notes to Combined Financial Statements July 31, 2003 and 2002

SFAS No. 142 did not affect the Carve-out Businesses' combined financial statements.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, it retains many of the fundamental provisions of SFAS No. 121. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in APB Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of SFAS No. 144 did not materially affect the Carve-out Businesses' combined financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of Statement No. 4 is applied in fiscal years beginning after May 15, 2002. Earlier application of these provisions is encouraged. The provisions of the Statement related to Statement No. 13 were effective for transactions occurring after May 15, 2002, with early application encouraged. The adoption of SFAS No. 145 did not materially affect the Carve-out Businesses' combined financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefit and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 did not materially affect the Carve-out Businesses' combined financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the

## Edgar Filing: NAVISITE INC - Form 8-K/A

### CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC. Notes to Combined Financial Statements July 31, 2003 and 2002

obligation undertaken. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The application of the requirements of FIN 45 did not have a material impact on the Carve-out Business's combined financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002. As no options were issued in the applicable periods, such disclosures have been excluded.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For nonpublic enterprises, such as the Carve-out Businesses, with a variable interest in a variable interest entity created before February 1, 2003, the Interpretation is applied to the enterprise no later than the end of the first annual reporting period beginning after June 15, 2003. The application of this Interpretation is not expected to have a material effect on the Carve-out Business's financial statements. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that it will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on a fixed monetary amount known at inception, variations in something other than the fair value of the issuer's equity shares or variations inversely related to changes in the fair value of the issuer's equity shares. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 is not expected to have a material impact on the Carve-out Businesses' combined financial position or results of operations.

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.

## Edgar Filing: NAVISITE INC - Form 8-K/A

Notes to Combined Financial Statements  
July 31, 2003 and 2002

### (3) CONCENTRATIONS OF CREDIT RISK

The carrying value of the Carve-out Businesses' financial instruments, including cash and cash equivalents, accounts receivable, notes receivable, and accounts payable, approximates fair value. Financial instruments that potentially subject the Carve-out Businesses to concentrations of credit risk are cash equivalents and major customers. The Carve-out Businesses maintains cash and cash equivalents with one major financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. With respect to major customers, the Carve-out Businesses limits their credit risk by performing ongoing credit evaluations and, when deemed necessary, by requiring letters of credit, guarantees, or collateral. When required, the Carve-out Businesses maintains allowances for credit losses, and to date, such losses have been within management's expectation.

Customers that individually comprised greater than 10% of service revenue of accounts receivable are summarized in the following table:

	YEAR ENDED JULY 31, 2003 -----	TEN MONTHS ENDED JULY 31, 2002 -----
Revenues:		
Customer A	\$3,548,263	\$3,424,004
Customer B	3,214,202	2,964,462
Accounts receivable:		
Customer A	\$ 744,737	\$ 57,239
Customer B	284,101	58,716

### (4) BUSINESS COMBINATION

#### PURCHASE TRANSACTION

On September 20, 2001, ClearBlue purchased substantially all of the assets, including customer agreements, and assumed certain liabilities of 22 operating sites of Colo.com in the bankruptcy proceedings of Colo.com under Chapter 11 of the United States Bankruptcy Code. Colo.com was a carrier-neutral collocation company managing large-scale facilities for the collocation and hosting of mission-critical services to support Internet, telecommunications, and data markets. As a result of the acquisition, ClearBlue Technologies, Inc. has established facilities for the collocation and hosting of mission-critical services to support the Internet, telecommunications, and data markets throughout North America.

#### CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.

Notes to Combined Financial Statements  
July 31, 2003 and 2002

Total consideration paid, including direct acquisition costs related to the Carve-out Businesses of ClearBlue Technologies, Inc., aggregated \$16,627,667. The following table summarizes the fair values of the assets acquired at the date of acquisition:



Edgar Filing: NAVISITE INC - Form 8-K/A

Customer relationships	\$ 3,619,169
Leaseholds and improvements	5,139,184
Equipment	2,939,218
Restricted cash and cash equivalents	2,373,615
Market advantaged leases	2,392,997
Security deposits	163,484
	-----
Total	\$16,627,667
	=====

(5) PROPERTY AND EQUIPMENT

Property and equipment summarized by major category consisted of the following at July 31:

	2003	2002
	-----	-----
Leasehold improvements	\$ 5,246,544	\$ 5,123,755
Data centers and related equipment	4,900,152	5,020,359
Office and computer equipment	125,932	22,011
Furniture and fixtures	66,033	66,033
	-----	-----
	10,338,661	10,232,158
Less accumulated depreciation	4,465,209	2,170,148
	-----	-----
	\$ 5,873,452	\$ 8,062,010
	=====	=====

Included in data centers and related equipment is data center equipment acquired under capital leases of \$1,403,544 with accumulated depreciation of \$1,050,973. Depreciation expense for the year ended July 31, 2003 and ten months ended July 31, 2002 was \$2,295,061 and \$2,170,148, respectively.

(6) NOTE RECEIVABLE

In April 2002, the Carve-out Businesses entered into an agreement with a customer to amend its existing Master Co-location and Service Agreement in consideration of a note totalling \$2,700,000 by the customer to the Carve-out Businesses. The note is payable in quarterly installments of \$225,000 over three-years. The Carve-out Businesses have recognized a note receivable and corresponding deferred revenue in the combined financial statements. Deferred revenue is being recognized as revenue on a monthly basis over the modification period.

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.

Notes to Combined Financial Statements

July 31, 2003 and 2002

## Edgar Filing: NAVISITE INC - Form 8-K/A

### (7) INTANGIBLE ASSETS

Intangible assets summarized by major category consisted of the following at July 31:

	2003	2002
	-----	-----
Customer relationships	\$3,619,169	\$3,619,169
Market advantaged leases	--	2,392,997
	-----	-----
	3,619,169	6,012,166
Less accumulated amortization	1,269,362	951,663
	-----	-----
	\$2,349,807	\$5,060,503
	=====	=====

Customer relationships are amortized over a five-year period. Market advantaged leases are amortized over the life of the lease, ranging from 7-14 years. Amortization expense for the year ended July 31, 2003 and ten-months ended July 31, 2002 was \$1,030,392 and \$858,659, respectively. As part of the Carve-out Businesses' impairment analysis performed at July 31, 2003, it was determined that the unamortized market advantaged leases of \$1,830,975 was fully impaired and the Carve-out Businesses' recorded a charge to current earnings.

### (8) ACCRUED LIABILITIES

Accrued liabilities consisted of the following at July 31:

	2003	2002
	-----	-----
Accrued rent, utilities and other operating expenses	\$ 238,270	\$ 371,710
Accrued professional services	475,332	--
Accrued salaries and payroll taxes	49,771	38,835
Accrued vacation	78,478	22,009
Accrued real estate and property taxes	263,789	141,227
Due to related party	291,402	--
Taxes payable	374,394	707,357
Other accruals	3,392	14,357
	-----	-----
Total accrued liabilities	\$1,774,828	\$1,295,495
	=====	=====

### (9) COMMITMENTS

#### LEASE COMMITMENTS

The Carve-out Businesses have various lease and other commitments that expire at various times throughout 2015. Operating leases shown below are primarily for facility costs. As of July 31, 2003 and 2002, the Carve-out Businesses also lease certain data center infrastructure and equipment under capital leases. Obligations under the capital lease have been recorded in the

## Edgar Filing: NAVISITE INC - Form 8-K/A

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.  
Notes to Combined Financial Statements  
July 31, 2003 and 2002

accompanying financial statements at the present value of future minimum lease payments discounted at an interest rate of 15%. Future commitments are as follows:

	TOTAL	1 YEAR	1-3 YEARS	4-5 YEARS	TH
	-----	-----	-----	-----	-----
Operating leases	\$46,178,662	\$5,603,628	\$11,207,257	\$11,207,257	\$18
Capital lease obligations	361,310	361,310	--	--	
	-----	-----	-----	-----	-----
Total	\$46,539,972	\$5,964,938	\$11,207,257	\$11,207,257	\$18
	=====	=====	=====	=====	=====

The Carve-out Businesses incurred total operating lease expense, primarily related to certain facilities and other real estate expenses, under noncancelable operating leases, of approximately \$6,403,000 and \$5,354,000 for the year ended July 31, 2003 and for ten months ended July 31, 2002, respectively.

### (10) RELATED PARTY TRANSACTIONS

On January 1, 2003, the Carve-Out Businesses and NaviSite entered into an Outsourcing Agreement whereby NaviSite provides certain management services as well as manages day-to-day operations of the Carve-Out Businesses' data centers. NaviSite charges the Carve-Out Businesses actual costs incurred plus a 5% mark-up on labor costs only. In fiscal year 2003, NaviSite charged the Carve-Out Businesses approximately \$291,402 under this agreement.

### (11) INCOME TAXES

Total federal and state income tax expenses (benefit) consist of the following:

	7/31/2003			7/31/2002		
	Current	Deferred	Total	Current	Deferred	Total
	-----	-----	-----	-----	-----	-----
Federal	\$(485,660)	\$485,660	\$ -	\$485,660	\$(485,660)	\$ -
State	152,697		152,697	221,659		221,659
	-----	-----	-----	-----	-----	-----
	\$(332,963)	\$485,660	\$152,697	\$707,319	\$(485,660)	\$221,659
	=====	=====	=====	=====	=====	=====

The actual tax expense for July 31, 2003 and 2002 differs from the expected tax expense as follows:

Computed "expected" tax expense (benefit)	\$(1,383,884)	\$(398,720)
State taxes, net of federal income tax benefit	100,780	146,294

Edgar Filing: NAVISITE INC - Form 8-K/A

Losses not benefitted	1,435,801	474,085
	-----	-----
Total	\$ 152,697	\$ 221,659
	=====	=====

The tax effects of temporary differences that give rise to significant portion of the deferred tax assets and liabilities at July 31, 2003 and 2002 are as follows:

	7/31/2003	7/31/2002
	-----	-----
Accruals and Reserves	639,063	246,330
Depreciation and Amortization	1,429,968	858,983
Net Operating Loss Carryforwards	230,226	
	-----	-----
Total deferred tax assets	2,299,257	1,105,313
Valuation Allowance	(2,299,257)	(619,653)
	-----	-----
Net deferred tax assets	\$ --	\$ 485,660
	=====	=====

During the year ended July 31, 2003 and ten months ended July 31, 2002, the valuation allowance increased \$1,679,604 and \$619,653, respectively.

The Carve-out Businesses have a net operating loss carryforward for federal tax purposes of approximately \$374,838, expiring in 2023. The Carve-out Businesses also has state operating loss carryforwards for approximately \$1,650,554 expiring from 2013 to 2018. The utilization of these net operating losses may be limited in future periods pursuant to Internal Revenue Code Section 382 as a result of future ownership changes.

(12) SUBSEQUENT EVENT - NAVISITE'S PURCHASE OF CERTAIN ASSETS AND LIABILITIES OF CLEARBLUE TECHNOLOGIES INC.

As described in note 1, on August 8, 2003 Navisite acquired certain assets and assumed certain liabilities of ClearBlue. Condensed financial information

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.  
Notes to Combined Financial Statements  
July 31, 2003 and 2002

related to the Carve-out Businesses acquired by Navisite is set forth in the following tables:

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.  
Notes to Combined Financial Statements  
July 31, 2003 and 2002

Condensed Balance Sheets  
July 31, 2003 and 2002

July 31, 2003

Edgar Filing: NAVISITE INC - Form 8-K/A

	Combined 6 Sites	Dallas Site	New York Site	San Fran Site
<b>Assets</b>				
Current assets	\$ 2,841,363	\$ 775,868	\$ 459,669	\$ 2,321,571
Property, plant & equip., net	3,145,891	602,486	884,189	601,402
Intangibles, net	1,072,723	123,458	459,121	564,509
Other non-current assets	1,384,697	216,150	618,683	1,042,436
<b>Total Assets</b>	<b>\$ 8,444,674</b>	<b>\$ 1,717,962</b>	<b>\$ 2,421,662</b>	<b>\$ 4,529,918</b>
<b>Liabilities and Stockholder's Equity</b>				
Current liabilities	1,940,345	592,797	489,033	844,906
Deferred rent	244,262	--	840,494	175,406
Other long-term liabilities	182,250	162,000	--	263,250
<b>Total liabilities</b>	<b>2,366,857</b>	<b>754,797</b>	<b>1,329,527</b>	<b>1,283,562</b>
Stockholder's equity	6,077,817	963,165	1,092,135	3,246,356
<b>Total Liab &amp; Stockholder's Equity</b>	<b>\$ 8,444,674</b>	<b>\$ 1,717,962</b>	<b>\$ 2,421,662</b>	<b>\$ 4,529,918</b>

	Combined 6 Sites	Dallas Site	New York Site	San Fran Site
<b>Assets</b>				
Current assets	\$ 2,278,842	\$ 565,939	\$ 904,260	\$ 1,882,566
Property, plant & equip., net	4,589,041	763,444	1,178,332	708,177
Intangibles, net	1,279,851	630,939	(1,148,841)	2,795,166
Other assets	1,974,814	432,150	603,326	1,372,722
<b>Total Assets</b>	<b>\$10,122,548</b>	<b>\$ 2,392,472</b>	<b>\$ 1,537,077</b>	<b>\$ 6,758,625</b>
<b>Liabilities and Stockholder's Equity</b>				
Current liabilities	2,743,737	615,103	546,547	933,699
Deferred rent	128,320	--	259,319	79,733
Long-term debt	350,119	--	75,050	--
Other liabilities	425,250	378,000	--	614,250
<b>Total liabilities</b>	<b>3,647,426</b>	<b>993,103</b>	<b>880,916</b>	<b>1,627,672</b>
Stockholder's equity	6,475,122	1,399,369	656,161	5,130,953
<b>Total Liab &amp; Stockholder's Equity</b>	<b>\$10,122,548</b>	<b>\$ 2,392,472</b>	<b>\$ 1,537,077</b>	<b>\$ 6,758,625</b>

CARVE-OUT BUSINESSES OF CLEARBLUE TECHNOLOGIES, INC.

## Edgar Filing: NAVISITE INC - Form 8-K/A

Notes to Combined Financial Statements  
July 31, 2003 and 2002

Condensed Income Statements  
For the Years Ended July 31, 2003 and 2002

	For the year ended July 31, 2003			
	Combined 6 Sites	Dallas Site	New York Site	San Fran- cisco Site
Revenue	\$ 7,912,222	\$ 2,065,799	\$ 1,839,035	\$ 2,382,500
Cost of revenue	6,944,639	1,924,276	2,695,209	2,263,300
	967,583	141,523	(856,174)	119,100
Gross profit (loss)				
Operating expenses	1,261,704	577,023	(1,409,503)	2,024,400
	(294,121)	(435,500)	553,329	(1,905,300)
Income (loss) from operations				
Other income (expense)	(61,131)	--	(7,429)	20,700
	(355,252)	(435,500)	545,900	(1,884,500)
Income (loss) before taxes				
Income taxes	42,773	--	109,924	--
	\$ (398,025)	\$ (435,500)	\$ 435,976	\$ (1,884,500)
Net income (loss)	\$ (398,025)	\$ (435,500)	\$ 435,976	\$ (1,884,500)

	For the year ended July 31, 2002			
	Combined 6 Sites	Dallas Site	New York Site	San Fran- cisco Site
Revenue	\$ 6,643,920	\$ 1,159,955	\$ 2,583,128	\$ 3,299,837
Cost of revenue	6,360,695	1,420,816	2,109,779	1,907,000
	283,225	(260,861)	473,349	1,392,837
Gross profit (loss)				
Operating expenses	643,734	148,535	697,490	565,000
	(360,509)	(409,396)	(224,141)	826,837
Income (loss) from operations				
Other income (expense)	(160,115)	--	(26,733)	17,000
	(520,624)	(409,396)	(250,874)	843,837
Loss before income taxes				
Income taxes	84,078	--	19,439	118,000
	\$ (604,702)	\$ (409,396)	\$ (270,313)	\$ 725,837
Net income (loss)	\$ (604,702)	\$ (409,396)	\$ (270,313)	\$ 725,837

" valign="bottom" width="1%"> 24.00 19.85 0.12

Fourth Quarter (ended 6/30/2012)

23.05 20.39 0.12

2011 Quarters:

First Quarter (ended 9/30/2010)	\$28.00	\$19.97	\$0.12
Second Quarter (ended 12/31/2010)	24.10	17.00	0.12
Third Quarter (ended 3/31/2011)	17.70	14.65	0.12
Fourth Quarter (ended 6/30/2011)	16.01	14.03	0.12
2010 Quarters:			
First Quarter (ended 9/30/2009)	\$16.75	\$14.15	\$0.12
Second Quarter (ended 12/31/2009)	14.50	11.80	0.12
Third Quarter (ended 3/31/2010)	11.80	10.80	0.12
Fourth Quarter (ended 6/30/2010)	12.15	9.39	0.12

Our cash dividend payout policy is continually reviewed by management and the Board of Directors. The Company intends to continue its policy of paying quarterly dividends; however, future dividend payments will depend upon a number of factors, including capital requirements, regulatory limitations (See “Item 1. Description of Business – Regulation”), the Company’s financial condition, results of operations and the Bank’s ability to pay dividends to the Company. The Company relies significantly upon such dividends originating from the Bank to accumulate earnings for payment of cash dividends to stockholders. The terms of our SBLF preferred shares limits our ability to pay dividends to common stockholders if dividends on the SBLF preferred shares are not paid. See “Item 1A. Risk Factors – Risks Relating to our Common Stock – Regulatory and Contractual Restrictions may limit or prevent us from paying dividends on and repurchasing our common stock.”

Information regarding our equity compensation plans is included in Item 11 of this Form 10-K.

Edgar Filing: NAVISITE INC - Form 8-K/A

The following table summarizes the Company's stock repurchase activity for each month during the three months ended June 30, 2012.

	Total # of Shares Purchased	Average Price Paid Per Share	Total # of Shares Purchased as Part of a Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased
06/01/12-06/30/12 period	-	-	-	-
05/01/12-05/31/12 period	-	-	-	-
04/01/12-04/30/12 period	-	-	-	-

Item 6. Selected Financial Data

(dollars in thousands)	At June 30				
Financial Condition Data:	2012	2011	2010	2009	2008
Total assets	\$739,189	\$688,200	\$552,084	\$466,334	\$418,188
Loans receivable, net	583,465	556,576	418,683	368,993	343,438
Mortgage-backed securities	19,253	24,536	34,334	40,269	28,006
Cash, interest-bearing deposits and investment securities	90,568	73,479	67,103	27,983	19,931
Deposits	584,814	560,151	422,893	311,955	292,257
Borrowings	50,142	58,730	73,869	102,498	85,854
Subordinated debt	7,217	7,217	7,217	7,217	7,217
Stockholders' equity	94,728	55,732	45,649	42,008	30,472

(dollars in thousands, except per share data)	For The Year Ended June 30				
Operating Data:	2012	2011	2010	2009	2008
Interest income	\$38,965	\$35,048	\$27,541	\$25,301	\$25,327
Interest expense	9,943	11,285	11,225	11,204	13,547
Net interest income	29,022	23,763	16,316	14,097	11,780
Provision for loan losses	1,785	2,385	925	1,151	723
Net interest income after provision for loan losses	27,237	21,378	15,391	12,946	11,057
Noninterest income	4,063	10,502	3,094	1,820	2,412
Noninterest expense	16,605	14,458	12,348	9,134	8,081
Income before income taxes	14,695	17,422	6,137	5,632	5,388
Income taxes	4,597	5,952	1,511	1,797	1,775
Net income	\$10,098	\$11,470	\$4,626	\$3,835	\$3,613



Less: charge for early redemption of preferred stock issued at a discount	94	-	-	-	-
Less: effective dividend on preferred stock	424	512	510	289	-
Net income available to common stockholders	\$9,580	\$10,958	\$4,116	\$3,546	\$3,613
Basic earnings per share available to common stockholders	\$3.43	\$5.25	\$1.98	\$1.67	\$1.64
Diluted earnings per share available to common stockholders	\$3.32	\$5.12	\$1.95	\$1.67	\$1.63
Dividends per share	\$0.48	\$.48	\$.48	\$.48	\$.40

Edgar Filing: NAVISITE INC - Form 8-K/A

(dollars in thousands)

Other Data:	2012	2011	At June 30 2010	2009	2008
Number of:					
Real estate loans	3,583	3,758	3,282	2,957	2,868
Deposit accounts	31,307	30,243	25,353	22,069	20,560
Full service offices	18	16	14	10	9
Loan production offices	-	2	-	-	-

Key Operating Ratios:	2012		2011		2010		2009		2008	
Return on assets (net income divided by average assets)	1.37	%	1.81	%	.88	%	.87	%	.92	%
Return on average common equity (net income available to common stockholders divided by average common equity)	15.15		27.08		11.85		11.38		12.06	
Average equity to average assets	11.18		7.89		8.39		8.29		7.60	
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities)	3.90		3.71		3.06		3.10		2.86	
Net interest margin (net interest income as a percentage of average interest-earning assets)	4.12		3.92		3.27		3.37		3.17	
Noninterest expense to average assets	2.25		2.28		2.35		2.07		2.05	
Average interest-earning assets to average interest-bearing liabilities	115.19		111.29		109.57		109.77		108.60	
Allowance for loan losses to gross loans (1)	1.27		1.14		1.06		1.07		.92	
Allowance for loan losses to										

Edgar Filing: NAVISITE INC - Form 8-K/A

nonperforming loans (1)	312.38	918.84	1,358.45	501.63	53,316.67
Net charge-offs (recoveries) to average outstanding loans during the period	.13	.09	.10	.10	(.03 )
Ratio of nonperforming assets to total assets (1)	.54	.35	.37	.29	.02
Common shareholder dividend payout ratio (common dividends as a percentage of earnings available to common shareholders)	13.40	9.17	24.35	28.88	24.47

(1) At end of period

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Southern Missouri Bancorp, Inc. is a Missouri corporation originally organized for the principal purpose of becoming the holding company of Southern Bank. The principal business of Southern Bank consists of attracting deposits from the communities it serves and investing those funds in loans secured by one- to four-family residences and commercial real estate, as well as commercial business and consumer loans. These funds have also been used to purchase investment securities, mortgage-backed securities (MBS), U.S. government and federal agency obligations and other permissible securities.

Southern Bank's results of operations are primarily dependent on the levels of its net interest margin and noninterest income, and its ability to control operating expenses. Net interest margin is dependent primarily on the difference or spread between the average yield earned on interest-earning assets (including loans, mortgage-related securities, and investments) and the average rate paid on interest-bearing liabilities (including deposits, securities sold under agreements to repurchase, and borrowings), as well as the relative amounts of these assets and liabilities. Southern Bank is subject to interest rate risk to the degree that its interest-earning assets mature or reprice at different times, or on a varying basis, from its interest-bearing liabilities.

Southern Bank's noninterest income consists primarily of fees charged on transaction and loan accounts, interchange income from customer debit and ATM card use, gains on sales of loans to the secondary market, and increased cash surrender value of bank owned life insurance ("BOLI"). Southern Bank's operating expenses include: employee compensation and benefits, occupancy expenses, legal and professional fees, federal deposit insurance premiums, amortization of intangible assets, and other general and administrative expenses.

Southern Bank's operations are significantly influenced by general economic conditions including monetary and fiscal policies of the U.S. government and the Federal Reserve Board. Additionally, Southern Bank is subject to policies and regulations issued by financial institution regulatory agencies including the Federal Reserve, the Missouri Division of Finance, and the Federal Deposit Insurance Corporation. Each of these factors may influence interest rates, loan demand, prepayment rates and deposit flows. Interest rates available on competing investments as well as general market interest rates influence the Bank's cost of funds. Lending activities are affected by the demand for real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered. Lending activities are funded through the attraction of deposit accounts consisting of checking accounts, passbook and statement savings accounts, money market deposit accounts, certificate of deposit accounts with terms of 60 months or less, securities sold under agreements to repurchase, advances from the Federal Home Loan Bank of Des Moines, and, to a lesser extent, brokered deposits. The Bank intends to continue to focus on its lending programs for one- to four-family residential real estate, commercial real estate, commercial business and consumer financing on loans secured by properties or collateral located primarily in southeast Missouri and northeast and north central Arkansas.

NON-GAAP FINANCIAL INFORMATION

This Annual Report on Form 10-K contains certain financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America (GAAP). These measures include:

- Fiscal year 2011 net income available to common stockholders per diluted common share excluding bargain purchase gain, net of transaction expenses related to the December 2010 FDIC-assisted acquisition involving the former First Southern Bank (the "Acquisition"), net of tax;

Edgar Filing: NAVISITE INC - Form 8-K/A

- Fiscal year 2011 noninterest income excluding bargain purchase gain related to the Acquisition;
- Fiscal year 2012 and 2011 net income available to common stockholders excluding accretion of fair value discount on acquired loans, amortization of fair value premium on assumed time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax;
- Fiscal year 2012 and 2011 return on average assets excluding accretion of fair value discount on acquired loans, amortization of fair value premium on assumed time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax;
- Fiscal year 2012 and 2011 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, net of transaction expenses, related to the Acquisition, net of tax;

- Fiscal year 2012 and 2011 net interest margin excluding accretion of fair value discount on acquired loans and amortization of fair value premium on assumed time deposits related to the Acquisition;

Management believes that showing these amounts and measures excluding these items is useful for investors because it better reflects our core operating results and provides useful information by which to evaluate the Company's operating performance on an ongoing basis from period to period.

The following table presents a reconciliation of the calculation of fiscal 2011 diluted earnings per share available to common shareholders excluding bargain purchase gain and transaction expenses related to the Acquisition:

	For the twelve months ended June 30, 2011
Diluted earnings per share available to common stockholders	\$ 5.12
Less: impact of excluding bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax	1.92
Diluted earnings per share available to common stockholders - excluding bargain purchase gain, net of tax and transaction expenses, related to the Acquisition	\$ 3.20

The following table presents a reconciliation of the calculation of fiscal 2011 noninterest income excluding bargain purchase gain related to the Acquisition:

(dollars in thousands)	For the twelve months ended June 30, 2011
Noninterest income	\$ 10,502
Less: impact of excluding bargain purchase gain related to the Acquisition	6,997
Noninterest income - excluding bargain purchase gain	\$ 3,505

The following table presents a reconciliation of the calculation of net income available to common stockholders, excluding accretion of fair value discount on acquired loans, amortization of premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax:

(dollars in thousands)	For the twelve months ended June 30, 2012	June 30, 2011

Net income available to common stockholders	\$	9,580	\$	10,958
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		2,446		5,435
Net income available to common shareholders - 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	\$	7,134	\$	5,523

The following table presents a reconciliation of the calculation of return on average assets, excluding accretion of fair value discount on acquired loans, amortization of premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax:

	For the twelve months ended			
	June 30, 2012		June 30, 2011	
Return on average assets	1.37	%	1.81	%
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	0.33	%	0.86	%
Return on average assets - 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	1.04	%	0.95	%

The following table presents a reconciliation of the calculation of return on average common equity, excluding accretion of fair value discount on acquired loans, amortization of premium on acquired time deposits, and bargain purchase gain, net of transaction expenses, related to the Acquisition, net of tax:

	For the twelve months ended			
	June 30, 2012		June 30, 2011	
Return on average common equity	15.15	%	27.08	%
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	3.87	%	13.43	%
Return on average common equity - 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,	11.28	%	13.65	%



related to the Acquisition, net of  
tax

The following table presents a reconciliation of the calculation of net interest margin, excluding accretion of fair value discount on acquired loans and amortization of premium on acquired time deposits related to the Acquisition:

	For the twelve months ended			
	June 30, 2012		June 30, 2011	
Net interest margin	4.12	%	3.92	%
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	0.57	%	0.35	%
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	3.55	%	3.57	%

The non-GAAP disclosures contained herein should not be viewed as substitutes for the results determined to be in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

## CRITICAL ACCOUNTING POLICIES

The Company has established various accounting policies, which govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Our significant accounting policies are described in Item 8 under the Notes to the Consolidated Financial Statements. Certain accounting policies involve significant judgments and assumptions by management that have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates that could have a material impact on the carrying values of assets and liabilities and the results of operations of the Company.

The allowance for losses on loans represents management's best estimate of probable losses 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.

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.

Integral to the methodology for determining the adequacy of the allowance for loan losses is portfolio segmentation and impairment measurement. 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.

A periodic review of selected credits (based on loan size and type) is conducted to identify loans with heightened risk or probable losses and to assign risk grades. The primary responsibility for this review rests with the loan administration personnel. This review is supplemented with periodic examinations of both selected credits and the credit review process by applicable regulatory agencies. The information from these reviews assists management in the timely identification of problems and potential problems and provides a basis for deciding whether the credit represents a probable loss or risk that should be recognized.

Loans are considered impaired if, based on current information and events, it is probable that Southern Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the fair value of the collateral for collateral-dependent loans. If the loan is not collateral-dependent, the measurement of impairment is based on the present value of expected future cash flows discounted at the historical effective interest rate or the observable market price of the loan. In measuring the fair value of the collateral, management uses the assumptions (i.e., discount rates) and methodologies (i.e., comparison to the recent selling price of similar assets) consistent with those that would be utilized by unrelated third parties. Impairment identified through this evaluation process is a component of the allowance for loan losses. If a loan that is individually evaluated for impairment is found to have none, it is grouped together with loans having similar characteristics (i.e., the same risk grade), and an allowance for loan losses is based

upon a quantitative factor (historical average charge-offs for similar loans over the past one to five years), and qualitative factors such as 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; and regulatory risk. For portfolio loans that are evaluated for impairment as part of homogenous pools, an allowance is maintained based upon similar quantitative and qualitative factors. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the conditions of the various markets in which collateral may

be sold may all affect the required level of the allowance for losses on loans and the associated provision for losses on loans.

## FINANCIAL CONDITION

General. The Company's total assets increased \$51.0 million, or 7.4%, to \$739.2 million at June 30, 2012, as compared to \$688.2 million at June 30, 2011. The increase was due primarily to increases in the loan and available-for-sale investment portfolios of \$26.9 million and \$11.8 million, respectively, as well as a \$7.8 million increase in bank-owned life insurance. Asset growth was funded by a \$24.7 million increase in deposits, and a \$39.0 million increase in stockholders' equity. FHLB advances declined by \$9.0 million.

Cash and equivalents. Cash and equivalents decreased \$475,000, or 1.4%, to \$33.4 million at June 30, 2012, from \$33.9 million at June 30, 2011, as funds were used to meet loan demand.

Loans. Loans increased \$26.9 million, or 4.8%, to \$583.5 million at June 30, 2012, from \$556.6 million at June 30, 2011. Loan growth was comprised primarily of commercial real estate loans, which increased \$15.8 million, and commercial loans, which increased \$10.7 million.

Allowance for Loan Losses. The allowance for loan losses increased \$1.1 million, or 16.4%, to \$7.5 million at June 30, 2012, from \$6.4 million at June 30, 2011. The allowance represented 1.27% of gross loans receivable at June 30, 2012, as compared to 1.14% of gross loans receivable at June 30, 2011. At June 30, 2012, nonperforming loans, which included loans past due greater than 90 days and nonaccruing loans, were \$2.4 million, compared to \$701,000 at June 30, 2011. See also, Provision for Loan Losses, under Comparison of Operating Results for the Years Ended June 30, 2012 and 2011.

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 one to five years for each loan category. Average net charge offs are calculated as net charge offs for the period by portfolio type as a percentage of the average balance of the respective portfolio type over the same period. As the Company and 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 following table sets forth the Company's historical net charge offs as of June 30, 2012:

Portfolio segment	Net charge offs - 1-year historical		Net charge offs - 5-year historical	
Real estate loans:				
Residential	0.05	%	0.06	%
Construction	0.00		0.00	
Commercial	0.03		0.08	
Consumer loans	0.59		0.50	
Commercial loans	0.41		0.18	

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 June 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 applied at June 30, 2012	Qualitative factor applied at June 30, 2011
Real estate loans:		
Residential	0.83	0.88
Construction	1.10	1.00
Commercial	1.32	1.27
Consumer loans	1.38	1.53
Commercial loans	1.38	1.38

At June 30, 2012, the amount of our allowance for loan losses attributable to these qualitative factors was approximately \$6.3 million, as compared to \$5.4 million at June 30, 2011. The general increase in qualitative factors was attributable to entry to new markets and corresponding changes in the mix and volume of the portfolio and lending staff.

**Investments.** The available-for-sale investment portfolio increased \$11.8 million, or 18.6%, to \$75.1 million at June 30, 2012, as compared to \$63.3 million at June 30, 2011. The increase was primarily the result of a \$10.4 million increase in obligations of state and political subdivisions and a \$5.1 million increase in obligations of U.S. government agencies, partially offset by a \$5.3 million decrease in mortgage-backed securities and collateralized mortgage obligations.

**Premises and Equipment.** Premises and equipment increased \$3.3 million, or 40.8%, to \$11.3 million at June 30, 2012, as compared to \$8.1 million at June 30, 2011. The increase was due to the acquisition of land for new branch facilities, construction of a new branch facility, remodeling and expansion of a branch facility, and the purchase of software and equipment, partially offset by increases in accumulated depreciation.

**BOLI.** The Bank purchased “key person” life insurance policies on employees in fiscal 2003 and fiscal 2005 for original premiums totaling \$6.0 million. In fiscal 2012, the Bank purchased additional “key person” life insurance policies for original premiums totaling \$7.5 million. At June 30, 2012, the cash surrender value of these policies had increased to \$16.0 million.

**Intangible Assets.** Intangible assets generated through branch acquisitions in fiscal 2000 decreased \$255,000 to \$817,000 as of June 30, 2012, and will continue to be amortized in accordance with ASC Topic 350. The July 2009 acquisition of the Southern Bank of Commerce resulted in goodwill of \$126,000, which will not be amortized, but will be tested for impairment at least annually, and a \$184,000 core deposit intangible, which is being amortized over a five-year period using the straight-line method. The December 2010 assumption of the deposits of the former First Southern Bank resulted in a \$625,000 core deposit intangible, which is being amortized over a five-year period using the straight-line method.

**Deposits.** Deposits increased \$24.7 million, or 4.4%, to \$584.8 million at June 30, 2012, as compared to \$560.2 million at June 30, 2011. Deposit growth was comprised primarily of non-interest bearing accounts, which increased \$22.0 million, and NOW accounts, which increased \$41.4 million, and was partially offset by declines in certificates

of deposit, which decreased \$33.3 million, and savings accounts, which decreased \$7.7 million.

Borrowings. FHLB advances decreased \$9.0 million, or 26.9%, to \$24.5 million at June 30, 2012, as compared to \$33.5 million at June 30, 2011. At both June 30, 2012 and 2011, outstanding advances included no overnight borrowings. Of the \$24.5 million in advances outstanding at June 30, 2012, the full amount carried fixed rates, and was subject to early redemption by the issuer.

Subordinated Debt. In March 2004, \$7.0 million of Floating Rate Capital Securities of Southern Missouri

Statutory Trust I, with a liquidation value of \$1,000 per share were issued. The securities mature in March 2034, were redeemable beginning in March 2009, and bear interest at a floating rate of three-month LIBOR plus 275 basis points.

Stockholders' Equity. The Company's stockholders' equity increased \$39.0 million, or 70.0%, to \$94.7 million at June 30, 2012, as compared to \$55.7 million at June 30, 2011. The increase was primarily due to the November 2011 common stock offering, additional capital invested in the Company's preferred stock under the SBLF program (net of the repurchase of preferred stock issued under the TARP program), and retention of net income, partially offset by cash dividends paid on common and preferred stock.

#### COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

Net Income. The Company's net income available to common stockholders for the fiscal year ended June 30, 2012, was \$9.6 million, a decrease of \$1.4 million, or 12.6%, from the \$11.0 million net income available to common stockholders for the prior fiscal year. Before an effective dividend on preferred shares of \$424,000 and a charge of \$94,000 for the repurchase of preferred stock issued at a discount under the TARP program, net income was \$10.1 million for the 2012 fiscal year, a decrease of \$1.4 million, or 12.0%, as compared to the \$11.5 million in net income for the prior fiscal year. The decrease in net income was primarily due to a \$6.4 million decrease in noninterest income and a \$2.1 million increase in noninterest expense, partially offset by a \$5.3 million increase in net interest income, a \$1.4 million decrease in provision for income taxes, and a \$600,000 decrease in provision for loan losses. Exclusive of fair value discount accretion 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 stockholders for fiscal 2012 was \$7.1 million, as compared to \$5.5 million for fiscal 2011.

Net Interest Income. Net interest income for fiscal 2012 was \$29.0 million, an increase of \$5.3 million, or 22.1%, when compared to the prior fiscal year. The increase was due to a \$98.3 million increase in average interest-earning assets, combined with a 20 basis point increase in the net interest margin. Both the increase in average interest-earning assets and interest rate margin were primarily a result of the Acquisition. Accretion of fair value discount on loans and amortization of fair value premium on time deposits, resulting from the Acquisition, increased from \$2.1 million in fiscal 2011 to \$3.9 million in fiscal 2012. The change in this component increased net interest income by \$1.8 million and net interest margin by 25 basis points for fiscal 2012, as compared to fiscal 2011. The Company expects the impact of the fair value discount accretion will decline, over time, as the assets acquired at a discount continue to mature or prepay. For fiscal 2012, the net interest margin was 4.12%, compared to 3.92% for fiscal year 2011. At June 30, 2012, the net interest margin was 4.23%.

Interest Income. Interest income for fiscal 2012 was \$39.0 million, an increase of \$3.9 million, or 11.2%, when compared to the prior fiscal year. The increase was due to the \$98.3 million increase in the average balance of interest-earning assets, partially offset by a 25 basis point decline in the average yield earned on interest-earning assets, from 5.78% in fiscal 2011 to 5.53% in fiscal 2012.

Interest income on loans receivable for fiscal 2012 was \$36.3 million, an increase of \$4.1 million, or 12.7%, when compared to the prior fiscal year. The increase was due to a \$55.9 million increase in the average balance of loans receivable, combined with a nine basis point increase in the average yield earned on loans receivable. The increase in average balances was attributed to both organic growth and the Acquisition. The increase in the average yield was attributable to the Acquisition and the resulting fair value discount on the loan portfolio accreted to income.

Interest income on the investment portfolio and other interest-earning assets was \$2.6 million for fiscal 2012, a decrease of \$166,000, or 6.0%, when compared to the prior fiscal year. The decrease was due to a 90 basis point decrease in the average yield earned on these assets, partially offset by a \$42.5 million increase in the average balance of these assets. The decreased yield was attributed to a higher percentage of these assets held in lower-yielding cash



equivalents, as well as lower available yields on investment securities, reflecting the low interest rate environment.

Interest Expense. Interest expense was \$9.9 million for fiscal 2012, a decrease of \$1.3 million, or 11.9%, when compared to the prior fiscal year. The decrease was due to a 45 basis point decrease in the average rate paid on interest-bearing liabilities, from 2.07% in fiscal 2011 to 1.63% in fiscal 2012, partially offset by the \$66.9 million increase in the average balance of interest-bearing liabilities.

Interest expense on deposits was \$8.2 million for fiscal 2012, a decrease of \$1.0 million, or 10.5%, when compared to the prior fiscal year. The decrease was due to a 45 basis point decrease in the average rate paid on deposits outstanding, reflecting the decrease in market rates, partially offset by a \$75.7 million increase in the average balance of interest-bearing deposits.

Interest expense on FHLB advances was \$1.2 million for fiscal 2012, a decrease of \$321,000, or 20.7%, when compared to the prior fiscal year. The decrease was due to a \$6.5 million decrease in the average balance of FHLB advances, combined with a 16 basis point decrease in the average rate paid on advances, reflecting the repayment of advances which carried higher rates than the average of the advances that remain outstanding.

Provision for Loan Losses. A provision for loan losses is charged to earnings to bring the total allowance for loan losses to a level considered adequate by management to provide for probable loan losses based on prior loss experience, type and amount of loans in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. Management also considers other factors relating to the collectability of the loan portfolio.

The provision for loan losses was \$1.8 million for fiscal 2012, compared to \$2.4 million for the prior fiscal year. The decrease in provision was attributed to management's analysis of the loan portfolio, which noted slower loan growth and relatively stable credit quality throughout the fiscal year. In fiscal 2012, net charge offs were \$731,000, compared to \$455,000 for the prior fiscal year. At June 30, 2012, classified loans totaled \$9.2 million, or 1.55% of gross loans, as compared to \$8.5 million, or 1.52% of gross loans at June 30, 2011. Classified loans were comprised primarily of commercial real estate loans and commercial loans. All loans so designated were classified due to concerns as to the borrowers' ability to continue to generate sufficient cash flows to service the debt.

The above provision was made based on management's analysis of the various factors which affect the loan portfolio and management's desire to maintain the allowance at a level considered adequate. Management performed a detailed analysis of the loan portfolio, including types of loans, the charge-off history, and an analysis of the allowance for loan losses. Management also considered the continued origination of loans secured by commercial businesses and commercial and agricultural real estate, which bear an inherently higher level of credit risk. While management believes the allowance for loan losses at June 30, 2012, is adequate to cover all losses inherent in the portfolio, there can be no assurance that, in the future, increases in the allowance will not be necessary, or that actual losses will not exceed the allowance.

Noninterest Income. Noninterest income was \$4.1 million for fiscal 2012, a decrease of \$6.4 million, or 61.3%, when compared to the prior fiscal year. The decrease was primarily due to the inclusion in fiscal 2011 results of a bargain purchase gain of \$7.0 million (pre-tax) recognized in the second quarter of fiscal 2011 as a result of the Acquisition, partially offset by higher bank card network interchange revenues (resulting from additional bank card transaction volume), income recognized on settlement of a legal claim obtained as a result of the Acquisition, an increase in gains on secondary market loan sales, and larger increases in the cash value of Bank-owned life insurance (resulting from additional investments in policies).

Noninterest Expense. Noninterest expense was \$16.6 million for fiscal 2012, an increase of \$2.1 million, or 14.8%, when compared to the prior fiscal year. The increase resulted primarily from higher compensation, penalties on the early redemption of FHLB advances, higher occupancy expenses, bank card network fees, postage and office supplies, advertising expenses, and charges to amortize intangible assets, partially offset by a decline in deposit insurance premiums and professional fees. Compensation expenses were \$9.2 million for fiscal 2012, an increase of \$1.2 million, or 15.6%, when compared to the prior fiscal year. The increase was due to the mid-fiscal 2011 Acquisition, the addition of key personnel, increased salaries, and increased benefit expenses. Occupancy expenses were \$2.5 million for fiscal 2012, an increase of \$289,000, or 12.9%, as additional locations from Acquisition, an expanded

location for our new full-service branch in Springfield, and an expanded headquarters facility were in operation for the entirety of our fiscal year. Prepayment penalties on FHLB advances were \$476,000 in fiscal 2012, as compared to \$59,000 in fiscal 2011.

Provision for Income Taxes. The Company recorded an income tax provision of \$4.6 million for fiscal 2012, a decrease of \$1.4 million, as compared to \$6.0 million expensed for fiscal 2011. The effective tax rate for fiscal 2012 was 31.3%, as compared to 34.2% for fiscal 2011. The decrease in the effective tax rate was attributable to additional investments in tax-advantaged investments in municipal securities and limited partnerships which generate tax credits, as well as lower pre-tax income in fiscal 2012.

## COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

**Net Income.** The Company's net income available to common stockholders for the fiscal year ended June 30, 2011, was \$11.0 million, an increase of \$6.8 million, or 166.3%, from the \$4.1 million net income available to common stockholders for the prior fiscal year. Before an effective dividend on preferred shares of \$512,000, net income was \$11.5 million for the 2011 fiscal year, an increase of \$6.8 million, or 148.0%, compared to the \$4.6 million in net income for the prior fiscal year. The increase in net income was primarily due to a \$7.4 million increase in net interest income and a \$7.4 million increase in noninterest income, partially offset by a \$4.4 million increase in income tax provision, a \$2.1 million increase in noninterest expense, and a \$1.5 million increase in loan loss provisions.

**Net Interest Income.** Net interest income for fiscal 2011 was \$23.8 million, an increase of \$7.4 million, or 45.6%, when compared to the prior fiscal year. The increase was due to a \$107.9 million increase in average interest-earning assets, combined with a 75 basis point increase in the net interest margin. The increase in net interest margin was primarily a result of the Acquisition, through which the Company obtained assets marked at a discounted fair value resulting in an effective yield on the acquired assets that is higher than the Company's legacy earning assets. For fiscal 2011, the net interest margin was 3.92%, compared to 3.27% for fiscal year 2010. At June 30, 2011, the net interest margin was 4.16%.

**Interest Income.** Interest income for fiscal 2011 was \$35.0 million, an increase of \$7.5 million, or 27.3%, when compared to the prior fiscal year. The increase was due to the \$107.9 million increase in the average balance of interest-earning assets, combined with a 25 basis point increase in the average yield earned on interest-earning assets, from 5.53% in fiscal 2010 to 5.78% in fiscal 2011.

Interest income on loans receivable for fiscal 2011 was \$32.3 million, an increase of \$7.7 million, or 31.4%, when compared to the prior fiscal year. The increase was due to a \$101.1 million increase in the average balance of loans receivable, combined with a 31 basis point increase in the average yield earned on loans receivable. The increase in average balances was attributed to both organic growth and the Acquisition. The increase in the average yield was attributable to the Acquisition and the resulting fair value discount on the loan portfolio accreted to income.

Interest income on the investment portfolio and other interest-earning assets was \$2.8 million for fiscal 2011, a decrease of \$204,000, or 6.8%, when compared to the prior fiscal year. The decrease was due to a 41 basis point decrease in the average yield earned on these assets, partially offset by a \$6.9 million increase in the average balance of these assets. The decreased yield was due primarily to lower available yields on investment securities, reflecting the low interest rate environment.

**Interest Expense.** Interest expense was \$11.3 million for fiscal 2011, an increase of \$60,000, or 0.5%, when compared to the prior fiscal year. The increase was due to the \$89.9 million increase in the average balance of interest-bearing liabilities, partially offset by a 40 basis point decrease in the average rate paid on interest-bearing liabilities, from 2.47% in fiscal 2010 to 2.07% in fiscal 2011.

Interest expense on deposits was \$9.2 million for fiscal 2011, an increase of \$1.1 million, or 14.1%, when compared to the prior fiscal year. The increase was due to a \$108.6 million increase in the average balance of interest-bearing deposits, partially offset by a 27 basis point decrease in the average rate paid on deposits outstanding, reflecting the decrease in market rates.

Interest expense on FHLB advances was \$1.6 million for fiscal 2011, a decrease of \$1.1 million, or 42.2%, when compared to the prior fiscal year. The decrease was due to a \$20.3 million decrease in the average balance of FHLB advances, combined with a 49 basis point decrease in the average rate paid on advances, reflecting the repayment of advances that carried higher rates than the average of the advances that remain outstanding.

Provision for Loan Losses. A provision for loan losses is charged to earnings to bring the total allowance for loan losses to a level considered adequate by management to provide for probable loan losses based on prior loss experience, type and amount of loans in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. Management also considers other factors relating to the collectability of the loan portfolio.

The provision for loan losses was \$2.4 million for fiscal 2011, compared to \$925,000 for the prior fiscal year. The increase in provision was attributed to provisions needed during the year to bring reserves to an appropriate level based on our continued analysis of the loan portfolio, the current fiscal year's growth in the loan portfolio, and the increase in classified loans during the fiscal year. In fiscal 2011, net charge offs were \$455,000, compared to \$409,000 for the prior fiscal year. At June 30, 2011, classified loans totaled \$8.5 million, or 1.52% of gross loans, as compared to \$6.3 million, or 1.50% of gross loans at June 30, 2010. Classified loans were comprised primarily of loans secured by commercial and agricultural real estate. All loans so designated were classified due to concerns as to the borrowers' ability to continue to generate sufficient cash flows to service the debt.

The above provision was made based on management's analysis of the various factors which affect the loan portfolio and management's desire to maintain the allowance at a level considered adequate. Management performed a detailed analysis of the loan portfolio, including types of loans, the charge-off history, and an analysis of the allowance for loan losses. Management also considered the continued origination of loans secured by commercial businesses and commercial and agricultural real estate, which bear an inherently higher level of credit risk. While management believes the allowance for loan losses at June 30, 2011, is adequate to cover all losses inherent in the portfolio, there can be no assurance that, in the future, increases in the allowance will not be necessary, or that actual losses will not exceed the allowance.

**Noninterest Income.** Noninterest income was \$10.5 million for fiscal 2011, an increase of \$7.4 million, or 239.4%, when compared to the prior fiscal year. The increase was primarily due to the bargain purchase gain of \$7.0 million (pre-tax) recognized in the second quarter of fiscal 2011 as a result of the Acquisition. Excluding the bargain purchase gain related to the Acquisition, noninterest income would have been approximately \$3.5 million for fiscal 2011, an increase of \$411,000, or 13.3%, when compared to the prior fiscal year. That increase was attributable to income generated from ATM and debit card transactions, increased NSF activity, and loan late fee collections, and was also partially offset by lower secondary market loan sales.

**Noninterest Expense.** Noninterest expense was \$14.5 million for fiscal 2011, an increase of \$2.1 million, or 17.1%, when compared to the prior fiscal year. The increase resulted primarily from higher compensation, occupancy, and legal and professional fees. Compensation expenses were \$8.0 million for fiscal 2011, an increase of \$1.7 million, or 27.0%, when compared to the prior fiscal year. The increase was due to the Acquisition, opening two new loan production offices, the addition of key personnel, increased salaries, and increased benefit expenses. Occupancy expenses were \$2.2 million for fiscal 2011, an increase of \$373,000, or 19.9%, as we added two new locations with the Acquisition, opened two loan production offices, and expanded our headquarters facility. Legal and professional fees were \$530,000 in fiscal 2011, an increase of \$224,000, or 73.2%, and increased primarily as a result of the Acquisition.

**Provision for Income Taxes.** The Company recorded an income tax provision of \$6.0 million for fiscal 2011, an increase of \$4.4 million, compared to \$1.5 million expensed for fiscal 2010. The effective tax rate for fiscal 2011 was 34.2%, as compared to 24.6% for fiscal 2010. The increase was primarily due to additional pre-tax income, and the inclusion in fiscal 2010 results of tax benefits associated with the July 2009 acquisition of the Southern Bank of Commerce with no corresponding benefits in fiscal 2011.

## LIQUIDITY AND CAPITAL RESOURCES

Southern Missouri's primary potential sources of funds include deposit growth, securities sold under agreements to repurchase, FHLB advances, amortization and prepayment of loan principal, investment maturities and sales, and ongoing operating results. While scheduled repayments on loans and securities as well as the maturity of short-term investments are a relatively predictable source of funding, deposit flows, FHLB advance redemptions and loan and security prepayment rates are significantly influenced by factors outside of the Bank's control, including general

economic conditions and market competition. The Bank has relied on FHLB advances as a source for funding cash or liquidity needs.

Southern Missouri uses its liquid assets as well as other funding sources to meet ongoing commitments, to fund loan commitments, to repay maturing certificates of deposit and FHLB advances, to make investments, to fund other deposit withdrawals and to meet operating expenses. At June 30, 2012, the Bank had outstanding commitments to extend credit of \$100.4 million (including \$61.2 million in unused lines of credit). Total commitments to originate fixed-rate loans with terms in excess of one year were \$12.1 million at rates ranging from 3.5% to 10.5%, with a weighted-average rate of 5.61%. Management anticipates that current funding sources will be adequate to meet foreseeable liquidity needs.

For the year ended June 30, 2012, Southern Missouri increased deposits and securities sold under agreements to repurchase by \$24.7 million and \$412,000, respectively, and decreased FHLB advances by \$9.0 million. During the prior year, Southern Missouri increased deposits by \$137.3 million and decreased securities sold under agreements to repurchase and FHLB advances by \$5.1 million and \$10.0 million, respectively. At June 30, 2012, the Bank had pledged \$268.9 million of its residential and commercial real estate loan portfolios to the FHLB for available credit of approximately \$179.9 million, of which \$24.5 million had been advanced, and another \$2.0 million had been used for the issuance of letters of credit to secure public unit deposits. The Bank had also pledged \$97.1 million of its agricultural real estate and agricultural operating and equipment loans to the Federal Reserve's discount window for available credit of approximately \$65.0 million, none of which had been advanced. In addition, the Bank has the ability to pledge several of its other loan portfolios, including, for example, its home equity and commercial business loans. In total, FHLB borrowings are generally limited to 35% of Bank assets, or approximately \$295.7 million, which means that an amount up to \$269.2 million may still be eligible to be borrowed from the FHLB, subject to available collateral. Along with the ability to borrow from the FHLB and Federal Reserve, management believes its liquid resources will be sufficient to meet the Company's liquidity needs.

Liquidity management is an ongoing responsibility of the Bank's management. The Bank adjusts its investment in liquid assets based upon a variety of factors including (i) expected loan demand and deposit flows, (ii) anticipated investment and FHLB advance maturities, (iii) the impact on profitability, and (iv) asset/liability management objectives.

At June 30, 2012, the Bank had \$158.9 million in CDs maturing within one year and \$379.1 million in other deposits and securities sold under agreements to repurchase without a specified maturity, as compared to the prior year of \$181.3 million in CDs maturing within one year and \$320.7 million in other deposits and securities sold under agreements to repurchase without a specified maturity. Management believes that most maturing interest-bearing liabilities will be retained or replaced by new interest-bearing liabilities. Also at June 30, 2012, the Bank had \$19.5 million in FHLB advances eligible for early redemption by the lender within one year.

#### REGULATORY CAPITAL

Federally insured financial institutions are required to maintain minimum levels of regulatory capital. Federal Reserve regulations establish capital requirements, including a leverage (or core capital) requirement and a risk-based capital requirement. The Federal Reserve is also authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

At June 30, 2012, the Bank exceeded regulatory capital requirements with core and total risk-based capital of \$77.1 million and \$84.0 million, or 10.52% and 15.21% of adjusted total assets and risk-weighted assets, respectively. These capital levels exceeded minimum requirements of 4.0% and 8.0%, respectively, and well-capitalized requirements of 5% and 10%, respectively for adjusted total assets and risk-weighted assets. At June 30, 2012, the Company exceeded regulatory capital requirements with core and total risk based capital of \$99.8 million and \$106.8 million, or 13.47% and 19.08% of adjusted total assets and risk-weighted assets, respectively. These capital levels exceed minimum requirements of 4.0% and 8.0%, respectively. See Note 13 of the Notes to the Consolidated Financial Statements



contained in Item 8.

65

## IMPACT OF INFLATION

The consolidated financial statements and related data presented herein have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on the operations of the Company is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates generally have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services. In the current interest rate environment, liquidity and maturity structure of the Company's assets and liabilities are critical to the maintenance of acceptable performance levels.

## AVERAGE BALANCE, INTEREST AND AVERAGE YIELDS AND RATES

The table on the following page sets forth certain information relating to the Company's average interest-earning assets and interest-bearing liabilities and reflects the average yield on assets and the average cost of liabilities for the periods indicated. These yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the years indicated. Nonaccrual loans are included in the net loan category.

The table also presents information with respect to the difference between the weighted-average yield earned on interest-earning assets and the weighted-average rate paid on interest-bearing liabilities, or interest rate spread, which financial institutions have traditionally used as an indicator of profitability. Another indicator of an institution's net interest income is its net yield on interest-earning assets, which is its net interest income divided by the average balance of interest-earning assets. Net interest income is affected by the interest rate spread and by the relative amounts of interest-earning assets and interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income.

Edgar Filing: NAVISITE INC - Form 8-K/A

(dollars in thousands)	2012			2011			2010		
Year Ended June 30	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
Interest-earning assets:									
Mortgage loans (1)	\$405,818	\$26,561	6.55 %	\$366,368	\$24,196	6.60 %	\$287,216	\$17,917	6.24 %
Other loans (1)	153,480	9,788	6.38	137,057	8,069	5.89	115,155	6,638	5.76
Total net loans	559,298	36,349	6.50	503,425	32,265	6.41	402,371	24,555	6.10
Mortgage-backed securities	20,197	925	4.58	28,503	1,377	4.83	35,862	1,715	4.78
Investment securities (2)	52,450	1,482	2.83	40,473	1,287	3.18	30,878	1,156	3.74
Other interest-earning assets	72,683	209	0.29	33,901	119	0.35	29,282	115	0.39
<b>TOTAL INTEREST-EARNING ASSETS (1)</b>	<b>704,628</b>	<b>38,965</b>	<b>5.53</b>	<b>606,302</b>	<b>35,048</b>	<b>5.78</b>	<b>498,393</b>	<b>27,541</b>	<b>5.53</b>
Other noninterest-earning assets (3)	33,975	---	---	26,356	---	---	27,741	---	---
<b>TOTAL ASSETS</b>	<b>\$738,603</b>	<b>38,965</b>	<b>---</b>	<b>\$632,658</b>	<b>35,048</b>	<b>---</b>	<b>\$526,134</b>	<b>27,541</b>	<b>---</b>
Interest-bearing liabilities:									
Savings accounts	\$92,961	\$731	0.79	\$89,699	\$1,040	1.16 %	\$79,512	\$1,186	1.49 %
NOW accounts	181,390	3,229	1.78	130,337	3,273	2.51	85,911	2,076	2.42
Money market accounts	17,754	158	0.89	13,598	176	1.29	6,951	99	1.42
Certificates of deposit	254,804	4,125	1.62	237,531	4,725	1.99	190,190	4,715	2.48
<b>TOTAL INTEREST-BEARING DEPOSITS</b>	<b>546,909</b>	<b>8,243</b>	<b>1.51</b>	<b>471,165</b>	<b>9,214</b>	<b>1.96</b>	<b>362,564</b>	<b>8,076</b>	<b>2.23</b>
Borrowings:									
Securities sold under agreements to repurchase	26,956	235	0.87	29,285	290	0.99	27,674	233	0.84
FHLB advances	30,624	1,233	4.03	37,114	1,554	4.19	57,399	2,689	4.68
Junior subordinated debt	7,217	232	3.21	7,217	227	3.15	7,217	227	3.15
<b>TOTAL INTEREST-BEARING LIABILITIES</b>	<b>611,706</b>	<b>9,943</b>	<b>1.63</b>	<b>544,781</b>	<b>11,285</b>	<b>2.07</b>	<b>454,854</b>	<b>11,225</b>	<b>2.47</b>
Noninterest-bearing demand deposits	42,261	---	---	35,098	---	---	25,701	---	---

Edgar Filing: NAVISITE INC - Form 8-K/A

Other liabilities	2,055	---	---	2,882	---	---	1,438	---	---
TOTAL LIABILITIES	656,022	---	---	582,761	---	---	481,993	11,225	---
Stockholders' equity	82,581	---	---	49,897	---	---	44,141	---	---
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$738,603	9,943	---	\$632,658	11,285	---	\$526,134	11,225	---
Net interest income		\$29,022			\$23,763			\$16,316	
Interest rate spread (4)			3.90 %			3.71 %			3.06 %
Net interest margin (5)			4.12 %			3.92 %			3.27 %
Ratio of average interest-earning assets to average interest- bearing liabilities	115.19 %			111.29 %				109.57 %	

- 
- (1) Calculated net of deferred loan fees, loan discounts and loans-in-process. Nonaccrual loans are included in average loans.
- (2) Includes FHLB stock and related cash dividends.
- (3) Includes equity securities and related cash dividends.
- (4) Represents the difference between the average rate on interest-earning assets and the average cost of interest-bearing liabilities.
- (5) Represents net interest income divided by average interest-earning assets.

## YIELDS EARNED AND RATES PAID

The following table sets forth for the periods and at the dates indicated, the weighted average yields earned on the Company's assets, the weighted average interest rates paid on the Company's liabilities, together with the net yield on interest-earning assets.

	At		For					
	June 30, 2012	%	2012	%	The Year Ended June 30, 2011	%	2010	%
Weighted-average yield on loan portfolio	5.87	%	6.50	%	6.41	%	6.10	%
Weighted-average yield on mortgage-backed securities	3.71		4.58		4.83		4.78	
Weighted-average yield on investment securities (1)	2.48		2.76		3.18		3.74	
Weighted-average yield on other interest-earning assets	0.49		0.29		0.35		0.39	
Weighted-average yield on all interest-earning assets	5.31		5.53		5.78		5.53	
Weighted-average rate paid on deposits	1.12		1.51		1.96		2.23	
Weighted-average rate paid on securities sold under								
agreements to repurchase	0.77		0.87		0.99		0.84	
Weighted-average rate paid on FHLB advances	4.05		4.03		4.19		4.68	
Weighted-average rate paid on subordinated debt	3.22		3.21		3.15		3.15	
Weighted-average rate paid on all interest-bearing liabilities	1.25		1.63		2.07		2.47	
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities)	4.05		3.90		3.71		3.06	
Net interest margin (net interest income as a percentage of average interest-earning assets)	4.23		4.12		3.92		3.27	

(1) Includes Federal Home Loan Bank stock.

## RATE/VOLUME ANALYSIS

The following table sets forth the effects of changing rates and volumes on net interest income of the Company. Information is provided with respect to (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate), (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) changes in rate/volume (change in rate multiplied by change in volume).

Years Ended June 30,  
2012 Compared to 2011

Years Ended June 30,  
2011 Compared to 2010

Edgar Filing: NAVISITE INC - Form 8-K/A

(dollars in thousands)	Increase (Decrease) Due to				Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net	Rate	Volume	Rate/ Volume	Net
<b>Interest-earning assets:</b>								
Loans receivable (1)	\$453	\$3,582	\$49	\$4,084	\$1,247	\$6,164	\$299	\$7,710
Mortgage-backed securities	(71 )	(401 )	20	(452 )	18	(352 )	(4 )	(338 )
Investment securities (2)	(142 )	381	(44 )	195	(173 )	359	(55 )	131
Other interest-earning deposits	(20 )	136	(26 )	90	(12 )	18	(3 )	3
Total net change in income on interest-earning assets	220	3,698	---	3,918	1,080	6,189	237	7,506
<b>Interest-bearing liabilities:</b>								
Deposits	(2,216 )	1,717	(471 )	(970 )	(1,125 )	2,495	(233 )	1,137
Securities sold under agreements to repurchase	(35 )	(23 )	3	(55 )	42	14	1	57
Subordinated debt	4	---	1	5	(1 )	---	1	---
FHLB advances	(59 )	(272 )	10	(321 )	(281 )	(949 )	96	(1,134 )
Total net change in expense on interest-bearing liabilities	(2,306 )	1,422	(457 )	(1,341 )	(1,365 )	1,560	(135 )	60
Net change in net interest income	\$2,526	\$2,276	\$457	\$5,259	\$2,445	\$4,629	\$372	\$7,446

(1) Does not include interest on loans placed on nonaccrual status.

(2) Does not include dividends earned on equity securities.

## Item 7A Quantitative and Qualitative Disclosures About 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 Company 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 repricing 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 increase its interest rate risk position in order to maintain its net interest margin.

In an effort to manage the interest rate risk resulting from fixed rate lending, the Company has utilized longer term (up to 10 year maturities), fixed-rate FHLB advances, which may be subject to early redemption, to offset interest rate risk. Other elements of the Company's current asset/liability strategy include: (i) increasing originations of commercial real estate, commercial business loans, agricultural real estate, and agricultural operating lines, which typically provide higher yields and shorter repricing periods, but inherently increase credit risk, (ii) limiting the price volatility of the investment portfolio by maintaining a weighted average maturity of five years or less, (iii) actively soliciting less rate-sensitive deposits, and (iv) 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 generate long-term, fixed-rate residential loans. During the fiscal year ended June 30, 2012, fixed rate residential loan originations totaled \$21.6 million (of which \$7.9 million was originated for sale into the secondary market), compared to \$11.1 million during the prior year. At June 30, 2012, the fixed-rate residential loan portfolio totaled \$105.2 million, with a weighted average maturity of 176 months, compared to \$117.5 million with a weighted average maturity of 167 months at June 30, 2011. The Company originated \$25.8 million (of which \$300,000 was originated for sale into the secondary market) in adjustable rate residential loans during the fiscal year ended June 30, 2012, compared to \$17.4 million during the prior fiscal year. At June 30, 2012, fixed rate loans with remaining maturities in excess of 10 years totaled \$70.5 million, or 12.1%, of loans receivable, compared to \$83.8 million, or 14.9%, of loans receivable, at June 30, 2011. The Company originated \$74.2 million in fixed rate commercial and commercial real estate loans during the year ended June 30, 2012, compared to \$52.4 million during the prior fiscal year. The Company also originated \$39.3 million in adjustable rate commercial and commercial real estate loans during the fiscal year ended June 30, 2012, compared to \$31.8 million during the prior year. At June 30, 2012, adjustable-rate home equity lines of credit had increased to \$15.9 million, compared to \$14.0 million as of June 30, 2011. At June 30, 2012, the Company's weighted average life of its investment portfolio was 3.1 years, compared to 3.1 years at June 30, 2011. At June 30, 2012, CDs with original terms of two years or more totaled \$74.3 million, compared to \$92.6 million at June 30, 2011.

## INTEREST RATE SENSITIVITY ANALYSIS

The following table sets forth as of June 30, 2012 and 2011, management's estimates of the projected changes in net portfolio value in the event of 1%, 2% and 3%, instantaneous, permanent increases or decreases in market interest rates.

Computations in the table below are based on prospective effects of hypothetical changes in interest rates and are based on an internally generated model using the actual maturity and repricing schedules for Southern Bank's loans and deposits, adjusted by management's assumptions for prepayment rates and deposit runoff. Further, the computations do not consider any reactions that the Bank may undertake in response to changes in interest rates. These projected changes should not be relied upon as indicative of actual results in any of the aforementioned interest

rate changes.

69



Management cannot accurately predict future interest rates or their effect on the Company's NPV and net interest income in the future. Certain shortcomings are inherent in the method of analysis presented in the computation of NPV and net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Additionally, most of Southern Bank's loans have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the foregoing table. Finally, the ability of many borrowers to service their debt may decrease in the event of an interest rate increase.

June 30, 2012

Change in Rates	\$ Amount	Net Portfolio		NPV Ratio	NPV as % of PV of Assets	
		\$ Change (dollars in thousands)	% Change		Change	
+300 bp	\$87,871	\$(8,909)	(9)	11.60	% -1.02	%
+200 bp	91,106	(5,674)	(6)	11.99	% -0.63	%
+100 bp	93,831	(2,949)	(3)	12.29	% -0.33	%
0 bp	96,780	-	-	12.62	% 0.00	%
-100 bp	99,147	2,367	2	12.88	% 0.25	%
-200 bp	102,753	5,973	6	13.28	% 0.66	%
-300 bp	106,045	9,266	10	13.65	% 1.02	%

June 30, 2011

Change in Rates	\$ Amount	Net Portfolio		NPV Ratio	NPV as % of PV of Assets	
		\$ Change (dollars in thousands)	% Change		Change	
+300 bp	\$61,503	\$5,115	9	9.11	0.96	
+200 bp	61,759	5,371	10	9.08	0.92	
+100 bp	59,975	3,587	6	8.74	0.58	
0 bp	56,388	-	-	8.16	-	
-100 bp	50,216	(6,172)	(11)	7.23	-0.92	
-200 bp	43,747	(12,641)	(22)	6.27	-1.88	
-300 bp	41,255	(15,132)	(27)	5.89	-2.27	

The Company has worked to limit its exposure to rising rates in the current historically low rate environment by (a) increasing the share of funding on its balance sheet obtained from non-maturity transaction accounts, (b) reducing FHLB borrowings and (c) limiting the duration of its available-for-sale investment portfolio.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors  
and Stockholders

Southern Missouri Bancorp, Inc.  
Poplar Bluff, Missouri

We have audited the accompanying consolidated balance sheets of Southern Missouri Bancorp, Inc. ("Company") as of June 30, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 2012. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Missouri Bancorp, Inc. as of June 30, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

St. Louis, Missouri  
September 24, 2012

CONSOLIDATED BALANCE SHEETS  
JUNE 30, 2012 AND 2011  
Southern Missouri Bancorp, Inc.

	2012	2011
Assets		
Cash and cash equivalents	\$33,421,099	\$33,895,706
Interest-bearing time deposits	1,273,000	792,000
Available for sale securities (Note 2)	75,126,845	63,327,201
Stock in FHLB of Des Moines	2,018,200	2,369,200
Stock in Federal Reserve Bank of St. Louis	1,001,050	718,750
Loans receivable, net of allowance for loan losses of \$7,492,054 and \$6,438,451 at June 30, 2012, and June 30, 2011, respectively (Notes 3 and 4)	583,464,521	556,576,055
Accrued interest receivable	3,694,344	3,799,935
Premises and equipment, net (Note 5)	11,347,064	8,057,529
Bank owned life insurance – cash surrender value	15,957,500	8,114,469
Intangible assets, net	1,457,557	1,874,689
Prepaid expenses and other assets	10,427,788	8,674,848
TOTAL ASSETS	\$739,188,968	\$688,200,382
Liabilities and Stockholder's Equity		
Deposits (Note 6)	\$584,813,624	\$560,150,817
Securities sold under agreements to repurchase (Note 7)	25,642,407	25,230,051
Advances from FHLB of Des Moines (Note 8)	24,500,000	33,500,000
Accounts payable and other liabilities	1,662,207	5,536,062
Accrued interest payable	625,659	834,344
Subordinated debt (Note 9)	7,217,000	7,217,000
TOTAL LIABILITIES	644,460,897	632,468,274
Commitments and contingencies (Note 15)	-	-
Preferred stock, \$.01 par value, \$1,000 liquidation value; 500,000 shares authorized; 20,000 and 9,550 shares issued and outstanding at June 30, 2012 and 2011, respectively	20,000,000	9,455,635
Common stock, \$.01 par value; 4,000,000 shares authorized; 3,252,706 and 2,957,226 shares issued at June 30, 2012 and 2011, respectively	32,527	29,572
Warrants to acquire common stock	176,790	176,790
Additional paid-in capital	22,479,767	16,274,545
Retained earnings	51,365,401	43,014,191
Treasury stock of 2,230 and 858,250 shares at June 30, 2012 and 2011, respectively, at cost	(26,315	) (13,754,245
Accumulated other comprehensive income	699,901	535,620
TOTAL STOCKHOLDER'S EQUITY	94,728,071	55,732,108
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$739,188,968	\$688,200,382

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010  
Southern Missouri Bancorp, Inc.

	2012	2011	2010
Interest Income:			
Loans	\$36,349,320	\$32,265,395	\$24,554,917
Investment securities	1,482,094	1,286,779	1,155,795
Mortgage-backed securities	924,771	1,376,856	1,715,309
Other interest-earning assets	209,119	118,627	115,239
TOTAL INTEREST INCOME	38,965,304	35,047,657	27,541,260
Interest Expense:			
Deposits	8,243,381	9,213,424	8,076,400
Securities sold under agreements to repurchase	234,562	290,203	232,773
Advances from FHLB of Des Moines	1,232,919	1,554,344	2,688,747
Subordinated debt	232,154	226,776	227,019
TOTAL INTEREST EXPENSE	9,943,016	11,284,747	11,224,939
NET INTEREST INCOME	29,022,288	23,762,910	16,316,321
Provision for loan losses (Note 3)	1,784,715	2,384,799	924,933
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,237,573	21,378,111	15,391,388
Noninterest income:			
Deposit account charges and related fees	1,524,733	1,570,096	1,384,440
Bank card transaction fees	1,109,503	889,176	641,210
Loan late charges	221,550	231,897	214,444
Other loan fees	200,260	196,185	193,502
Net realized gains on sale of loans	315,674	173,168	220,845
Bargain purchase gain on acquisitions	-	6,996,750	-
Earnings on Bank owned life insurance	343,031	277,540	273,074
Other	348,459	167,480	166,617
TOTAL NONINTEREST INCOME	4,063,210	10,502,292	3,094,132
Noninterest expense:			
Compensation and benefits	9,237,003	7,987,470	6,291,436
Occupancy and equipment, net	2,531,587	2,242,284	1,869,597
Deposit insurance premiums	375,001	563,751	554,467
Legal and professional fees	442,931	530,133	306,069
Advertising	340,654	262,294	252,404
Postage and office supplies	441,866	362,201	417,699
Amortization of intangible assets	417,131	354,636	289,066
Bank card network fees	567,584	442,775	360,538
Other	2,251,654	1,713,225	2,007,551
TOTAL NONINTEREST EXPENSE	16,605,411	14,458,769	12,348,827
INCOME BEFORE INCOME TAXES	14,695,372	17,421,634	6,136,693
Income Taxes (Note 11)			
Current	6,006,254	4,443,982	2,052,105

Edgar Filing: NAVISITE INC - Form 8-K/A

Deferred	(1,409,145 )	1,507,621	(541,000 )
	4,597,109	5,951,603	1,511,105
NET INCOME	\$10,098,263	\$11,470,031	\$4,625,588
Less: charge for early redemption of preferred stock issued at a discount	94,365	-	-
Less: effective dividend on preferred shares	424,184	511,814	510,006
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$9,579,714	\$10,958,217	\$4,115,582
Basic earnings per share available to common stockholders	\$3.43	\$5.25	\$1.98
Diluted earnings per share available to common stockholders	\$3.32	\$5.12	\$1.95
Dividends paid	\$0.48	\$0.48	\$0.48

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED JUNE 30, 2012, 2011 AND 2010

## Southern Missouri Bancorp, Inc.

	2012	Year Ended June 30,		2010
		2011		
Net income	\$10,098,263	\$11,470,031		\$4,625,588
Other comprehensive income:				
Unrealized gains (losses) on securities available-for-sale	327,640	(185,554	)	743,719
Unrealized gains (losses) on available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income	(72,626	)	97,826	1,896
Less, realized (losses) gains included in income	-	-		-
Defined benefit pension plan net (loss) gain	3,622	2,905		2,218
Tax benefit (expense)	(94,355	)	32,479	(275,878
Total other comprehensive income (loss)	164,281	(52,344	)	471,955
Comprehensive income	\$10,262,544	\$11,417,687		\$5,097,543

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010  
Southern Missouri Bancorp, Inc.

	Preferred Stock	Common Stock	Warrants to Acquire Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCE AT OF JUNE 30, 2009	\$9,388,815	\$29,572	\$176,790	\$16,344,725	\$29,947,297	\$(13,994,870)	\$116,009	\$42,008,333
Net Income					4,625,588			4,625,588
Change in accumulated other comprehensive income							471,955	471,955
<b>TOTAL COMPREHENSIVE INCOME</b>								<b>5,097,543</b>
Dividends paid on common stock (\$.48 per share)					(1,002,156)			(1,002,156)
Dividends paid on preferred stock					(477,500)			(477,500)
Accretion of discount on preferred stock	32,506				(32,506)			-
Stock option expense				11,072				11,072
Stock grant expense				11,901				11,901
BALANCE AT JUNE 30, 2010	\$9,421,321	\$29,572	\$176,790	\$16,367,698	\$33,060,723	\$(13,994,870)	\$587,964	\$45,649,198
Net Income					11,470,031			11,470,031
Change in accumulated other comprehensive income							(52,344)	(52,344)
<b>TOTAL COMPREHENSIVE INCOME</b>								<b>11,417,687</b>
Dividends paid on common stock (\$.48 per share)					(1,004,749)			(1,004,749)
Dividends paid on preferred stock					(477,500)			(477,500)



Edgar Filing: NAVISITE INC - Form 8-K/A

Accretion of discount on preferred stock	34,314				(34,314 )				-
Stock option expense				10,388					10,388
Stock grant expense				13,152					13,152
Tax benefit of grants				6,860					6,860
Exercise of stock options				(157,895 )			240,625		82,730
Tax benefit of stock options				34,342					34,342
BALANCE AT									
JUNE 30, 2011	\$9,455,635	\$29,572	\$176,790	\$16,274,545	\$43,014,191	\$(13,754,245)	\$535,620		\$55,732,108

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010  
Southern Missouri Bancorp, Inc.

	Preferred Stock	Common Stock	Warrants to Acquire Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCE AT JUNE 30, 2011	\$9,455,635	\$29,572	\$176,790	\$16,274,545	\$43,014,191	\$(13,754,245)	\$535,620	\$55,732,100
Net Income					10,098,263			10,098,263
Change in accumulated other comprehensive income							164,281	164,281
<b>TOTAL COMPREHENSIVE INCOME</b>								<b>10,262,544</b>
Dividends paid on common stock (\$.48 per share )					(1,283,928 )			(1,283,928 )
Dividends paid on preferred stock					(368,760 )			(368,760 )
Accretion of discount on preferred stock	94,365				(94,365 )			-
Stock option expense				11,860				11,860
Stock grant expense				10,711				10,711
Tax benefit of stock grants				3,135				3,135
Exercise of stock options				(4,930 )		27,775		22,845
Preferred stock issued	20,000,000			(26,792 )				19,973,208
Redemption of preferred stock	(9,550,000 )							(9,550,000 )
Common stock issued		2,955		6,211,238		13,700,155		19,914,348
BALANCE AT JUNE 30, 2012	\$20,000,000	\$32,527	\$176,790	\$22,479,767	\$51,365,401	\$(26,315 )	\$699,901	\$94,728,000

See accompanying notes to consolidated financial statements.



CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2012, 2011 AND 2010  
Southern Missouri Bancorp, Inc.

	2012	2011	2010
Cash Flows From Operating Activities:			
Net income	\$ 10,098,263	\$ 11,470,031	\$ 4,625,588
Items not requiring (providing) cash:			
Depreciation	937,647	733,131	709,981
Loss on disposal of fixed assets	-	-	280,521
Stock option and stock grant expense	25,705	64,742	22,973
(Gain) loss on sale of foreclosed assets	(23,089 )	71,964	84,324
Amortization of intangible assets	417,131	354,636	289,066
Increase in cash surrender value of bank owned life insurance	(343,031 )	(277,540 )	(273,074 )
Provision for loan losses	1,784,715	2,384,799	924,993
Amortization of premiums and discounts on securities	389,958	258,606	200,952
Bargain purchase gain on acquisition	-	(6,996,750 )	-
(Increase) decrease deferred income taxes	(1,220,465 )	1,507,621	(541,000 )
Changes in:			
Accrued interest receivable	105,591	100,525	(261,572 )
Prepaid expenses and other assets	1,098,761	662,040	(1,090,179 )
Accounts payable and other liabilities	(5,023,842 )	4,248,091	(26,288 )
Accrued interest payable	(208,685 )	(107,241 )	(192,688 )
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,038,659	14,474,655	4,753,597
Cash flows from investing activities:			
Net cash received in acquisitions	-	38,249,286	9,713,304
Net increase in loans	(29,319,853 )	(26,806,328 )	(37,503,820 )
Net change in interest-bearing deposits	(481,000 )	297,000	(1,089,000 )
Proceeds from maturities of available for sale securities	39,251,480	26,595,224	16,631,759
Purchases of available-for-sale securities	(51,186,068 )	(23,303,316 )	(21,270,406 )
Redemption of Federal Home Loan Bank stock	351,000	1,020,900	1,970,700
Purchases of Federal Reserve Bank of Saint Louis stock	(282,300 )	(135,650 )	(583,100 )
Purchases of premises and equipment	(4,227,182 )	(1,139,257 )	(1,131,254 )
Proceeds from sale of fixed assets	-	-	2,006,263
Purchase of bank owned life insurance	(7,500,000 )	-	-
Investments in state & federal tax credits	(686,109 )	(2,138,984 )	(1,250,000 )
Proceeds from sale of foreclosed and repossessed property	783,889	724,667	1,296,410
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(53,296,143 )	13,363,542	(31,209,144 )
Cash flows from financing activities:			
Net increase in transaction and savings accounts	57,996,020	39,133,943	74,540,768
Net (decrease) increase in certificates of deposits	(33,333,213 )	(32,714,693 )	7,332,057
Net increase (decrease) in securities sold under agreements to repurchase	412,356	(5,138,697 )	6,621,191
Proceeds from Federal Home Loan Bank advances	-	-	30,950,000
Repayments of Federal Home Loan Bank advances	(9,000,000 )	(27,206,803 )	(66,200,000 )
Preferred stock issued	19,973,208	-	-
Redemption of preferred stock	(9,550,000 )	-	-

Edgar Filing: NAVISITE INC - Form 8-K/A

Common stock issued	19,914,349	-	-
Dividends paid on preferred stock	(368,760 )	(477,500 )	(477,500 )
Dividends paid on common stock	(1,283,928 )	(1,004,749 )	(1,002,156 )
Exercise of stock options	22,845	82,730	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	44,782,877	(27,325,769 )	51,764,360
(Decrease) increase in cash and cash equivalents	(474,607 )	512,428	25,308,813
Cash and cash equivalents at beginning of year	33,895,706	33,383,278	8,074,465
Cash and cash equivalents at end of year	\$33,421,099	\$33,895,706	\$33,383,278
Supplemental disclosures of cash flow information:			
Noncash investing and financing activities:			
Conversion of loans to foreclosed real estate	\$1,149,502	\$896,875	\$1,925,854
Conversion of loans to foreclosed real estate loans	\$651,550	\$157,500	\$196,944
Conversion of loans to repossessed assets	\$148,720	\$396,229	\$255,620
Cash paid during the period for:			
Interest (net of interest credited)	\$2,862,935	\$3,079,647	\$4,142,105
Income taxes	\$6,801,570	\$1,947,171	\$1,598,000

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

NOTE 1: 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 the regulation of 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 \$31,047,957 and \$30,690,109 at June 30, 2012 and 2011, 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.

**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 of this guidance, the Company's consolidated balance sheet for the dates presented reflects the full impairment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

(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 collectibility 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 flows (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 loans 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

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. The Company’s gross amount of intangible assets at June 30, 2012 and 2011 was \$4.5 million and \$4.6 million, respectively, with accumulated amortization of \$3.0 million and \$2.8 million, respectively. The

Company's intangible assets are being amortized over periods ranging from five to fifteen years, with amortization expense expected to be approximately \$417,000 per year over the next two years, dropping to \$383,000 in fiscal 2015.

**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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

deferred tax asset or liability is based on the tax effects of the differences 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 the 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.

Incentive Plan. The Company accounts for its management and recognition plan (MRP) in accordance with ASC 718, "Share-Based Payment." The aggregate purchase price of all shares owned by the incentive plan is reflected as a reduction of stockholders' equity. 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. The difference between the aggregate purchase price and the fair value on the date the shares are considered earned is recorded as an adjustment to additional paid in capital.

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, whether before or after the reorganization date.

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. In addition, stock options not vested on July 1, 2005, were recognized in expense over their remaining vesting period.

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 year.

**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 2011 and 2010 consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on net income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

The following paragraphs summarize the impact of new accounting pronouncements:

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures About Offsetting Assets and Liabilities." The ASU requires entities to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet, as well as instruments and transactions subject to an agreement similar to a master netting agreement. The scope of the ASU includes derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending arrangements. The ASU is effective for annual and interim reporting periods beginning January 1, 2013. The Company is evaluating the ASU, but does not anticipate that it will have a material impact on the Company's financial position or results of operations.

In September 2011, the FASB issued ASU No. 2011-08 to amend FASB ASC Topic 350, Intangibles – Goodwill and Other, to simplify how entities test goodwill for impairment. The amendment permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to further perform the two-step goodwill impairment test described in Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company is evaluating the ASU, but does not anticipate that it will have a material impact on the Company's financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05 to amend FASB ASC Topic 220, Comprehensive Income: Presentation of Comprehensive Income. The purpose of the update is to improve the comparability, consistency and transparency of financial reporting related to other comprehensive income. It eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. Instead, the components of other comprehensive income must either be presented with net income in a single continuous statement of comprehensive income or as a separate but consecutive statement following the statement of operations. Regardless of which method is used, adjustments for items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. The Update is effective on a retrospective basis for interim and annual reporting periods beginning after December 15, 2011. The Company adopted the ASU in the third quarter ended March 31, 2012, by including a Condensed Consolidated Statement of Comprehensive Income.

In May 2011, the FASB issued ASU No. 2011-04 to amend FASB ASC Topic 820, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs. The update amends the GAAP requirements for measuring fair value and for disclosures about fair value measurements to improve consistency between GAAP and IFRSs by changing some of the wording used to describe the requirements, clarifying the intended application of certain requirements and changing certain principles. The update was effective on a prospective basis for interim and annual reporting periods beginning after December 15, 2011. The adoption of the ASU included enhanced disclosure in Note 3 to the Condensed Consolidated Financial Statements, and did not have an impact on the Company's financial position or results of operations.

In April 2011, the FASB issued 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 was effective on a prospective basis for interim and annual reporting periods beginning on or after December 15, 2011, and did not have a material impact on the Company's financial position or results of operations.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

## NOTE 2: Available-for-Sale Securities

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

	June 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and Federal agency obligations	\$ 18,046,654	\$ 53,348	\$(384)	\$ 18,099,618
Obligations of states 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
<b>TOTAL DEBT AND EQUITY SECURITIES</b>	<b>55,349,657</b>	<b>1,891,283</b>	<b>(1,366,812)</b>	<b>55,874,128</b>
Mortgage-backed securities:				
FHLMC certificates	3,420,821	245,143	-	3,665,964
GNMA certificates	79,088	1,489	-	80,577
FNMA certificates	4,437,325	256,343	-	4,693,668
CMOs issues by government agencies	10,757,324	63,045	(7,861)	10,812,508
<b>TOTAL MORTGAGE-BACKED SECURITIES</b>	<b>18,694,558</b>	<b>566,020</b>	<b>(7,861)</b>	<b>19,252,717</b>
<b>TOTAL</b>	<b>\$ 74,044,215</b>	<b>\$ 2,457,303</b>	<b>\$(1,374,673)</b>	<b>\$ 75,126,845</b>

	June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and Federal agency obligations	\$ 12,991,362	\$ 28,805	\$(44,097)	\$ 12,976,070
Obligations of states and political subdivisions	24,232,364	816,966	(67,876)	24,981,454
Other securities	1,785,562	18,717	(970,138)	834,141
<b>TOTAL DEBT AND EQUITY SECURITIES</b>	<b>39,009,288</b>	<b>864,488</b>	<b>(1,082,111)</b>	<b>38,791,665</b>
Mortgage-backed securities:				
FHLMC certificates	4,829,996	356,213	-	5,186,209
GNMA certificates	89,126	1,481	-	90,607
FNMA certificates	4,632,854	353,886	-	4,986,740
CMOs issues by government agencies	13,938,320	333,660	-	14,271,980
<b>TOTAL MORTGAGE-BACKED SECURITIES</b>	<b>23,490,296</b>	<b>1,045,240</b>	<b>-</b>	<b>24,535,536</b>
<b>TOTAL</b>	<b>\$ 62,499,584</b>	<b>\$ 1,909,728</b>	<b>\$(1,082,111)</b>	<b>\$ 63,327,201</b>





NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

The amortized cost and fair value of available-for-sale 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 call or prepayment penalties.

	June 30, 2012	
	Amortized Cost	Estimated Fair Value
Within one year	\$ 215,000	\$ 215,408
After one year but less than five years	6,788,532	6,816,264
After five years but less than ten years	19,115,999	19,730,412
After ten years	29,230,126	29,112,044
Total debt and equity securities	55,349,657	55,874,128
Mortgage-backed securities – GSE residential	18,694,558	19,252,717
TOTAL \$	74,044,215	\$ 75,126,845

The carrying value of investment and mortgage-backed securities pledged as collateral to secure public deposits and securities sold under agreements to repurchase amounted to \$64.5 million and \$57.1 million at June 30, 2012 and 2011, respectively.

No gains or losses resulted from sales of available-for-sale securities in 2012, 2011, or 2010.

With the exception of U.S. government agencies and corporations, the Company did not hold any securities of a single issuer, payable from and secured by the same source of revenue or taxing authority, the book value of which exceeded 10% of stockholders' equity at June 30, 2012.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2012, was \$8.8 million, which is approximately 11.6% of the Company's available for sale investment portfolio, as compared to \$10.8 million or approximately 17.0% of the Company's available for sale investment portfolio at June 30, 2011. Except as discussed below, management believes the declines in fair value for these securities to be temporary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

The tables below 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 June 30, 2012 and 2011.

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

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
For the year ended June 30, 2011						
U.S. government-sponsored enterprises (GSEs)	\$5,955,903	\$44,097	\$-	\$-	\$5,955,903	\$44,097
Other securities	-	-	568,568	970,138	568,568	970,138
Obligations of state and political subdivisions	4,233,216	67,876	-	-	4,233,216	67,876
Total	\$10,189,119	\$111,973	\$568,568	\$970,138	\$10,757,687	\$1,082,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

Other securities. At June 30, 2012, there were four pooled trust preferred securities with an estimated fair value of \$295,000 and unrealized losses of \$1.3 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 June 30, 2012, cash flow analysis for three of these securities indicated 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 June 2013 by all issuers of asset size greater than \$15 billion, to account for the lack of favorable capital treatment under the Dodd-Frank regulatory reform bill; prepayments of 5% every five years thereafter, to account for isolated prepayments; no recoveries on issuers currently in default; recoveries of 25% 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 three 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 June 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 June 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

those described above. Assumptions for this security included prepayments by June 2013 by all issuers of asset size greater than \$15 billion, to account for the lack of favorable capital treatment under the Dodd-Frank regulatory reform bill; prepayments of 5% every five years thereafter, to account for isolated prepayments; no recoveries on 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 June 30, 2012.

The Company does not believe any other individual unrealized loss as of June 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 years ended June 30, 2012 and 2011.

	Accumulated Credit Losses Period Ended June 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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

## NOTE 3: Loans and Allowance for Loan Losses

Classes of loans are summarized as follows:

	June 30	
	2012	2011
Real Estate Loans:		
Conventional	\$ 201,012,698	\$ 199,884,607
Construction	40,181,979	29,921,110
Commercial	200,957,429	185,158,763
Consumer loans	28,985,905	29,963,281
Commercial loans	137,004,222	126,290,143
	608,142,233	571,217,904
Loans in process	(17,370,404 )	(8,330,245 )
Deferred loan fees, net	184,746	126,847
Allowance for loan losses	(7,492,054 )	(6,438,451 )
TOTAL	\$ 583,464,521	\$ 556,576,055

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

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 June 30, 2012, construction loans outstanding included 18 loans, totaling \$11.0 million, for which a modification had been agreed to; At June 30, 2011, construction loans outstanding included 24 loans, totaling \$2.2 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 tables on the following page 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 June 30, 2012 and 2011, and activity in the allowance for loan losses for the fiscal year ended June 30, 2012, 2011, and 2010.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

June 30, 2012	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	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	108,318	49,276	354,814	223,046	1,049,261	1,784,715
Losses charged off	(98,189 )	-	(40,888 )	(195,311 )	(435,770 )	(770,158 )
Recoveries	6,932	1,141	430	14,655	15,888	39,046
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 with deteriorated credit quality	\$-	\$-	\$5,344	\$-	\$376,137	\$381,481
Loans:						
Ending Balance: individually evaluated for impairment	\$-	\$-	\$976,881	\$-	\$-	\$976,881
Ending Balance: collectively evaluated for impairment	\$199,514,689	\$22,811,575	\$198,296,430	\$28,985,905	\$135,649,513	\$585,258,112
Ending Balance: loans acquired with deteriorated credit quality	\$1,498,009	\$-	\$1,684,118	\$-	\$1,354,709	\$4,536,836
June 30, 2011	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial	Total
Allowance for loan losses:						
Balance, beginning of period	\$902,122	\$198,027	\$1,605,218	\$473,064	\$1,330,180	\$4,508,611
Provision charged to expense	871,114	127,312	1,125,231	15,761	245,381	2,384,799
Losses charged off	(157,587 )	(157,711 )	(59,955 )	(66,250 )	(67,488 )	(508,991 )

Edgar Filing: NAVISITE INC - Form 8-K/A

Recoveries	2,636	25,124	988	18,632	6,652	54,032
Balance, end of period	\$1,618,285	\$192,752	\$2,671,482	\$441,207	\$1,514,725	\$6,438,451
Ending Balance: individually evaluated for impairment	\$-	\$-	\$477,517	\$-	\$-	\$477,517
Ending Balance: collectively evaluated for impairment	\$1,618,285	\$192,752	\$2,072,595	\$441,207	\$1,514,725	\$5,839,564
Ending Balance: loans acquired with deteriorated credit quality	\$-	\$-	\$121,370	\$-	\$-	\$121,370
Loans: Ending Balance: individually evaluated for impairment	\$-	\$-	\$1,484,711	\$-	\$-	\$1,484,711
Ending Balance: collectively evaluated for impairment	\$198,328,878	\$21,590,865	\$181,257,071	\$29,963,281	\$123,062,000	\$554,202,095
Ending Balance: loans acquired with deteriorated credit quality	\$1,555,729	\$-	\$2,416,981	\$-	\$3,228,143	\$7,200,853

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

	Fiscal 2010	
Balance, beginning of period	\$ 3,992,961	
Loans charged off:		
Residential real estate	(156,980	)
Construction	-	
Commercial business	(117,957	)
Commercial real estate	(75,780	)
Consumer	(79,507	)
Gross charged off loans	(430,224	)
Recoveries of loans previously charged off:		
Residential real estate	7,994	
Construction	-	
Commercial business	4,986	
Commercial real estate	2,464	
Consumer	5,497	
Gross recoveries of charged off loans	20,941	
Net charge offs	(409,283	)
Provision charged to expense	924,933	
Balance, end of period	\$ 4,508,611	

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.

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 allowance 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.

A periodic review of selected credits (based on loan size and type) is conducted to identify loans with heightened risk or probable losses and to assign risk grades. The primary responsibility for this review rests with loan

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

administration personnel. This review is supplemented with periodic examinations of both selected credits and the credit review process by the Company's internal audit function and applicable regulatory agencies. The information from these reviews assists management in the timely identification of problems and potential problems and provides a basis for deciding whether the credit represents a probable loss or risk that should be recognized.

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-classified loans and is based on historical charge-off experience and expected loss given the internal risk rating process. The loan portfolio is stratified into homogeneous groups of loans that possess similar loss characteristics and an appropriate loss ratio adjusted for other 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

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 June 30, 2012 and 2011. 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:

	Conventional Real Estate	Construction Real Estate	Commercial Real Estate	Consumer	Commercial
June 30, 2012					
Pass	\$198,847,363	\$22,811,575	\$194,280,920	\$28,967,594	\$129,572,873
Watch	1,561,263	-	149,940	-	5,398,255
Special Mention	-	-	-	-	-
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
June 30, 2011					
Pass	\$198,104,835	\$21,590,865	\$177,467,948	\$29,951,645	\$119,248,931
Watch	1,478,676	-	1,005,338	-	5,499,249
Special Mention	-	-	-	-	-
Substandard	215,702	-	6,685,477	9,996	1,541,963
Doubtful	85,394	-	-	1,640	-
Total	\$199,884,607	\$21,590,865	\$185,158,763	\$29,963,281	\$126,290,143

The above amounts include purchased credit impaired loans. At June 30, 2012, these loans comprised \$1.5 million of credits rated "Pass"; \$0 of credits rated "Special Mention", \$3.0 million rated "Substandard" and \$0 rated "Doubtful". At June 30, 2011, these loans comprised \$2.1 million of credits rated "Pass"; \$2.4 million of credits rated "Special Mention"; \$2.7 million of loans rated "Substandard"; and \$0 of 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 \$1,000,000 are subject to an independent loan review annually, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

The following tables present the Company's loan portfolio aging analysis (excluding loans in process and deferred loan fees) as of June 30, 2012 and 2011. 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:

	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
June 30, 2012							
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	\$ -

	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
June 30, 2011							
Real Estate Loans:							
Conventional	\$ 1,287,921	\$ 997,076	\$ 275,021	\$ 2,560,018	\$ 197,324,589	\$ 199,884,607	\$ 189,627
Construction	800,198	100,000	151,699	1,051,897	20,538,968	21,590,865	-
Commercial	338,484	-	124,825	463,309	184,695,454	185,158,763	124,824
Consumer loans	433,468	18,528	121,934	573,930	29,389,351	29,963,281	121,934
Commercial loans	1,153,498	13,583	1,841	1,168,922	125,121,221	126,290,143	1,840
Total loans	\$ 4,013,569	\$ 1,129,187	\$ 675,320	\$ 5,818,076	\$ 557,069,583	\$ 562,887,659	\$ 438,225

The above amounts include purchased credit impaired loans. At June 30, 2012, there were no purchased credit impaired loans that were past due. At June 30, 2011 these loans comprised \$1.8 million of credits 30-59 Days Past Due; \$442,000 of credits 60-89 Days Past Due; \$153,000 of credits Greater Than 90 Days Past Due; \$2.4 million of Total Past Due credits; \$4.7 million of credits Current; and \$0 of Total Loans > 90 Days & Accruing.

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 commercial loans but also include 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

The following tables present impaired loans (excluding loans in process and deferred loan fees) as of June 30, 2012 and 2011. 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 that, 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.

	Recorded Balance	June 30, 2012 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
	Recorded Balance	June 30, 2011 Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Conventional real estate	\$1,555,729	\$ 2,307,417	\$-
Construction real estate	-	-	-
Commercial real estate	1,835,250	3,228,059	-
Consumer loans	-	-	-
Commercial loans	3,228,143	4,728,158	-
Loans with a specific valuation allowance:			
Conventional real estate	\$-	\$ -	\$-
Construction real estate	-	-	-
Commercial real estate	2,066,442	2,114,016	598,887
Consumer loans	-	-	-

Edgar Filing: NAVISITE INC - Form 8-K/A

Commercial loans	-	-	-
Total:			
Conventional real estate	\$1,555,729	\$ 2,307,417	\$-
Construction real estate	\$-	\$ -	\$-
Commercial real estate	\$3,901,692	\$ 5,342,075	\$598,887
Consumer loans	\$-	\$ -	\$-
Commercial loans	\$3,228,143	\$ 4,728,158	\$-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

and \$4.5 million of total impaired loans. At June 30, 2011, these loans comprised \$6.6 million of impaired loans without a specific valuation allowance; \$582,000 of impaired loans with a specific valuation allowance, and \$7.2 million of total impaired loans. The following tables present information regarding interest income recognized on impaired loans:

	Fiscal 2012 (in thousands)	
	Average Investment in Impaired Loans	Interest Income Recognized
Conventional Real Estate	\$ 1,667	\$ 311
Construction Real Estate	-	-
Commercial Real Estate	2,949	638
Consumer Loans	-	-
Commercial Loans	2,155	1,265
Total Loans	\$ 6,771	\$ 2,214

	Fiscal 2011 (in thousands)	
	Average Investment in Impaired Loans	Interest Income Recognized
Conventional Real Estate	\$ 981	\$ 105
Construction Real Estate	-	-
Commercial Real Estate	2,758	220
Consumer Loans	-	-
Commercial Loans	2,283	212
Total Loans	\$ 6,022	\$ 537

	Fiscal 2010 (in thousands)	
	Average Investment in Impaired Loans	Interest Income Recognized
Conventional Real Estate	\$ 802	\$ 112
Construction Real Estate	-	-
Commercial Real Estate	1,758	116
Consumer Loans	353	57
Commercial Loans	393	17
Total Loans	\$ 3,306	\$ 302

Interest income on impaired loans recognized on a cash basis in the fiscal years ended June 30, 2012, 2011, and 2010 was immaterial.

For the fiscal years ended June 30, 2012, 2011, and 2010, the amount of interest income recorded for impaired loans that represents a change in the present value of future cash flows attributable to the passage of time was approximately \$1.4 million, \$95,000, and \$46,000, respectively.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

The following table presents the Company's nonaccrual loans at June 30, 2012 and 2011. This table includes purchased credit 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.

	June 30, 2012	June 30, 2011
Conventional real estate	\$ 395,374	\$ 97,131
Construction real estate	-	-
Commercial real estate	976,881	151,701
Consumer loans	15,971	11,636
Commercial loans	1,010,123	2,022
Total loans	\$ 2,398,349	\$ 262,490

The above amounts include purchased credit impaired loans. At June 30, 2012, these loans comprised \$930,000 of nonaccrual loans; at June 30, 2011, these loans comprised \$153,000 of nonaccrual loans.

Included in certain loan categories in the impaired loans are troubled debt restructurings, 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.

As a result of adopting the amendments in ASU No. 2011-02, the Company reassessed all restructurings that occurred during fiscal 2012 (beginning July 1, 2011) for identification as troubled debt restructurings (TDRs). The Company identified as TDRs certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as TDRs, the Company identified them as impaired under the guidance in Section 310-10-35. The amendments in ASU No. 2011-02 require prospective application of the impairment measurement guidance in

Section 310-10-35 for those receivables newly identified as impaired. As of June 30, 2012, the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under Section 310-10-35 was \$3.5 million. A specific allowance under Section 310-10-35 of \$593,000 was associated with those receivables, but the amount of that specific allowance was based upon standard impairment measurement which would have been conducted regardless of the loans' status as a TDR. Therefore, the Company concludes there was no financial statement impact resulting from the adoption.

At June 30, 2012, and June 30, 2011, the Company had \$3.1 million and \$0, respectively, of commercial real estate loans, \$1.7 million and \$0, respectively, of commercial loans, and \$40,000 and \$0, respectively, of conventional real estate loans that were modified in TDRs and impaired. All loans classified as TDRs at June 30, 2012, and June 30, 2011, were so classified due to interest rate concessions. During the previous twelve months, two commercial real estate loans totaling \$1.4 million were modified as TDRs and had payment defaults subsequent to the modification. When loans modified as TDRs have subsequent payment defaults, the defaults are factored into the determination of the allowance for loan losses to ensure specific valuation allowance reflect amounts considered uncollectible.

Performing loans classified as troubled debt restructurings at June 30, 2012, segregated by class, are shown

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

in the table below. Nonperforming TDRs are shown as nonaccrual loans.

	June 30, 2012	
	Number of modifications	Recorded Investment
Conventional real estate	2	\$ 39,835
Construction real estate	-	-
Commercial real estate	10	2,290,986
Consumer loans	-	-
Commercial loans	6	807,386
Total	18	\$ 3,138,207

At June 30, 2011, the Company held no loans recognized as a troubled debt restructuring.

Following is a summary of loans to executive officers, directors, significant shareholders and their affiliates held by the Company at June 30, 2012 and 2011, respectively:

	2012		2011	
Beginning Balance	\$	10,229,780	\$	10,407,740
Additions		1,483,001		105,299
Repayments		(588,382 )		(283,259 )
Ending Balance	\$	11,124,399	\$	10,229,780

**NOTE 4: 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 June 30, 2012. The amounts of loans at June 30, 2012, are as follows:

	June 30,	
	2012	2011
Real Estate Loans:		
Conventional	\$2,126,478	\$2,307,417

Edgar Filing: NAVISITE INC - Form 8-K/A

Construction	-	-
Commercial	2,087,192	3,857,364
Consumer loans	-	-
Commercial loans	1,947,738	4,728,158
Outstanding balance	\$6,161,408	\$10,892,939
Carrying amount, net of fair value adjustment of \$1,624,572 and \$3,692,086 at 2012 and 2011	\$4,536,836	\$7,200,853

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

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

		June 30,	
	2012		2011
Balance at June 30,	\$ 792,942	\$	413,525
Additions	-		600,788
Accretion	(1,515,270 )		(233,530 )
Reclassification from nonaccretable difference	1,211,684		12,159
Disposals	-		-
Balance at June 30	\$ 489,356	\$	792,942

During the fiscal years ended June 30, 2012 and 2011, the Company increased the allowance for the loan losses by a charge to the income statement of \$381,000 and \$121,000, respectively, related to these purchased credit impaired loans. During the same periods, allowance for loan losses of \$105,000 and \$0, respectively, was reversed.

NOTE 5: Premises and Equipment

Following is a summary of premises and equipment:

		June 30	
	2012		2011
Land	\$ 3,255,867	\$	1,746,331
Buildings and improvements	9,523,450		7,977,484
Furniture, fixtures, and equipment	7,280,566		6,158,890
Automobiles	70,590		74,080
	20,130,473		15,956,785
Less: accumulated depreciation	8,783,409		7,899,256
	\$ 11,347,064	\$	8,057,529

NOTE 6: Deposits

Deposits are summarized as follows:

		June 30	
	2012		2011
Non-interest bearing accounts	\$54,812,645		\$32,848,037
NOW accounts	193,870,344		152,474,730
Money market deposit accounts	18,099,265		15,802,312
Savings accounts	86,717,214		94,378,370
TOTAL NON-MATURITY DEPOSITS	353,499,468		295,503,449

Edgar Filing: NAVISITE INC - Form 8-K/A

Certificates		
0.00-.99%	59,459,416	26,139,189
1.00-1.99%	106,609,956	148,429,914
2.00-2.99%	37,863,635	57,993,390
3.00-3.99%	24,185,741	25,888,256
4.00-4.99%	2,499,301	4,651,354
5.00-5.99%	696,106	1,545,265
TOTAL CERTIFICATES	231,314,155	264,647,368
TOTAL DEPOSITS	\$584,813,623	\$560,150,817

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

The aggregate amount of deposits with a minimum denomination of \$100,000 was \$313,814,344 and \$261,490,430 at June 30, 2012 and 2011, respectively.

Certificate maturities are summarized as follows:

	June 30, 2012
July 1, 2012 to June 30, 2013	\$ 158,873,077
July 1, 2013 to June 30, 2014	36,770,172
July 1, 2014 to June 30, 2015	13,129,529
July 1, 2015 to June 30, 2016	13,935,425
July 1, 2016 to June 30, 2017	8,605,952
Thereafter	-
TOTAL \$	231,314,155

Deposits from executive officers, directors, significant shareholders and their affiliates (related parties) held by the Company at June 30, 2012 and 2011 totaled approximately \$1.7 million and \$1.5 million, respectively.

NOTE 7: Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase, which are classified as borrowings, generally mature within one to four days. The following table presents balance and interest rate information on the securities sold under agreements to repurchase.

The market value of the securities underlying the agreements at June 30, 2012 and 2011, was \$28.3 and \$27.5 million, respectively. The securities sold under agreements to repurchase are under the Company's control.

	June 30	
	2012	2011
Year-end balance	\$ 25,642,407	\$ 25,230,051
Average balance during the year	26,955,690	29,285,198
Maximum month-end balance during the year	29,949,413	34,916,762
Average interest during the year	0.87 %	0.99 %
Year-end interest rate	0.50 %	0.86 %

NOTE 8: Advances from Federal Home Loan Bank

Advances from Federal Home Loan Bank are summarized as follows:

Maturity	Call Date or Quarterly Thereafter	Interest Rate	June 30	
			2012	2011
10/30/12	-	4.87%	\$ -	\$ 3,000,000
04/01/13	-	3.65%	-	3,000,000
01/30/15	-	3.75%	-	3,000,000

Edgar Filing: NAVISITE INC - Form 8-K/A

11/29/16	8/29/2012	3.88%	5,000,000	5,000,000
11/29/16	8/29/2012	4.36%	5,000,000	5,000,000
11/20/17	8/20/2012	3.82%	3,000,000	3,000,000
11/29/17	11/29/2012	4.01%	2,500,000	2,500,000
08/14/18	8/14/2012	3.48%	4,000,000	4,000,000
08/14/18	8/14/2013	3.98%	5,000,000	5,000,000
		TOTAL	\$ 24,500,000	\$ 33,500,000

Weighted-average rate 3.94 % 4.48 %

In addition to the above advances, the Bank had an available line of credit amounting to \$153,381,000 and \$108,332,000, with the FHLB at June 30, 2012 and 2011, respectively.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

Advances from FHLB of Des Moines are secured by FHLB stock and commercial real estate and one- to four-family mortgage loans pledged. To secure outstanding advances and the Bank's line of credit, loans totaling \$268.9 and \$218.2 million, respectively, were pledged to the FHLB at June 30, 2012 and 2011, respectively. The principal maturities of FHLB advances at June 30, 2012, are below:

FHLB Advance Maturities	June 30, 2012
July 1, 2012 to June 30, 2013	\$ -
July 1, 2013 to June 30, 2014	-
July 1, 2014 to June 30, 2015	-
July 1, 2015 to June 30, 2016	-
July 1, 2016 to June 30, 2017	10,000,000
July 1, 2017 to thereafter	14,500,000
Total	\$ 24,500,000

NOTE 9: Subordinated Debt

Southern Missouri Statutory Trust I issued \$7.0 million of Floating Rate Capital Securities (the "Trust Preferred Securities") with a liquidation value of \$1,000 per share in March 2004. The securities are due in 30 years, redeemable after five years and bear interest at a floating rate based on LIBOR. At June 30, 2012, the current rate was 3.22%. The securities represent undivided beneficial interests in the trust, which was established by Southern Missouri 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 Southern Missouri Bancorp. Southern Missouri Bancorp, Inc. used its net proceeds for working capital and investment in its subsidiaries.

NOTE 10: Employee Benefits

401(k). The Bank has a 401(k) retirement plan that covers substantially all eligible employees. During fiscal 2012, the Bank amended the plan to make "safe harbor" matching contributions of up to 4% of eligible compensation, depending upon the percentage of eligible pay deferred into the plan by the employee. Additional profit-sharing contributions of 5% of eligible salary have been accrued for the plan year ended June 30, 2012, based on financial performance for fiscal 2012. Total 401(k) expense for fiscal 2012 and 2011 was \$413,000 and \$385,000, respectively. During fiscal 2010, there were no contributions made to the plan. At June 30, 2012, 401(k) plan participants held approximately 205,000 shares of the Company's stock in the plan. Employee deferrals and safe harbor contributions are fully vested. Profit-sharing or other contributions vest over a period of five years.

Employee Stock Ownership Plan (ESOP). The Bank established a tax-qualified ESOP in April 1994. Effective September 30, 2010, the plan was merged with and into the Bank's 401(k) retirement plan. The Bank made discretionary contributions to the ESOP for fiscal 2010 of \$240,000. Benefits are vested over five years; that vesting schedule remains intact following the merger into the 401(k) plan. At June 30, 2010, the ESOP held 225,139 shares of the Company's stock, all of which were allocated. Shares held by the ESOP were transferred to participant 401(k) account balances effective September 30, 2010.

Management Recognition Plan (MRP). The Bank adopted an MRP for the benefit of non-employee directors and two MRPs for officers and key employees (who may also be directors) in April 1994. During fiscal 2012, the Bank granted 3,036 shares to employees. During fiscal 2008, the Bank granted 2,500 MRP shares to employees. The shares granted are in the form of restricted stock vested at the rate of 20% of such shares per year. During fiscal 2012, 500 MRP shares vested, which had been awarded in fiscal 2008. Compensation expense, in the amount of the fair market value of the common stock at the date of grant, was recognized pro-rata over the five years during which the shares vest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

The Board of Directors can terminate MRP awards at any time, and if it does so, any shares not allocated will revert to the Company. The MRP expense for 2012, 2011, and 2010, was \$11,000, \$13,000, and \$12,000, respectively. At June 30, 2012, unvested compensation expense related to the MRP was approximately \$65,000.

Equity Incentive Plan. The Company adopted an Equity Incentive Plan (EIP) in 2008, reserving for award 66,000 shares. EIP shares are available for award to directors, officers, and employees of the Company and its affiliates by a committee of outside directors. The committee has the power to set vesting requirements for each award under the EIP. The first awards under this plan were made to directors and officers on June 29, 2012, totaling 36,964 shares, in the form of restricted stock, which will vest at the rate of 20% of such shares per year. At June 30, 2012, unvested compensation expense related to the MRP was approximately \$795,000.

Stock Option Plans. The Company adopted a stock option plan in April 1994. The 1994 stock option plan expired in 2004, and the final options awarded and outstanding under that plan were exercised during fiscal 2011. In October 2003, a new stock option and incentive plan was adopted ("2003 Plan"). Under the 2003 Plan, the Company has granted 116,000 options to employees and directors, of which, 2,500 have been exercised, 22,500 have been forfeited, and 91,000 remain outstanding. Under the 2003 Plan, exercised options may be issued from either authorized but unissued shares or treasury shares.

As of June 30, 2012, there was \$45,000 in remaining unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining weighted average vesting period. The aggregate intrinsic value of stock options outstanding at June 30, 2012, was \$608,000. The aggregate intrinsic value of stock options exercisable at June 30, 2012, was \$485,000. During fiscal 2012, options to purchase 1,500 shares were exercised. The intrinsic value of these options, based on the Company's closing stock price of \$21.50, was \$9,000. The intrinsic value of options vested in fiscal 2012, 2011, and 2010 was \$44,000, \$47,000, and \$4,000, respectively.

Changes in options outstanding were as follows:

	2012		2011		2010	
	Weighted Average Price	Number	Weighted Average Price	Number	Weighted Average Price	Number
Outstanding at beginning of year	\$14.44	87,500	\$13.77	105,500	\$14.01	85,500
Granted	22.35	5,000	-	-	12.75	20,000
Exercised	15.23	(1,500)	7.52	(11,000)	-	-
Forfeited	-	-	15.23	(7,000)	-	-
Outstanding at year-end	\$14.87	91,000	\$14.44	87,500	\$13.77	105,500
Options exercisable at year-end	\$14.77	72,000	\$14.94	68,500	\$14.10	80,500

The following is a summary of the assumptions used in the Black-Scholes pricing model in determining the fair values of options granted during fiscal years 2012 and 2010. (No options were granted in fiscal 2011):

	2012		2011		2010	
Assumptions:						
Expected dividend yield	2.15	%	-		3.76	%
Expected volatility	20.75	%	-		18.08	%

Edgar Filing: NAVISITE INC - Form 8-K/A

Risk-free interest rate	2.18	%	-	3.70	%
Weighted-average expected life (years)	10.00		-	10.00	
Weighted average fair value of	\$4.66		-	\$1.95	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

The table below summarizes information about stock options outstanding under the plan at June 30, 2012:

Weighted Average Remaining Contractual Life	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
22.6 mo.	41,000	\$ 15.23	41,000	\$ 15.23
27.6 mo.	15,000	15.30	15,000	15.30
38.4 mo.	5,000	14.26	5,000	14.26
76.6 mo.	5,000	12.15	3,000	12.15
90.6 mo.	20,000	12.75	8,000	12.75
112.7 mo.	5,000	22.35	-	22.35

NOTE 11: Income Taxes

The Company files income tax returns in the U.S. Federal jurisdiction and various states. The Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2008. The Company recognized no interest or penalties related to income taxes.

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

	June 30, 2012	June 30, 2011
Deferred tax assets:		
Provision for losses on loans	\$ 3,247,995	\$ 2,889,770
Accrued compensation and benefits	171,113	168,375
Other-than-temporary impairment on available for sale securities	261,405	261,405
NOL carry forwards acquired	159,613	169,005
Unrealized loss on other real estate	47,600	66,952
Other	-	-
Total deferred tax assets	3,887,726	3,555,507
Deferred tax liabilities:		
FHLB stock dividends	188,612	188,612
Purchase accounting adjustments	893,549	1,828,472
Depreciation	552,633	525,096
Prepaid expenses	123,704	174,507
Unrealized gain on available for sale securities	400,554	306,199
Other	69,083	187,850
Total deferred tax liabilities	2,228,135	3,210,736
Net deferred tax (liability) asset	\$ 1,659,591	\$ 344,771

As of 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 the utilization of net operating loss carryforwards of acquired corporations. Unless otherwise utilized, the net operating losses will begin to expire in 2027.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

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

	2012	Year ended June 30	
		2011	2010
Tax at statutory rate	\$4,996,426	\$5,923,356	\$2,086,476
Increase (reduction) in taxes resulting from:			
Nontaxable municipal income	(469,200)	(384,457)	(327,299)
State tax, net of Federal benefit	275,847	460,690	104,354
Cash surrender value of			
Bank-owned life insurance	(116,631)	(94,364)	(92,845)
Tax benefits realized on acquisition	-	-	(258,000)
Acquisition costs	-	-	51,594
Other, net	(89,334)	46,378	(53,175)
<b>ACTUAL PROVISION</b>	<b>\$4,597,108</b>	<b>\$5,951,603</b>	<b>\$1,511,105</b>

Tax credit benefits in the amount of \$499,000 were recognized in fiscal 2012, as compared to \$292,000 and \$220,000, respectively, in fiscal 2011 and 2010, under the flow-through method of accounting for investments in tax credits.

NOTE 12: Other Comprehensive Income

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

	2012	June 30,		2011
Net unrealized gain on securities available-for-sale	\$ 1,175,552			\$ 847,912
Net unrealized loss on securities available-for-sale securities for which a portion of an other-than-temporary impairment has been recognized in income	(92,921)	)		(20,295)
Unrealized gain from defined benefit pension plan	17,824			14,202
Tax effect	1,100,455			841,819
Net of tax amount	(400,554)	)		(306,199)
	\$ 699,901			\$ 535,620

NOTE 13: Stockholders' Equity and Regulatory Capital

On November 22, 2011, the Company completed an underwritten public offering of common shares in which it sold 1,150,000 shares to the public for \$19.00 per share, for aggregate gross proceeds of \$21.9 million. The net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses were \$19.9 million. The

proceeds from the offering are being used for general corporate purposes, including the funding of loan growth and the purchase of securities.

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

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 June 30, 2012 and 2011, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of June 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:

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

As of June 30, 2011	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Total Capital (to Risk-Weighted Assets)							
Consolidated	\$65,528	12.40	% \$ 42,290	8.00	% n/a	n/a	
Southern Bank	\$66,161	12.52	% \$ 42,276	8.00	% \$52,845	10.00	%
Tier I Capital (to Risk-Weighted Assets)							
Consolidated	59,090	11.18	% 21,145	4.00	% n/a	n/a	
Southern Bank	59,551	11.27	% 21,138	4.00	% 31,707	6.00	%
Tier I Capital (to Average Assets)							

Edgar Filing: NAVISITE INC - Form 8-K/A

Consolidated	59,090	8.60	%	27,492	4.00	%	n/a	n/a	
Southern Bank	59,551	8.66	%	27,518	4.00	%	34,397	5.00	%

The Bank's ability to pay dividends on its common stock to the Company is restricted to maintain adequate capital as shown in the above tables. Additionally, prior regulatory approval is required for the declaration of any dividends generally in excess of the sum of net income for that calendar year and retained net income for the preceding two calendar years. At June 30, 2012, approximately \$21.0 million of the equity of the Bank was available for distribution as dividends to the Company without prior regulatory approval.

NOTE 14: Capital Purchase Program Implemented by the U.S. Treasury

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

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 15: Commitments and Credit Risk

Standby Letters of Credit. In the normal course of business, the Company issues various financial standby, performance standby, and commercial letters of credit for its customers. As consideration for the letters of credit, the institution charges letter of credit fees based on the face amount of the letters and the creditworthiness of the counterparties. These letters of credit are stand-alone agreements, and are unrelated to any obligation the depositor has to the Company.

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers.

The Company had total outstanding standby letters of credit amounting to \$1,140,000 at June 30, 2012, and \$1,102,000 at June 30, 2011, with terms ranging from 12 to 24 months. At June 30, 2012, the Company's deferred revenue under standby letters of credit agreements was nominal.

Off-balance-sheet and Credit Risk. The Company's Consolidated Financial Statements do not reflect various financial instruments to extend credit to meet the financing needs of its customers.

These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on balance sheet instruments.

The Company had \$100.4 million in commitments to extend credit at June 30, 2012 and \$73.6 million at June 30, 2011.

At June 30, 2012, total commitments to originate fixed-rate loans with terms in excess of one year were \$12.1 million at rates ranging from 3.50% to 10.50%, with a weighted-average rate of 5.61%. Commitments to extend credit and standby letters of credit include exposure to some credit loss in the event of nonperformance of the customer. The Company's policies for credit commitments and financial guarantees are the same as those for extension of credit that are recorded in the balance sheet. The commitments extend over varying periods of time with the majority being disbursed within a thirty-day period.

The Company originates collateralized commercial, real estate, and consumer loans to customers in Missouri and Arkansas. Although the Company has a diversified portfolio, loans aggregating \$225.8 million at June 30, 2012, are secured by single and multi-family residential real estate in the Company's primary lending area.

NOTE 16: Earnings Per Share

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

	Year Ended June 30		
	2012	2011	2010
Net income	\$10,098,263	\$11,470,031	\$4,625,588
Less: Charge for early redemption of preferred stock issued at discount	94,365	-	-
Less: Effective dividend on preferred shares	424,184	511,814	510,006
Net income available to common stockholders	\$9,579,714	\$10,958,217	\$4,115,582
Denominator for basic earnings per share -			
Weighted-average shares outstanding	2,796,279	2,088,833	2,083,458
Effect of dilutive securities stock options	92,634	52,258	21,834
Denominator for diluted earnings per share	2,888,913	2,141,091	2,105,292
Basic earnings per share available to common stockholders	\$3.43	\$5.25	\$1.98
Diluted earnings per share available to common stockholders	\$3.32	\$5.12	\$1.95

NOTE 17: Acquisitions

On December 17, 2010, the Bank entered into a Purchase and Assumption Agreement with the FDIC, as receiver, to acquire certain assets and assume certain liabilities of the former First Southern Bank, with headquarters in Batesville, Arkansas, and one branch location in Searcy, Arkansas. The results of operations of the former First Southern Bank locations have been included in the consolidated condensed financial statements since that date. As a result of the transaction, the Bank will have an opportunity to increase its deposit base and reduce transaction and other costs

through economies of scale.

The Company recorded \$437,000 in third-party acquisition-related costs in fiscal 2011. The expenses are included in noninterest expense in the Company's consolidated statement of income for fiscal 2011.

The bargain purchase gain of \$7.0 million arising from the acquisition is a result of the discount bid of \$17.5 million made by the Company to acquire the assets and assume the liabilities of the failed financial institution. The transaction was accomplished without the loss-share coverage from the FDIC. The full amount of the bargain purchase gain is expected to be taxable, on a deferred basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

The following table summarizes the assets acquired and liabilities assumed at the acquisition date.

Fair Value of Consideration Transferred	
Equity position of target at closing	\$(2,453,832 )
Asset discount bid	(17,500,000 )
Deposit premium bid	224,028
Total cash (to) from buyer	\$(19,729,804 )

Recognized amounts of identifiable assets acquired and liabilities assumed	Acquired from the FDIC	Fair Value Adjustments	As Recorded
Cash and cash equivalents	\$ 18,519,482	\$-	\$ 18,519,482
Loans	124,409,033	(9,801,830 )	114,607,203
Premises and equipment	1,159	-	1,159
Identifiable intangible assets	-	624,952	624,952
Other	1,680,991	-	1,680,991
Deposits	(130,314,617)	(524,043 )	(130,838,660)
Long-term debt	(16,658,022 )	(548,781 )	(17,206,803 )
Other	(91,858 )	(29,520 )	(121,378 )
Total identifiable net assets	\$(2,453,832 )	\$(10,279,222)	\$(12,733,054 )
Bargain purchase gain			\$(6,996,750 )

For the fiscal year ended June 30, 2011, the acquired business contributed revenues (net interest income and noninterest income) of \$3.0 million, and earnings, net of tax of \$1.0 million to the Company. The figure reported for earnings does not include additional administrative expenses incurred by the Company that could be attributed to growth resulting from the acquisition. The following pro forma summary presents consolidated information of the Company as if the business combination had occurred on July 1, 2009:

(dollars in thousands, except EPS)	Pro forma	
	Year Ended June 30	
	2011	2010
Interest income	\$38,796	\$33,641
Interest expense	12,597	13,413
Net interest income	26,199	20,228
Provision for loan losses	2,632	2,774
Net interest income after provision for loan losses	23,567	17,454
Noninterest income	10,681	3,228
Noninterest expense	17,068	16,276
Income before taxes	17,180	4,406
Income taxes	5,862	862
Net income	11,318	3,544
Less: effective dividend on preferred shares	512	510
Net income available to common shareholders	\$10,806	\$3,034

Edgar Filing: NAVISITE INC - Form 8-K/A

Basic earnings per common share	\$5.17	\$1.46
Diluted earnings per common share	\$5.05	\$1.44

The above pro forma summary excludes earnings on investment securities as they were not included with the asset purchase.

The fair value of the assets acquired included loans with a fair value of \$114.6 million. The estimated gross



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Southern Missouri Bancorp, Inc.

amount due under the contracts was \$124.4 million, of which \$7.4 million was expected to be uncollectible. The determination of the initial fair value of assets acquired and liabilities assumed in the transaction involves a high degree of judgment and complexity. The carrying value of the acquired loans reflect management's best estimate of the fair value of these assets as of the date of acquisition. However, the amount that we realize on these assets could differ materially from the carrying value reflected in these financial statements, based upon the timing and amount of collections on the acquired loans in future periods.

NOTE 18: 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:

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 consolidated 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 June 30, 2012 and 2011:

	Fair Value	Fair Value Measurements at June 30, 2012, Using:		
		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				