

GREAT SOUTHERN BANCORP INC  
Form 10-Q  
August 09, 2007

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

FORM 10-Q

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

For the Quarterly Period ended June 30, 2007

Commission File Number 0-18082

**GREAT SOUTHERN BANCORP, INC.**

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(Exact name of registrant as specified in its charter)

**Maryland**

**43-1524856**

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(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification Number)

**1451 E. Battlefield, Springfield, Missouri**

**65804**

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(Address of principal executive offices)

(Zip Code)

**(417) 887-4400**

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(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares outstanding of each of the registrant's classes of common stock: 13,518,430 shares of common stock, par value \$.01, outstanding at August 7, 2007.

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PART I FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS.

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

	June 30, 2007	December 31, 2006
	(Unaudited)	
<b>ASSETS</b>		
Cash	\$ 92,370	\$ 132,100
Interest-bearing deposits in other financial institutions	6,383	1,050
	98,753	133,150
Cash and cash equivalents	446,547	344,192
Available-for-sale securities	1,420	1,470
Held-to-maturity securities (fair value \$1,476 - June 2007; \$1,569 - December 2006)	3,390	2,574
Mortgage loans held for sale	1,749,935	1,672,044
Loans receivable, net of allowance for loan losses of \$26,699 - June 2007; \$26,258 - December 2006	14,996	13,587
Interest receivable	16,554	15,554
Prepaid expenses and other assets	5,949	4,768
Foreclosed assets held for sale, net	27,513	26,417
Premises and equipment, net	2,026	1,395
Goodwill and other intangible assets	9,481	10,479
Investment in Federal Home Loan Bank stock	476	2,306
Refundable income taxes	13,871	12,372
Deferred income taxes	\$ 2,390,911	\$ 2,240,308
<b>Total Assets</b>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits	\$ 1,839,970	\$ 1,703,804
Federal Home Loan Bank advances	129,275	179,170
Short-term borrowings	189,214	120,956
Subordinated debentures issued to capital trust	25,774	25,774
Accrued interest payable	5,786	5,810
Advances from borrowers for taxes and insurance	881	388
Accounts payable and accrued expenses	18,447	28,828
	2,209,347	2,064,730
<b>Total Liabilities</b>		
Stockholders' Equity:		
Capital stock	--	--

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Serial preferred stock, \$.01 par value; authorized 1,000,000 shares; none issued		
Common stock, \$.01 par value; authorized 20,000,000 shares; issued and outstanding June 2007 - 13,579,619 shares; December 2006 - 13,676,965 shares	136	137
Additional paid-in capital	18,945	18,481
Retained earnings	166,578	158,780
Accumulated other comprehensive income (loss)	(4,095)	(1,820)
	<hr/>	<hr/>
Total Stockholders' Equity	181,564	175,578
	<hr/>	<hr/>
Total Liabilities and Stockholders' Equity	\$ 2,390,911	\$ 2,240,308
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See Notes to Consolidated Financial Statements

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	June 30,		June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
INTEREST INCOME				
Loans	\$ 36,163	\$ 32,914	\$ 70,841	\$ 62,715
Investment securities and other	5,540			
		4,314		
			10,321	
			8,710	
TOTAL INTEREST INCOME	41,703			
		37,228		
			81,162	
			71,425	
INTEREST EXPENSE				
Deposits	19,395	16,022	37,622	29,779
Federal Home Loan Bank advances	1,464	2,352	3,327	4,384
Short-term borrowings	1,916	1,414	3,659	2,905
Subordinated debentures issued to capital trust	440			
		317		
			880	
			602	
TOTAL INTEREST EXPENSE	23,215			
		20,105		
			45,488	
			37,670	
NET INTEREST INCOME	18,488	17,123	35,674	33,755
PROVISION FOR LOAN LOSSES	1,425			
		1,425		
			2,775	

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	2,750
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,063
	15,698
	32,899
	31,005
NON-INTEREST INCOME	Commissions 2,751 2,482 5,231 5,024
	Service charges and ATM fees 3,950 3,720 7,452 7,033
	Net realized gains on sales of loans 260 260 435 473
	Net realized gains (losses) on sales of available-for-sale securities-- (29)-- (29)
	Net gain (loss) on sales of fixed assets 14 8 24 157
	Late charges and fees on loans 219 237 382 1,016
	Change in interest rate swap fair value net of change in hedged deposit fair value 389 460 686 282
	Other income 344
	303
	683
	608
TOTAL NON-INTEREST INCOME	7,927
	7,441
	14,893
	14,564
NON-INTEREST EXPENSE	Salaries and employee benefits 7,493 7,169 14,629 14,150
	Net occupancy and equipment expense 1,931 1,888 3,873 3,819
	Postage 586 552 1,118 1,079
	Insurance 227 222 447 434
	Advertising 461 273 709 526
	Office supplies and printing 239 215 472 428
	Telephone 332 316 668 656
	Legal, audit and other professional fees 333 328 582 569
	Expense (income) on foreclosed assets 36 56 150 21
	Other operating expenses 1,104
	1,096
	2,013
	2,183
TOTAL NON-INTEREST EXPENSE	12,742
	12,115
	24,661
	23,865
INCOME BEFORE INCOME TAXES	12,248 11,024 23,131 21,704
PROVISION FOR INCOME TAXES	4,041

	3,500
	7,589
	6,984
NET INCOMES \$ 8,207	
	\$ 7,524
	\$ 15,542
	\$ 14,720
BASIC EARNINGS PER COMMON SHARE\$.60	
	\$.55
	\$1.14
	\$1.08
DILUTED EARNINGS PER COMMON SHARE\$.60	
	\$.54
	\$1.13
	\$1.06
DIVIDENDS DECLARED PER COMMON SHARE\$.17	
	\$.15
	\$.33
	\$.29

See Notes to Consolidated Financial Statements

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

	SIX MONTHS ENDED JUNE 30,	
	2007	2006
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 15,542	\$ 14,720
Proceeds from sales of loans held for sale	32,216	36,105
Originations of loans held for sale	(28,587)	(32,432)
Items not requiring (providing) cash:		
Depreciation	1,312	1,552
Amortization	204	192
Provision for loan losses	2,775	2,750
Net gains on loan sales	(435)	(473)
Net gains on sale of available-for-sale securities	--	29
Net gains on sale of premises and equipment	(24)	(157)
Gain on sale of foreclosed assets	(119)	(46)
Amortization of deferred income, premiums and discounts	(2,174)	(806)
Change in interest rate swap fair value net of change in hedged deposit fair value	(686)	(282)
Deferred income taxes	(274)	(588)
Changes in:		
Interest receivable	(1,409)	(1,422)
Prepaid expenses and other assets	(647)	(1,007)
Accounts payable and accrued expenses	(11,700)	626
Income taxes refundable/payable	1,830	123
	7,824	18,884
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net increase in loans	(85,872)	(114,919)
Purchase of loans	(1,555)	(32,516)
Proceeds from sale of student loans	1,653	974
Purchase of additional business units	(730)	(25)
Purchase of premises and equipment	(2,124)	(2,017)
Proceeds from sale of premises and equipment	40	2,000
Proceeds from sale of foreclosed assets	1,153	1,579
Proceeds from maturing available-for-sale investment securities	317,335	199,361
Proceeds from maturing held-to-maturity investment securities	50	40
Proceeds from called investment securities	6,700	500
Proceeds from sale of available-for-sale investment securities	--	5,933
Principal reductions on mortgage-backed securities	36,803	39,053
Purchase of available-for-sale securities	(465,936)	(247,125)
(Purchase) redemption of Federal Home Loan Bank stock	998	(915)



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Net cash used in investing activities	(191,485)	(148,077)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in certificates of deposit	60,036	137,896
Net increase in checking and savings deposits	77,533	29,513
Proceeds from Federal Home Loan Bank advances	401,000	287,000
Repayments of Federal Home Loan Bank advances	(450,895)	(297,681)
Net increase (decrease) in short-term borrowings	68,258	(1,242)
Advances from borrowers for taxes and insurance	493	644
Purchase of treasury stock	(3,638)	(2,647)
Dividends paid	(4,377)	(3,843)
Stock options exercised	854	804
Net cash provided by financing activities	149,264	150,444
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(34,397)	21,251
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	133,150	117,732
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 98,753	\$ 138,983

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

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Great Southern Bancorp, Inc. (the "Company" or "Great Southern") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The financial statements presented herein reflect all adjustments which are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company for the periods presented. Those adjustments consist only of normal recurring adjustments. Operating results for the three and six months ended June 30, 2007 and 2006 are not necessarily indicative of the results that may be expected for the full year. The consolidated statement of financial condition of the Company as of December 31, 2006, has been derived from the audited consolidated statement of financial condition of the Company as of that date.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for 2006 filed with the Securities and Exchange Commission.

NOTE 2: OPERATING SEGMENTS

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

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

For the three months ended June 30, 2007, the travel, insurance and investment divisions reported gross revenues of \$1.9 million, \$342,000 and \$522,000, respectively, and net income of \$158,000, \$34,000 and \$45,000, respectively. For the three months ended June 30, 2006, the travel, insurance and investment divisions reported gross revenues of \$1.6 million, \$324,000 and \$622,000, respectively, and net income (loss) of \$195,000, \$28,000 and \$(22,000), respectively.

For the six months ended June 30, 2007, the travel, insurance and investment divisions reported gross revenues of \$3.6 million, \$722,000 and \$1.0 million, respectively, and net income of \$336,000, \$99,000 and \$53,000, respectively. For the six months ended June 30, 2006, the travel, insurance and investment divisions reported gross revenues of \$3.2 million, \$753,000 and \$1.2 million, respectively, and net income (loss) of \$398,000, \$87,000 and \$(21,000), respectively.

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## NOTE 3: COMPREHENSIVE INCOME

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

	Three Months Ended June 30,	
	2007	2006
	(In thousands)	
Net income	\$ 8,207	\$ 7,524
Unrealized holding gains (losses), net of income taxes	(2,858)	(2,217)
Less: reclassification adjustment for gains (losses) included in net income, net of income taxes	--	(19)
	(2,858)	(2,198)
Comprehensive income	\$ 5,349	\$ 5,326
	Six Months Ended June 30,	
	2007	2006
	(In thousands)	
Net income	\$ 15,542	\$ 14,720
Unrealized holding gains (losses), net of income taxes	(2,275)	(2,249)
Less: reclassification adjustment for gains (losses) included in net income, net of income taxes	--	(19)
	(2,275)	(2,230)
Comprehensive income	\$ 13,267	\$ 12,490

## NOTE 4: RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, and does not expand the use of fair value measures in financial statements, but standardizes its definition and guidance in generally accepted accounting principles. SFAS No. 157 emphasizes that fair value is a market-based measurement based on an exchange transaction between market participants in which an entity sells an asset or transfers a liability. SFAS No. 157 also establishes a fair value hierarchy from observable market data as the highest level to fair value based on an entity's own fair value assumptions as the lowest level. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption permitted. The Company is evaluating this Statement to determine the impact, if any, on certain of its financial assets and liabilities. The Company did not adopt this Statement in the first fiscal quarter of 2007 and expects to adopt it in the first fiscal quarter of 2008.

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In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 provides companies with the option to report selected financial assets and liabilities at fair value. Under the option, any changes in fair value would be included in earnings. This Statement seeks to reduce both complexity in accounting and volatility in earnings caused by differences in the existing accounting rules. Existing accounting principles use different measurement attributes for different assets and liabilities, which can lead to earnings volatility. SFAS No. 159 helps to mitigate this type of accounting-induced volatility by enabling companies to achieve a more consistent accounting for changes in the fair value of related assets and liabilities without having to apply complex hedge accounting provisions. Under this Statement, entities may measure at fair value financial assets and liabilities selected on a contract-by-contract basis. They would be required to display those values separately from those measured under different attributes on the face of the statement of financial condition. Furthermore, companies must provide additional information that would help investors and other users of financial statements to more easily understand the effect on earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with earlier application permitted if the Company makes this election for its first fiscal quarter in the 2007 fiscal year. If SFAS No. 159 is adopted early, SFAS No. 157 must be adopted simultaneously. Because the Company did not early adopt SFAS No. 159 in the first fiscal quarter of 2007, it will be effective beginning in the first fiscal quarter of 2008.

In January 2007, the FASB issued an exposure draft - *Disclosures about Derivative Instruments and Hedging Activities*. This exposure draft would amend and expand the disclosure requirements in SFAS No. 133, *Accounting for Derivatives Instruments and Hedging Activities*. The FASB issued this proposed Statement to address concerns that the existing disclosure requirements for derivative instruments and related hedged items do not provide adequate information on the effect that derivative activities have on an entity's overall consolidated financial condition or results of operations. Specific disclosure requirements are outlined in the proposed Statement. At this time, the FASB has not adopted the final Statement. The Company continues to monitor the exposure draft to determine the impact, if any, on the consolidated financial condition or results of operations of the Company.

In July 2007, the FASB issued an exposure draft - *Issues Involving the Application of the Shortcut Method Under Paragraph 68*. This proposed Implementation Issue would amend the accounting and reporting requirements of paragraph 68 of Statement 133 (the shortcut method) to address certain practice issues. It addresses a limited number of issues that have caused implementation difficulties in the application of paragraph 68 of Statement 133. The objective is to improve financial reporting related to the shortcut method to increase comparability in financial statements. At this time, the FASB has not adopted the final Implementation Issue. The Company continues to monitor the exposure draft to determine the impact, if any, on the consolidated financial condition or results of operations of the Company.

The FASB is currently working on amendments to the existing accounting standards governing transfers of financial assets and valuation guidance for financial reporting. Upon completion of these standards, the Company will reevaluate its accounting and disclosures in these areas. Due to the ongoing deliberations of the standard setters, the Company is unable to accurately determine the effect, if any, of future amendments or proposals at this time.

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NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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At June 30, 2007 and December 31, 2006, the Company's fair value hedges include interest rate swaps to convert the economic interest payments on certain brokered CDs from a fixed rate to a floating rate based on LIBOR. At June 30, 2007, these fair value hedges were considered to be highly effective and any hedge ineffectiveness was deemed not material. The notional amounts of the liabilities being hedged were \$583.1 million and \$541.0 million at June 30, 2007 and December 31, 2006, respectively. At June 30, 2007, swaps in a net settlement receivable position totaled \$247.0 million and swaps in a net settlement payable position totaled \$336.1 million. At December 31, 2006, swaps in a net settlement receivable position totaled \$125.0 million and swaps in a net settlement payable position totaled \$416.0 million. The net gains recognized in earnings on fair value hedges were \$389,000 and \$460,000 for the three months ended June 30, 2007 and 2006, respectively. The net gains recognized in earnings on fair value hedges were \$686,000 and \$282,000 for the six months ended June 30, 2007 and 2006, respectively.

#### NOTE 6: STOCKHOLDERS' EQUITY

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

#### NOTE 7: SUBSEQUENT EVENTS

On July 10, 2007, the Company issued \$5.0 million aggregate liquidation amount of floating rate cumulative trust preferred securities through Great Southern Capital Trust III, a statutory trust formed by the Company for the purpose of issuing the securities. The securities bear a floating distribution rate equal to 90-day LIBOR plus 1.40%. The securities are redeemable, at the Company's option, in whole or in part, at par, beginning October 1, 2012, and if not sooner redeemed, mature on October 1, 2037. The securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q and in future filings by the Company with the Securities and Exchange Commission (the "SEC"), in the Company's press releases or other public or shareholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "intends" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, among other things, changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, the credit risks of lending activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses, the Company's ability to access cost-effective funding, demand for loans and deposits in the Company's market area and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake-and specifically declines any obligation-to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

### Critical Accounting Policies, Judgments and Estimates

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States and general practices within the financial services industry. 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 amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

The Company believes that the determination of the allowance for loan losses involves a higher degree of judgment and complexity than its other significant accounting policies. The allowance for loan losses is calculated with the objective of maintaining an allowance level believed by management to be sufficient to absorb estimated loan losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, expected default probabilities, loss given default, expected commitment usage, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses, and general amounts for historical loss experience. The process also considers economic conditions, uncertainties in estimating losses and inherent risks in the loan portfolio. All of these factors may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provisions for loan losses may be required that would adversely impact earnings in future periods.

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Additional discussion of the allowance for loan losses is included in the Company's 2006 Annual Report on Form 10-K under the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Allowances for Losses on Loans and Foreclosed Assets." Judgments and assumptions used by management in the past have resulted in an overall allowance for loan losses that has been sufficient to absorb estimated loan losses. Inherent in this process is the evaluation of individual significant credit relationships. From time to time certain credit relationships may deteriorate due to payment performance, cash flow of the borrower, value of collateral, or other factors. In these instances, management may have to revise its loss estimates and assumptions for these specific credits due to changing circumstances. In some cases, additional losses may be realized; in other instances, the factors that led to the deterioration may improve or the credit may be refinanced elsewhere and allocated allowances may be released from the particular credit. For the periods included in these financial statements, management's overall methodology for evaluating the allowance for loan losses has not changed materially.

#### General

The profitability of the Company and, more specifically, the profitability of its primary subsidiary, Great Southern Bank (the "Bank"), depends primarily on its net interest income. Net interest income is the difference between the interest income the Bank earns on its loans and investment portfolio, and the interest it pays on interest-bearing liabilities, which consists mainly of interest paid on deposits and borrowings. Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on these balances. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income.

In the six months ended June 30, 2007, Great Southern's total loans increased \$77.9 million, or 4.7%, from \$1.67 billion at December 31, 2006. As loan demand is affected by a variety of factors, including general economic conditions, and because of the competition we face, we cannot be assured that our loan growth will match or exceed the level of increases achieved in prior years. If economic conditions do not deteriorate, we believe that we remain well positioned to continue to originate a substantial amount of loans in our Southwest Missouri market as well as our loan production markets of St. Louis, Kansas City, Central Missouri and Northwest Arkansas. In addition, we may consider other markets in which to establish loan production offices. We expect that the majority of our loan portfolio growth will continue to be in the residential and commercial construction, commercial business and commercial real estate loan categories. In the three and six months ended June 30, 2007, our new loan production remained strong; however, we experienced both partial and full repayment of several commercial real estate and residential and commercial construction loans. We expect this trend in production and repayments to continue throughout the remainder of 2007, potentially limiting growth in our loan portfolio to an annualized amount that could be below our recent historical average of 11%.

In addition, the level of non-performing loans and foreclosed assets may affect our net interest income and net income. While we have not historically had an overall high level of charge-offs on our non-performing loans, we do not accrue interest income on these loans and do not recognize interest income until the loan is repaid or interest payments have been made for a period of time sufficient to provide evidence of performance on the loans. Generally, the higher the level of non-performing assets, the greater the negative impact on interest income and net income.

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Loan growth continued in our Loan Production Offices (LPO). In the six months ended June 30, 2007, the Overland Park LPO originated loans totaling \$21.2 million with outstanding loan balances of \$178.9 million at June 30, 2007. In the six months ended June 30, 2007, the Northwest Arkansas LPO originated loans totaling \$51.7 million with outstanding loan balances of \$153.6 million at June 30, 2007. In the six months ended June 30, 2007, the St. Louis LPO originated loans totaling \$40.6 million with outstanding loan balances of \$235.3 million at June 30, 2007. In the six months ended June 30, 2007, the Columbia LPO originated \$35.6 million of loans with outstanding loan balances of \$58.3 million at June 30, 2007. Many of these loans originated by our LPOs are construction loans where the customer has yet to draw the full line.

The Company attracts deposit accounts through our retail branch network, correspondent banking and corporate services areas, and brokered deposits. The Company then utilizes these deposit funds, along with FHLBank advances and other borrowings, to meet loan demand. In the six months ended June 30, 2007, total deposit balances increased \$136.2 million. Of this total increase, interest-bearing transaction accounts increased \$98.9 million and retail certificates of deposit increased \$45.1 million. Partially offsetting the increases in these deposit categories, non-interest-bearing checking accounts decreased \$21.3 million. As the generation of increased net interest income is critical to the growth of Great Southern's earnings, the continued ability to attract deposits or generate other funding sources is very important to successful loan growth. There is a high level of competition for deposits in our markets. While it is our goal to gain checking account and certificate of deposit market share in our branch footprint, we cannot be assured of this in future periods. Through June 2007, our interest-bearing checking account balances have continued to increase; however, our non-interest-bearing checking account balances have decreased in this same time period. Non-interest-bearing checking accounts have decreased primarily as a result of lower balances being kept in correspondent bank customers' accounts. These lower balances are due to the effects of the correspondent customers clearing checks through other avenues using electronic presentment, thus requiring lower compensating balances. If this decrease in non-interest-bearing checking account balances continues, it could negatively impact our net interest income.

Our ability to fund growth in future periods may also be dependent on our ability to continue to access brokered deposits and Federal Home Loan Bank advances. In times when our loan demand has outpaced our generation of new deposits, we have utilized brokered deposits and Federal Home Loan Bank advances to fund these loans. These funding sources have been attractive to us because we can create variable rate funding which more closely matches the variable rate nature of much of our loan portfolio. While we do not currently anticipate that our ability to access these sources will be reduced or eliminated in future periods, if this should happen, the limitation on our ability to fund additional loans would adversely affect our business, financial condition and results of operations.

Our net interest income may be affected positively or negatively by market interest rate changes. A large portion of our loan portfolio is tied to the "prime" rate and adjusts immediately when this rate adjusts. We also have a large portion of our liabilities that will reprice with changes to the Federal Funds rate or the three-month LIBOR rate. We monitor our sensitivity to interest rate changes on an ongoing basis (see "Quantitative and Qualitative Disclosures About Market Risk").

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Ongoing changes in the level and shape of the interest rate yield curve pose challenges for interest rate risk management. Beginning in the second half of 2004 and through June 30, 2006, the Board of Governors of the Federal Reserve System (the "FRB") increased short-term interest rates through steady increases to the Federal Funds rate. Other short-term rates, such as LIBOR and short-term U.S. Treasury rates, increased in conjunction with these increases by the FRB. By June 30, 2006 (and still at June 30, 2007), the FRB had raised the Federal Funds rates by 4.25% (from 1.00% in June 2004) and other short-term rates rose by corresponding amounts. However, there was not a parallel shift in the yield curve; intermediate and long-term interest rates did not increase at a corresponding pace. This caused the shape of the interest rate yield curve to become much flatter, which creates different issues for interest rate risk management. In addition, during 2005 and 2006, Great Southern's net interest margin was negatively affected by certain characteristics of some of its loans, deposit mix, loan and deposit pricing by competitors, and timing of interest rate increases by the FRB as compared to interest rate increases in the financial markets. For the three and six months ended June 30, 2007, interest income was reduced \$112,000 and \$440,000, respectively, due to the reversal of accrued interest on loans which were added to non-performing status during 2007. This reduced net interest income and net interest margin. Also, for the three months ended June 30, 2007, the average balance of investment securities increased by approximately \$100 million due to the purchase of very short-term discount notes and other securities to pledge against increased public funds deposits and customer repurchase agreements. While we earned a positive spread on these securities, it was much smaller than our overall net interest spread, having the effect of increasing net interest income but decreasing net interest margin.

Generally, the flattening interest rate yield curve has hurt Great Southern's ability to reinvest proceeds from loan and investment repayments at higher rates. The Company's cost of funds has increased faster than its yield on loans and investments in part because of aggressive pricing of deposits by competitors in local markets. Great Southern has increased rates on checking, money market and retail certificate accounts in order to remain competitive, while not leading the market. Great Southern's deposit mix has also led to a more rapidly increasing cost of funds. The Company has significant balances in high-dollar money market and premium NOW accounts, the owners of which are very rate sensitive and compare these products to other bank and non-bank products available by competing financial services companies. In addition, nearly all of Great Southern's brokered certificates of deposit are subject to interest rate swaps which create variable rate funding based on three-month LIBOR. As the market anticipates rate increases or decreases by the FRB, LIBOR rates tend to move ahead of the FRB Federal Funds rate changes. The rate earned on the portion of the Company's loan portfolio which is tied to the "prime rate of interest" generally only changes when the FRB actually changes the Federal Funds rate.

Margin compression has also occurred in the Company's investment securities portfolio. The Company added securities in previous years to pledge as collateral to secure public funds deposits and customer reverse repurchase agreements. The interest rates paid to these customers has increased consistent with short-term market interest rate increases, while the overall yield on the investment portfolio has not increased as rapidly. In previous years, the Company earned a greater spread on these securities due to the very low rate environment and the then-steeper interest rate yield curve compared to 2006 and 2007. As borrowing costs have increased, the spread earned on these securities has decreased. The Company has also repositioned some of its investment portfolio over time to shorten the time frame its securities will reprice. In late 2006 and so far in 2007, the overall yield on the investment portfolio (including other interest-earning assets) has been increasing and was 4.89% in the three months ended June 30, 2007 compared to 4.36% in the same period in 2006.

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The Company's profitability is also affected by the level of its non-interest income and operating expenses. Non-interest income consists primarily of service charges and ATM fees, commissions earned by our travel, insurance and investment divisions, late charges and prepayment fees on loans, gains on sales of loans and available-for-sale investments and other general operating income. Non-interest income is also affected by the Company's hedging activities. Operating expenses consist primarily of salaries and employee benefits, occupancy-related expenses, postage, insurance, advertising and public relations, telephone, professional fees, office expenses and other general operating expenses. In the three months ended June 30, 2007 compared to the three months ended June 30, 2006, non-interest income increased primarily as the result of higher revenue from commissions and deposit account charges. In addition, non-interest income increased \$389,000 in the three months ended June 30, 2007, and increased \$460,000 in the three months ended June 30, 2006, as a result of the change in the fair value of certain interest rate swaps and the related change in fair value of hedged deposits. In the six months ended June 30, 2007 compared to the six months ended June 30, 2006, non-interest income increased primarily as the result of higher revenue from commissions and deposit account charges, partially offset by lower late charges and prepayment fees on loans. In addition, non-interest income increased \$686,000 in the six months ended June 30, 2007, and increased \$282,000 in the six months ended June 30, 2006, as a result of the change in the fair value of certain interest rate swaps and the related change in fair value of hedged deposits.

Service charges on deposit accounts and ATM fees increased compared to the same period in 2006. Fees from service charges and overdrafts will likely continue to increase modestly in 2007 compared to 2006 as we expect that retail checking accounts will grow at a modest pace in 2007. We expect to continue to add checking balances; however, much of this growth is expected to come from additional corporate banking relationships which will not generate as much fee income as smaller individual checking accounts. Second quarter 2007 commission income from the Company's travel, insurance and investment divisions increased compared to the same period in 2006. The travel and insurance divisions experienced an increase in commission revenues while the investment divisions experienced a decrease in the three months ended June 30, 2007. Most of the decrease in commission revenue in the investment division was due to lower sales of annuity products compared to the 2006 period.

Total non-interest expense increased moderately in the three months ended June 30, 2007 compared to the same period in 2006. The increase was primarily due to increases in salaries and employee benefits and the continued growth of the Company. In 2006 and 2007, Great Southern acquired three travel agencies, established a new loan production office in Columbia, Mo., and opened new banking centers in Lee's Summit, Mo. and Ozark, Mo. As a result, in the three and six months ended June 30, 2007, compared to the same periods in 2006, non-interest expenses increased related to the ongoing operations of these new offices. Additionally, changes were made to the Company's retirement plans in 2006, which basically entailed a reduction in future benefit accruals under the Company's multi-employer defined benefit pension plan and an increase in the employer match under the Company's 401(k) plan. These changes resulted in a decrease in expenses in the first two quarters of 2007 compared to the same periods in 2006. In 2007, the Federal Deposit Insurance Corporation (FDIC) began to once again assess insurance premiums on insured institutions. Under the new pricing system, institutions in all risk categories, even the best rated, are charged an FDIC premium. Great Southern is eligible for a deposit insurance credit as a result of premiums previously paid. The Company's credit offset assessed premiums for the first half of 2007, but premiums will be paid by the Company in the latter half of 2007. The Company estimates that this new insurance expense will be approximately \$250,000 quarterly.

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The operations of the Bank, and banking institutions in general, are significantly influenced by general economic conditions and related monetary and fiscal policies of regulatory agencies. Deposit flows and the cost of deposits and borrowings are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for financing real estate and other types of loans, which in turn are affected by the interest rates at which such financing may be offered and other factors affecting loan demand and the availability of funds.

#### Business Initiatives

In the second quarter, the Company opened a new full-service retail banking center on West Republic Road in the Springfield market, bringing its total banking center network to 38 offices. Construction of a new banking center on State Highway 248 in the fast-growing Branson, Mo., market is expected to begin in the third quarter. The new office is projected to be open for business in early 2008.

The Company continues its focus on core deposit acquisition. A Corporate Services representative in the St. Louis metropolitan market was hired during the second quarter and has been successful in acquiring corporate deposits. The Company's remote capture depository product, "Great Access Deposit Direct," is available for corporate customers in this market. In the third quarter of 2007, the Company expects to launch a new and improved Web site, which will provide retail customers the opportunity to open certain depository accounts online. This new channel will allow the Company to broaden its marketing reach significantly in the Internet space and compete for deposits on a much larger scale.

#### Effect of Federal Laws and Regulations

Federal legislation and regulation significantly affect the banking operations of the Company and the Bank, and have increased competition among commercial banks, savings institutions, mortgage banking enterprises and other financial institutions. In particular, the capital requirements and operations of regulated depository institutions such as the Company and the Bank have been and will be subject to changes in applicable statutes and regulations from time to time, which changes could, under certain circumstances, adversely affect the Company or the Bank.

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**Comparison of Financial Condition at June 30, 2007 and December 31, 2006**

During the six months ended June 30, 2007, the Company increased total assets by \$150.6 million to \$2.39 billion. Net loans increased by \$77.9 million. The main loan areas experiencing increases were commercial and residential construction and commercial business loans. The Company's strategy continues to be focused on growing the loan portfolio, while maintaining credit risk and interest rate risk at appropriate levels. For many years, the Company has developed a niche in commercial real estate and construction lending in Southwest Missouri. Great Southern's strategy is to continue to build on this competency in Southwest Missouri and in other geographic areas through the Company's loan production offices. Available-for-sale investment securities increased by \$102.4 million. For the six months ended June 30, 2007, the average balance of investment securities increased by approximately \$100 million due to the purchase of very short-term discount notes and other securities to pledge against increased public funds deposits and customer repurchase agreements. While the Company earned a positive spread on these securities, it was much smaller than the Company's overall net interest spread, having the effect of increasing net interest income but decreasing net interest margin. While there is no specifically stated goal, the available-for-sale securities portfolio has recently been approximately 15% to 20% of total assets. The available-for-sale securities portfolio was 18.7% and 15.4% of total assets at June 30, 2007 and December 31, 2006, respectively. Cash and cash equivalents decreased \$34.4 million during the six months ended June 30, 2007, primarily due to smaller cash letter settlements between the Company and other banks at June 30, 2007.

Total liabilities increased \$144.6 million from December 31, 2006 to \$2.21 billion at June 30, 2007. Deposits increased \$136.2 million and short-term borrowings increased \$68.3 million. Partially offsetting these increases, FHLBank advances decreased \$49.9 million, from \$179.2 million at December 31, 2006, to \$129.3 million at June 30, 2007. The level of FHLBank advances will fluctuate depending on growth in the Company's loan portfolio and other funding needs and sources of the Company. This decrease during the six months ended June 30, 2007, primarily related to the maturity of very short-term advances which had been executed near the end of 2006 to meet funding needs at year-end and the increase in deposits during the period. Deposits (excluding brokered and national certificates of deposit) increased \$122.7 million from December 31, 2006. Retail CDs and interest-bearing transaction accounts (mainly money market accounts) increased \$45.1 million and \$98.9 million, respectively. Partially offsetting the increases in these deposit categories, non-interest-bearing checking accounts decreased \$21.3 million. Checking account balances totaled \$672.9 million at June 30, 2007, up from \$595.3 million at December 31, 2006. Total brokered deposits were \$722.0 million at June 30, 2007, up from \$708.2 million at December 31, 2006. The increase in short-term borrowings was mainly the result of increases (\$63.3 million) in securities sold under repurchase agreements with Bank customers.

Stockholders' equity increased \$6.0 million from \$175.6 million at December 31, 2006 to \$181.6 million at June 30, 2007. Net income for the six months ended June 30, 2007, was \$15.5 million and accumulated other comprehensive income decreased \$2.3 million, partially offset by dividends declared of \$4.5 million and net repurchases of the Company's common stock of \$2.8 million. During the six months ended June 30, 2007, the Company repurchased 129,494 shares of its common stock at an average price of \$28.09 per share and issued 32,148 shares at an average price of \$18.75 per share to cover stock option exercises.

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Management intends to continue its stock buy-back programs from time to time as long as it believes that repurchasing the stock contributes to the overall growth of shareholder value. The number of shares of stock that will be repurchased and the price that will be paid is the result of many factors, several of which are outside the control of the Company. The primary factors, however, are the number of shares available in the market from sellers at any given time, the price of the stock within the market as determined by the market, and the projected impact on the Company's earnings per share.

## **Results of Operations and Comparison for the Three and Six Months Ended June 30, 2007 and 2006**

### **General**

Including the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, net income increased \$683,000, or 9.1%, during the three months ended June 30, 2007, compared to the three months ended June 30, 2006. This increase was primarily due to an increase in net interest income of \$1.4 million, or 8.0%, and an increase in non-interest income of \$486,000, or 6.5%, partially offset by an increase in non-interest expense of \$627,000, or 5.2%, and an increase in provision for income taxes of \$541,000, or 15.5%.

Excluding the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, economically, net income increased \$460,000, or 6.1%, during the three months ended June 30, 2007, compared to the three months ended June 30, 2006. This increase was primarily due to an increase in net interest income of \$859,000, or 4.8%, and an increase in non-interest income of \$649,000, or 9.6%, partially offset by an increase in non-interest expense of \$627,000, or 5.2%, and an increase in provision for income taxes of \$421,000, or 12.0%.

Including the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, net income increased \$822,000, or 5.6%, during the six months ended June 30, 2007, compared to the six months ended June 30, 2006. This increase was primarily due to an increase in net interest income of \$1.9 million, or 5.7%, and an increase in non-interest income of \$329,000, or 2.3%, partially offset by an increase in non-interest expense of \$796,000, or 3.3%, an increase in provision for loan losses of \$25,000, or 0.9%, and an increase in provision for income taxes of \$605,000, or 8.7%.

Excluding the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, economically, net income increased \$220,000, or 1.5%, during the six months ended June 30, 2007, compared to the six months ended June 30, 2006. This increase was primarily due to an increase in net interest income of \$1.4 million, or 4.0%, and an increase in non-interest income of \$57,000, or 0.4%, partially offset by an increase in non-interest expense of \$796,000, or 3.3%, an increase in provision for loan losses of \$25,000, or 0.9%, and an increase in provision for income taxes of \$281,000, or 3.9%.

The information presented in the table below and elsewhere in this report excluding hedge accounting entries recorded (for the 2007 and 2006 periods) is not prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The tables below and elsewhere in this report excluding hedge accounting entries recorded (for the 2007 and 2006 periods) contain reconciliations of this information to the reported information prepared in accordance with GAAP. The Company believes that this non-GAAP financial information is useful in its internal management financial analyses and may also be useful to investors because the Company believes that the exclusion of these items from the specified components of net income better reflect the Company's underlying operating results during the periods indicated for the reasons described above. The amortization of the deposit broker fee and the net change in fair value of interest rate swaps and related deposits may be volatile. For example, if market interest rates decrease significantly, the interest rate swap counterparties may wish to terminate the swaps prior to their stated maturities. If a swap is terminated, it is likely that the Company would redeem the related deposit account at face value. If the deposit account is redeemed, any unamortized broker fee associated with the deposit account must be written off to interest expense. In addition, if the interest rate swap is terminated, there may be an income or expense impact related to the fair values of the swap and related deposit which were previously recorded in the Company's

financial statements. The effect on net income, net interest income, net interest margin and non-interest income could be potentially significant in any given reporting period.

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**Non-GAAP Reconciliation**

(Dollars in thousands)

	Three Months Ended June 30,	
	2007	2006
<b>Reported Earnings</b>	<b>\$8,207</b>	<b>\$7,524</b>
Amortization of deposit broker origination fees (net of taxes)	139	468
Net change in fair value of interest rate swaps and related deposits (net of taxes)	(342)	(448)
Earnings excluding impact of hedge accounting entries	\$8,004	\$7,544
	Six Months Ended June 30,	
	2007	2006
<b>Reported Earnings</b>	<b>\$15,542</b>	<b>\$14,720</b>
Amortization of deposit broker origination fees (net of taxes)	288	639
Net change in fair value of interest rate swaps and related deposits (net of taxes)	(564)	(313)
Earnings excluding impact of hedge accounting entries	\$15,266	\$15,046

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### **Total Interest Income**

Total interest income increased \$4.5 million, or 12.0%, during the three months ended June 30, 2007 compared to the three months ended June 30, 2006. The increase was due to a \$3.2 million, or 9.9%, increase in interest income on loans and a \$1.2 million, or 28.4%, increase in interest income on investments and other interest-earning assets. Interest income for loans and investment securities and other interest-earning assets increased due to higher average rates of interest and higher average balances.

Total interest income increased \$9.7 million, or 13.6%, during the six months ended June 30, 2007 compared to the six months ended June 30, 2006. The increase was due to a \$8.1 million, or 13.0%, increase in interest income on loans and a \$1.6 million, or 18.5%, increase in interest income on investments and other interest-earning assets. Interest income for loans and investment securities and other interest-earning assets increased due to higher average rates of interest and higher average balances.

For the three months ended June 30, 2007 and 2006, interest income was reduced \$112,000 and \$64,000, respectively, due to the reversal of accrued interest on loans which were added to non-performing status during the quarter. For the six months ended June 30, 2007 and 2006, interest income was reduced \$440,000 and \$338,000, respectively, due to the reversal of accrued interest on loans which were added to non-performing status during the period. Partially offsetting this, the Company collected interest which was previously charged off in the amount of \$194,000 and \$79,000 in the three months ended June 30, 2007 and 2006, respectively, and \$269,000 and \$176,000 in the six months ended June 30, 2007 and 2006, respectively. For the three months ended June 30, 2007, the average balance of investment securities increased by approximately \$100 million due to the purchase of very short-term discount notes and other securities to pledge against increased public fund deposits and customer repurchase agreements. While the Company earned a positive spread on these securities, it was much smaller than the Company's overall net interest spread, having the effect of increasing net interest income but decreasing net interest margin. The average balance of investment securities was similarly higher in the six months ended June 30, 2007.

### **Interest Income - Loans**

During the three months ended June 30, 2007 compared to the three months ended June 30, 2006, interest income on loans increased due to higher average balances and higher average interest rates. Interest income increased \$2.1 million as the result of higher average loan balances from \$1.65 billion during the three months ended June 30, 2006 to \$1.75 billion during the three months ended June 30, 2007. The higher average balance resulted principally from the Bank's increased commercial and residential construction lending, commercial real estate lending and commercial business lending. Demand for these types of loans remains strong in the Company's market areas. The Bank's one- to four-family residential loan portfolio balance remained fairly stable during the comparative periods. The Bank generally sells fixed-rate one- to four-family residential loans in the secondary market.

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Interest income increased \$1.2 million as the result of higher average interest rates on loans. The average yield on loans increased from 7.99% during the three months ended June 30, 2006, to 8.27% during the three months ended June 30, 2007. A large portion of the Bank's loan portfolio adjusts with changes to the "prime rate" of interest. The Company has a portfolio of prime-based loans which have interest rate floors. Prior to 2006, when market interest rates were lower, many of these loan rate floors were in effect and established a loan rate which was higher than the contractual rate would have otherwise been. During 2005 and 2006, as market interest rates rose, many of these interest rate floors were exceeded and the loans reverted back to their normal contractual interest rate terms. In the three months ended June 30, 2007, the average yield on loans was 8.27% versus an average prime rate for the period of 8.25%, or a difference of 2 basis points. In the three months ended June 30, 2006, the average yield on loans was 7.99% versus an average prime rate for the period of 7.90%, or a difference of 9 basis points.

During the six months ended June 30, 2007 compared to the six months ended June 30, 2006, interest income on loans increased due to higher average balances and higher average interest rates. Interest income increased \$4.7 million as the result of higher average loan balances from \$1.62 billion during the six months ended June 30, 2006 to \$1.74 billion during the six months ended June 30, 2007. The higher average balance resulted principally from the Bank's increased commercial and residential construction lending and commercial business lending. Demand for these types of loans remains strong in the Company's market areas. The Bank's one- to four-family residential loan portfolio balance remained fairly stable during the comparative periods.

Interest income increased \$3.4 million as the result of higher average interest rates on loans. The average yield on loans increased from 7.81% during the six months ended June 30, 2006, to 8.23% during the six months ended June 30, 2007. In the six months ended June 30, 2007, the average yield on loans was 8.23% versus an average prime rate for the period of 8.25%, or a difference of a negative 2 basis points. In the six months ended June 30, 2006, the average yield on loans was 7.81% versus an average prime rate for the period of 7.66%, or a difference of 15 basis points.

#### **Interest Income - Investments and Other Interest-earning Assets**

Interest income on investments and other interest-earning assets increased \$1.2 million as a result of higher average rates and higher average balances during the three months ended June 30, 2007, when compared to the three months ended June 30, 2006. Interest income increased \$558,000 as a result of an increase in average rates from 4.36% during the three months ended June 30, 2006, to 4.89% during the three months ended June 30, 2007. Interest income increased \$668,000 as a result of an increase in average balances from \$397 million during the three months ended June 30, 2006, to \$455 million during the three months ended June 30, 2007. In 2005 and 2006, as principal balances on mortgage-backed securities were paid down through prepayments and normal amortization, the Company replaced a large portion of these securities with variable-rate mortgage-backed securities (primarily one-year and hybrid ARMs) which had a lower yield at the time of purchase relative to the fixed-rate securities remaining in the portfolio. As these securities reach interest rate reset dates, their rates have increased and will continue to increase along with market interest rate increases. Approximately \$25 million have interest rates that will reset at some time in the remainder of 2007, with the currently projected weighted average coupon rate increasing approximately 1.25%. In addition, approximately \$80 million have interest rates that will reset at some time in 2008. The actual amount of securities that will reprice and the actual interest rate changes on these securities is subject to the level of prepayments on these securities and the changes that actually occur in market interest rates (primarily treasury rates and LIBOR rates). The Company had total variable-rate mortgage-backed securities of approximately \$128 million at June 30, 2007.

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Interest income on investments and other interest-earning assets increased \$1.6 million as a result of higher average rates and higher average balances during the six months ended June 30, 2007, when compared to the six months ended June 30, 2006. Interest income increased \$1.1 million as a result of an increase in average rates from 4.30% during the six months ended June 30, 2006, to 4.82% during the six months ended June 30, 2007. Interest income increased \$519,000 as a result of an increase in average balances from \$409 million during the six months ended June 30, 2006, to \$432 million during the six months ended June 30, 2007.

### **Total Interest Expense**

Including the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, total interest expense increased \$3.1 million, or 15.5%, during the three months ended June 30, 2007, when compared with the three months ended June 30, 2006, primarily due to an increase in interest expense on deposits of \$3.4 million, or 21.1%, an increase in interest expense on short-term borrowings of \$502,000, or 35.5%, and an increase in interest expense on subordinated debentures issued to capital trust of \$123,000, or 38.8%, partially offset by a decrease in interest expense on FHLBank advances of \$888,000, or 37.8%.

Excluding the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, economically, total interest expense increased \$2.6 million, or 13.4%, during the three months ended June 30, 2007, when compared with the three months ended June 30, 2006, primarily due to an increase in interest expense on deposits of \$2.9 million, or 18.7%, an increase in interest expense on short-term borrowings of \$502,000, or 35.5%, and an increase in interest expense on subordinated debentures issued to capital trust of \$123,000, or 38.8%, partially offset by a decrease in interest expense on FHLBank advances of \$888,000, or 37.8%.

Including the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, total interest expense increased \$7.8 million, or 20.8%, during the six months ended June 30, 2007, when compared with the six months ended June 30, 2006, primarily due to an increase in interest expense on deposits of \$7.8 million, or 26.3%, an increase in interest expense on short-term borrowings of \$754,000, or 26.0%, and an increase in interest expense on subordinated debentures issued to capital trust of \$278,000, or 46.2%, partially offset by a decrease in interest expense on FHLBank advances of \$1.1 million, or 24.1%.

Excluding the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, economically, total interest expense increased \$7.3 million, or 19.8%, during the six months ended June 30, 2007, when compared with the six months ended June 30, 2006, primarily due to an increase in interest expense on deposits of \$7.3 million, or 25.4%, an increase in interest expense on short-term borrowings of \$754,000, or 26.0%, and an increase in interest expense on subordinated debentures issued to capital trust of \$278,000, or 46.2%, partially offset by a decrease in interest expense on FHLBank advances of \$1.1 million, or 24.1%.

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## Interest Expense - Deposits

Including the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, interest on demand deposits increased \$644,000 due to an increase in average rates from 2.93% during the three months ended June 30, 2006, to 3.49% during the three months ended June 30, 2007. The average interest rates increased due to higher overall market rates of interest throughout 2006 and into 2007. Market rates of interest on checking and money market accounts began to increase in the latter half of 2004 as the FRB raised short-term interest rates. Interest on demand deposits increased \$503,000 due to an increase in average balances from \$423 million during the three months ended June 30, 2006, to \$487 million during the three months ended June 30, 2007. Average noninterest-bearing demand balances decreased from \$191 million in the three months ended June 30, 2006, to \$172 million in the three months ended June 30, 2007.

Interest expense on deposits increased \$1.7 million due to an increase in average balances of time deposits from \$1.02 billion during the three months ended June 30, 2006, to \$1.15 billion during the three months ended June 30, 2007. From time to time in 2006 and 2007, the Company increased its balance of brokered certificates of deposit to fund loan growth. Interest expense on deposits also increased \$512,000 as a result of an increase in average rates of interest on time deposits from 5.09% during the three months ended June 30, 2006, to 5.28% during the three months ended June 30, 2007. Market rates of interest on new certificates increased since the latter half of 2004 as the FRB raised short-term interest rates. In addition, the Company's interest rate swaps repriced to higher rates in conjunction with the increases in market interest rates in 2006. These market rates have been fairly stable in 2007.

The effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps did not impact interest on demand deposits.

Excluding the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, economically, interest expense on deposits increased \$1.1 million as a result of an increase in average rates of interest on time deposits from 4.81% during the three months ended June 30, 2006, to 5.21% during the three months ended June 30, 2007. Interest expense on deposits also increased \$1.6 million due to an increase in average balances of time deposits from \$1.02 billion during the three months ended June 30, 2006, to \$1.15 billion during the three months ended June 30, 2007.

Including the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, interest on demand deposits increased \$1.1 million due to an increase in average rates from 2.90% during the six months ended June 30, 2006, to 3.39% during the six months ended June 30, 2007. The average interest rates increased due to higher overall market rates of interest throughout 2006 and into 2007. Market rates of interest on checking and money market accounts began to increase in the latter half of 2004 as the FRB raised short-term interest rates. Interest on demand deposits increased \$362,000 due to an increase in average balances from \$436 million during the six months ended June 30, 2006, to \$460 million during the six months ended June 30, 2007. Average noninterest-bearing demand balances decreased from \$186 million in the six months ended June 30, 2006, to \$173 million in the six months ended June 30, 2007.

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Interest expense on deposits increased \$3.6 million due to an increase in average balances of time deposits from \$993 million during the six months ended June 30, 2006, to \$1.14 billion during the six months ended June 30, 2007. From time to time in 2006 and 2007, the Company increased its balance of brokered certificates of deposit to fund loan growth. Interest expense on deposits also increased \$2.8 million as a result of an increase in average rates of interest on time deposits from 4.77% during the six months ended June 30, 2006, to 5.30% during the six months ended June 30, 2007. Market rates of interest on new certificates increased since the latter half of 2004 as the FRB raised short-term interest rates. In addition, the Company's interest rate swaps repriced to higher rates in conjunction with the increases in market interest rates in 2006. These market rates have been fairly stable in 2007.

Excluding the effects of the Company's accounting entries recorded in 2007 and 2006 for certain interest rate swaps, economically, interest expense on deposits increased \$3.4 million as a result of an increase in average rates of interest on time deposits from 4.57% during the six months ended June 30, 2006, to 5.22% during the six months ended June 30, 2007. Interest expense on deposits also increased \$3.5 million due to an increase in average balances of time deposits from \$993 million during the six months ended June 30, 2006, to \$1.14 billion during the six months ended June 30, 2007.

### **Interest Expense - FHLBank Advances, Short-term Borrowings and Subordinated Debentures Issued to Capital Trust**

During the three months ended June 30, 2007 compared to the three months ended June 30, 2006, interest expense on FHLBank advances decreased due to lower average balances, partially offset by higher average interest rates. Interest expense on FHLBank advances decreased \$1.1 million due to a decrease in average balances from \$215 million during the three months ended June 30, 2006, to \$123 million during the three months ended June 30, 2007. The decrease in FHLBank advances was offset primarily by increases in the Company's deposits. Interest expense on FHLBank advances increased \$229,000 due to an increase in average interest rates from 4.39% in the three months ended June 30, 2006, to 4.77% in the three months ended June 30, 2007. Rates on advances increased as the Company employed advances which mature in a relatively short term and advances which are indexed to one-month LIBOR and adjust monthly.

During the six months ended June 30, 2007 compared to the six months ended June 30, 2006, interest expense on FHLBank advances decreased due to lower average balances, partially offset by higher average interest rates. Interest expense on FHLBank advances decreased \$1.9 million due to a decrease in average balances from \$204 million during the six months ended June 30, 2006, to \$135 million during the six months ended June 30, 2007. The decrease in FHLBank advances was offset primarily by increases in the Company's deposits. Interest expense on FHLBank advances increased \$823,000 due to an increase in average interest rates from 4.32% in the six months ended June 30, 2006, to 4.97% in the six months ended June 30, 2007. Rates on advances increased as the Company employed advances which mature in a relatively short term and advances which are indexed to one-month LIBOR and adjust monthly.

Interest expense on short-term borrowings increased \$440,000 due to an increase in average balances from \$132 million during the three months ended June 30, 2006, to \$172 million during the three months ended June 30, 2007. The increase in balances of short-term borrowings was primarily due to increases in securities sold under repurchase agreements with the Company's deposit customers. In addition, average rates on short-term borrowings increased from 4.29% in the three months ended June 30, 2006, to 4.47% in the three months ended June 30, 2007, resulting in increased interest expense of \$62,000. The average interest rates increased due to higher overall market rates of interest in 2007. Market rates of interest on short-term borrowings began to increase in the latter half of 2004 and continued to increase into the middle of 2006 as the FRB raised short-term interest rates.

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Interest expense on short-term borrowings increased \$525,000 due to an increase in average balances from \$140 million during the six months ended June 30, 2006, to \$164 million during the six months ended June 30, 2007. The increase in balances of short-term borrowings was primarily due to increases in securities sold under repurchase agreements with the Company's deposit customers. In addition, average rates on short-term borrowings increased from 4.18% in the six months ended June 30, 2006, to 4.49% in the six months ended June 30, 2007, resulting in increased interest expense of \$229,000. The average interest rates increased due to higher overall market rates of interest in 2007. Market rates of interest on short-term borrowings began to increase in the latter half of 2004 and continued to increase into the middle of 2006 as the FRB raised short-term interest rates.

Interest expense on subordinated debentures issued to capital trust increased \$136,000 due to increases in average balances from \$18 million in the three months ended June 30, 2006, to \$26 million in the three months ended June 30, 2007. In November 2006, the Company redeemed its trust preferred debentures which were issued in 2001 and replaced them with new trust preferred debentures, increasing the amount of trust preferred debentures outstanding. These new debentures are not subject to an interest rate swap; however, they are variable-rate debentures and bear interest at a rate of three-month LIBOR plus 1.60%, adjusting quarterly. Interest expense on subordinated debentures issued to capital trust decreased \$13,000 due to decreases in average rates from 7.15% in the three months ended June 30, 2006, to 6.85% in the three months ended June 30, 2007.

Interest expense on subordinated debentures issued to capital trust increased \$269,000 due to increases in average balances from \$18 million in the six months ended June 30, 2006, to \$26 million in the six months ended June 30, 2007. As noted above, in November 2006, the Company redeemed its trust preferred debentures which were issued in 2001 and replaced them with new trust preferred debentures, increasing the amount of trust preferred debentures outstanding. Interest expense on subordinated debentures issued to capital trust increased \$9,000 due to increases in average rates from 6.79% in the six months ended June 30, 2006, to 6.89% in the six months ended June 30, 2007.

### **Net Interest Income**

Including the effects of the Company's accounting entries recorded for certain interest rate swaps in 2007 and 2006, net interest income increased \$1.4 million, to \$18.5 million, for the second quarter of 2007 compared to the same period in 2006. The Company's overall average interest rate spread remained unchanged at 2.82% during the three months ended June 30, 2007 and 2006. A 29 basis point increase in the weighted average yield received on interest-earning assets was offset by a 29 basis point increase in the weighted average rate paid on interest-bearing liabilities. The Company's overall net interest margin increased 1 basis point, or 0.3%, from 3.35% during the three months ended June 30, 2006, to 3.36% during the three months ended June 30, 2007. In comparing the two periods, the yield on loans increased 28 basis points while the yield on investment securities and other interest-earning assets increased 53 basis points. The rate paid on deposits increased 29 basis points, the rate paid on FHLBank advances increased 38 basis points, the rate paid on short-term borrowings increased 18 basis points, and the rate paid on subordinated debentures issued to capital trust decreased 30 basis points.

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The prime rate of interest averaged 7.90% during the three months ended June 30, 2006, compared to an average of 8.25% during the three months ended June 30, 2007. The prime rate began to increase in the latter half of 2004 as the FRB began to raise short-term interest rates, and has remained at 8.25% since mid-2006. A large percentage of the Bank's loans are tied to prime, which resulted in increased loan yields in 2007 compared to 2006.

Interest rates paid on deposits, FHLBank advances, short-term borrowings and subordinated debentures were lower in the three months ended June 30, 2006 compared to the 2007 period. Interest costs on these liabilities began to increase in the latter half of 2004 through the middle of 2006 as a result of rising short-term market interest rates, primarily due to increases by the FRB. These interest costs have somewhat stabilized since June 30, 2006, as short-term market interest rates have not fluctuated greatly. The Company continues to utilize interest rate swaps and FHLBank advances that reprice frequently to manage overall interest rate risk. See "Quantitative and Qualitative Disclosures About Market Risk" for additional information on the Company's interest rate swaps.

Excluding the effects of the Company's accounting entries recorded for certain interest rate swaps in 2007 and 2006, the Company's overall average interest rate spread decreased 12 basis points, or 4.0%, from 2.98% during the three months ended June 30, 2006, to 2.86% during the three months ended June 30, 2007. The decrease was due to a 41 basis point increase in the weighted average rate paid on interest-bearing liabilities, partially offset by a 29 basis point increase in the weighted average yield received on interest-earning assets. The Company's overall net interest margin decreased 9 basis points, or 2.6%, from 3.49% during the three months ended June 30, 2006, to 3.40% during the three months ended June 30, 2007. In comparing the two periods, the yield on loans increased 28 basis points while the yield on investment securities and other interest-earning assets increased 53 basis points. The rate paid on deposits increased 44 basis points, the rate paid on FHLBank advances increased 38 basis points, the rate paid on short-term borrowings increased 18 basis points, and the rate paid on subordinated debentures issued to capital trust decreased 30 basis points.

Including the effects of the Company's accounting entries recorded for certain interest rate swaps in 2007 and 2006, net interest income increased \$1.9 million, to \$35.7 million, for the first six months of 2007 compared to the same period in 2006. The Company's overall average interest rate spread decreased 9 basis points from 2.86% during the six months ended June 30, 2006, to 2.77% during the six months ended June 30, 2007. The decrease was due to a 53 basis point increase in the weighted average rate paid on interest-bearing liabilities, partially offset by a 44 basis point increase in the weighted average yield received on interest-earning assets. The Company's overall net interest margin decreased 4 basis points, or 1.2%, from 3.36% during the six months ended June 30, 2006, to 3.32% during the six months ended June 30, 2007. In comparing the two periods, the yield on loans increased 42 basis points while the yield on investment securities and other interest-earning assets increased 52 basis points. The rate paid on deposits increased 55 basis points, the rate paid on FHLBank advances increased 65 basis points, the rate paid on short-term borrowings increased 31 basis points, and the rate paid on subordinated debentures issued to capital trust increased 10 basis points.

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The prime rate of interest averaged 7.66% during the six months ended June 30, 2006, compared to an average of 8.25% during the six months ended June 30, 2007. The prime rate began to increase in the latter half of 2004 as the FRB began to raise short-term interest rates, and has remained at 8.25% since mid-2006. A large percentage of the Bank's loans are tied to prime, which resulted in increased loan yields in 2007 compared to 2006.

Excluding the effects of the Company's accounting entries recorded for certain interest rate swaps in 2007 and 2006, the Company's overall average interest rate spread decreased 16 basis points, or 5.4%, from 2.98% during the six months ended June 30, 2006, to 2.82% during the six months ended June 30, 2007. The decrease was due to a 60 basis point increase in the weighted average rate paid on interest-bearing liabilities, partially offset by a 44 basis point increase in the weighted average yield received on interest-earning assets. The Company's overall net interest margin decreased 10 basis points, or 2.9%, from 3.46% during the six months ended June 30, 2006, to 3.36% during the six months ended June 30, 2007. In comparing the two periods, the yield on loans increased 42 basis points while the yield on investment securities and other interest-earning assets increased 52 basis points. The rate paid on deposits increased 64 basis points, the rate paid on FHLBank advances increased 65 basis points, the rate paid on short-term borrowings increased 31 basis points, and the rate paid on subordinated debentures issued to capital trust increased 10 basis points.

**Non-GAAP Reconciliation**

(Dollars in thousands)

	Three Months Ended June 30,			
	2007		2006	
	\$	%	\$	%
<b>Net Interest Income/Margin</b>	<b>\$18,488</b>	<b>3.36%</b>	<b>\$17,123</b>	<b>3.35%</b>
Amortization of deposit broker origination fees	214	.04	720	.14
Net interest income/margin excluding impact of hedge accounting entries	\$18,702	3.40%	\$17,843	3.49%
	Six Months Ended June 30,			
	2007		2006	
	\$	%	\$	%
<b>Net Interest Income/Margin</b>	<b>\$35,674</b>	<b>3.32%</b>	<b>\$33,755</b>	<b>3.36%</b>
Amortization of deposit broker origination fees	443	.04	983	.10
Net interest income/margin excluding impact of hedge accounting entries	\$36,117	3.36%	\$34,738	3.46%

For additional information on net interest income components, refer to "Average Balances, Interest Rates and Yields" table in this Quarterly Report on Form 10-Q. This table is prepared including the impact of the accounting changes for

interest rate swaps.

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### **Provision for Loan Losses and Allowance for Loan Losses**

The provision for loan losses remained the same at \$1,425,000 during the three months ended June 30, 2007 and 2006. The allowance for loan losses decreased \$134,000, or 0.5%, to \$26.7 million at June 30, 2007 compared to \$26.8 million at March 31, 2007. Net charge-offs were \$1.6 million in the three months ended June 30, 2007 versus \$1.1 million in the three months ended June 30, 2006.

The provision for loan losses increased \$25,000 from \$2,750,000 during the six months ended June 30, 2006 to \$2,775,000 during the six months ended June 30, 2007. The allowance for loan losses increased \$441,000, or 1.7%, to \$26.7 million at June 30, 2007 compared to \$26.3 million at December 31, 2006. Net charge-offs were \$2.3 million in the six months ended June 30, 2007 versus \$1.8 million in the six months ended June 30, 2006.

Management records a provision for loan losses in an amount it believes sufficient to result in an allowance for loan losses that will cover current net charge-offs as well as risks believed to be inherent in the Bank's loan portfolio. The amount of provision charged against current income is based on several factors, including, but not limited to, past loss experience, current portfolio mix, actual and potential losses identified in the loan portfolio, economic conditions, regular reviews by internal staff and regulatory examinations.

Weak economic conditions, higher inflation or interest rates, or other factors may lead to increased losses in the portfolio. Management has established various controls in an attempt to limit future losses, such as a watch list of possible problem loans, documented loan administration policies and a loan review staff to review the quality and anticipated collectibility of the portfolio. Management determines which loans are potentially uncollectible, or represent a greater risk of loss and makes additional provisions to expense, if necessary, to maintain the allowance at a satisfactory level.

The Bank's allowance for loan losses as a percentage of total loans was 1.50%, 1.54% and 1.54% at June 30, 2007, March 31, 2007 and December 31, 2006, respectively. Management considers the allowance for loan losses adequate to cover losses inherent in the Company's loan portfolio at this time, based on current economic conditions. If economic conditions deteriorate significantly, it is possible that additional assets would be classified as non-performing, and accordingly, additional provision for losses would be required, thereby adversely affecting future results of operations and financial condition.

### **Non-performing Assets**

As a result of continued growth in the loan portfolio, changes in economic and market conditions that occur from time to time, and other factors specific to a borrower's circumstances, the level of non-performing assets will fluctuate. Non-performing assets at June 30, 2007, were \$35.3 million, up \$10.3 million from December 31, 2006, and up \$5.5 million from March 31, 2007. Non-performing assets as a percentage of total assets were 1.48% at June 30, 2007. Compared to December 31, 2006, non-performing loans increased \$9.1 million to \$29.3 million while foreclosed assets increased \$1.1 million to \$5.9 million. Commercial real estate, construction and business loans comprised \$27.9 million, or 95%, of the total \$29.3 million of non-performing loans at June 30, 2007.

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*Non-performing Loans.* Compared to December 31, 2006, non-performing loans increased \$9.1 million to \$29.3 million. The increase in non-performing loans during the quarter ended June 30, 2007, was primarily due to the addition of one \$4.7 million loan relationship and the addition of one \$1.5 million loan relationship to the non-performing category. Other increases in non-performing loans during the six months ended June 30, 2007, were primarily due to the addition of one \$5.4 million loan relationship to the non-performing category, which was described in the March 31, 2007, Quarterly Report on Form 10-Q. In addition, non-performing loans were reduced \$904,000 during the quarter ended June 30, 2007, due to the transfer of one relationship to foreclosed real estate. This relationship consists of a commercial building, warehouse and a single-family residence in the Lake of the Ozarks, Missouri, area. Non-performing loans were also reduced \$686,000 during the quarter ended March 31, 2007, due to the transfer of one relationship to foreclosed real estate. This relationship consists of a mobile home park in the Kansas City, Kan., area. At the time of the transfer, this relationship was reduced by \$150,000 through a charge off against the allowance for loan losses.

At June 30, 2007, seven significant loan relationships accounted for \$23.9 million of the total non-performing loan balance of \$29.3 million. In addition to the three relationships noted as additions above, four other loan relationships were previously included in Non-performing Loans and remained there at June 30, 2007. These relationships are described more fully in the December 31, 2006, Annual Report on Form 10-K. These seven relationships are described below.

The \$4.7 million loan relationship, which was placed in the *Non-performing Loans* category during the quarter ended June 30, 2007, is primarily secured by subdivision lots and developed land in two Kansas suburbs in the Kansas City, Mo., metropolitan area. This developer has been successful in the Kansas City market in the past, but lot sales in one of these subdivisions have slowed recently. These are participation loans purchased by the Company in January 2006 from the originating bank in the Kansas City market.

The \$1.5 million loan relationship, which was placed in the *Non-performing Loans* category during the quarter ended June 30, 2007, is primarily secured by subdivision lots, developed land and two houses under construction for sale in the Branson, Mo., area.

The \$5.4 million relationship, which was placed in the *Non-performing Loans* category during the quarter ended March 31, 2007, consists of residential and commercial development land in Branson, Mo., and other collateral. This project has recently experienced cash flow problems and the borrower has declared bankruptcy. The borrower is exploring various alternatives, including the sale of portions of the land. A portion of the commercial land was sold in July 2007.

The \$2.9 million relationship was placed in the non-performing loans category during the quarter ended June 30, 2006. This relationship was described as a \$3.1 million relationship in the December 31, 2006, Annual Report on Form 10-K. This relationship is primarily secured by a motel located in the State of Illinois. Subsequent to June 30, 2007, the Company has foreclosed on the collateral and has retained a management company to operate the motel until it can be sold. In addition, the Small Business Administration has a significant loan, which is subordinated to the Bank's position, on this same collateral. The relationship balance was reduced \$57,000 in the first quarter of 2007 through payments from the borrower. A related loan was charged down as part of the actions on this relationship. The amount of the charge off was \$143,000 in the second quarter of 2007.

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The \$1.0 million loan relationship was placed in the non-performing loans category during the quarter ended June 30, 2006. This relationship was described as a \$1.0 million relationship in the December 31, 2006, Annual Report on Form 10-K. This relationship is primarily secured by subdivision lots, houses under construction and commercial real estate lots in the Lake of the Ozarks, Missouri, area. No new activity has occurred on this relationship in the second quarter of 2007.

The \$4.9 million relationship was included in non-performing loans at December 31, 2006. This relationship was described as a \$5.2 million relationship in the December 31, 2006, Annual Report on Form 10-K. A \$3.5 million portion of this relationship is secured by a nursing home in Missouri that has had cash flow problems. The additional \$1.4 million is secured by a second nursing home in the Springfield, Missouri, area. This second nursing home has performed satisfactorily; however, due to the performance issues of the other property, the entire relationship was categorized as non-performing. The relationship balance was reduced \$313,000 in the first six months of 2007 through payments from the borrower and the release of escrowed funds based on recently improved operating results.

The \$3.5 million relationship was included in non-performing loans at December 31, 2006. This relationship was described as a \$5.1 million relationship in the December 31, 2006, Annual Report on Form 10-K. This relationship is secured by commercial real estate, vacant land, developed and undeveloped residential subdivisions, houses under construction and houses used as rental property near Branson, Missouri. The borrower has continued to struggle with inconsistent payment performance. During the six months ended June 30, 2007, the Company recorded total charge-offs of \$794,000 on this relationship. In addition, additional partners have assumed a portion of the debt secured by houses which are under construction or completed and subdivision lots. The loan balances at June 30, 2007, representing these assumed loans totaled \$1.5 million of the \$3.5 million relationship. Some collateral was sold during the second quarter of 2007, resulting in principal reductions on some of the balance. In addition to these loans, loans totaling \$820,000 to these same borrowers are included in *Potential Problem Loans*.

*Foreclosed Assets.* Foreclosed assets increased \$1.1 million during the six months ended June 30, 2007, from \$4.8 million at December 31, 2006, to \$5.9 million at June 30, 2007, and increased \$3.8 million during the three months ended June 30, 2007. During the three months ended June 30, 2007, foreclosed assets increased primarily due to the addition of eleven single-family houses that represent relationships with three separate builders. These eleven houses are in various stages of completion and added \$1.7 million to foreclosed assets. The other significant addition to foreclosed assets in the period was the Lake of the Ozarks relationship mentioned above. This relationship added \$1.9 million to foreclosed assets. Foreclosed assets also increased during the six months ended June 30, 2007, due to the transfer of one \$535,000 relationship to foreclosed real estate. This relationship consists of a mobile home park in the Kansas City, Kan., area. Foreclosed assets decreased during the six months ended June 30, 2007, primarily due to the sale of one asset carried at \$3.2 million. This asset consisted of a townhome/apartment development in the Kansas City, Mo., area.

*Potential Problem Loans.* Potential problem loans increased \$13.4 million during the six months ended June 30, 2007, from \$13.6 million at December 31, 2006, to \$27.0 million at June 30, 2007. Potential problem loans are loans which management has identified as having possible credit problems which may cause the borrowers difficulty in complying with current repayment terms. These loans are not reflected in the non-performing assets.

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Potential problem loans increased primarily due to the addition of three loan relationships totaling \$11.4 million to the Potential Problem Loans category in the second quarter of 2007, and the addition of one loan relationship totaling \$5.1 million to the Potential Problem Loans category in the first quarter of 2007. The three relationships added in the second quarter of 2007 totaled \$6.7 million, \$3.3 million and \$1.4 million, respectively. At June 30, 2007, seven significant relationships accounted for \$20.7 million of the potential problem loan total.

The first relationship totals \$6.7 million and is primarily secured by a condominium and retail historic rehabilitation development in St. Louis, Mo. At the time the loan was originated by the Company, half of the condominium units were pre-sold and 75% of the retail space was pre-leased; however, there have been construction delays that have put the project behind schedule, causing most of these contracts to be terminated. Recently, another developer has been brought in to complete the construction.

The second relationship totals \$4.3 million (previously \$5.1 million) and is primarily secured by a 39-unit condominium development in Kansas City, Mo., with additional real estate collateral. Approximately 70% of the units in the project have been sold with collateral released, including three sales closed in the second quarter 2007. The remaining twelve units are currently marketed.

The third relationship totals \$3.3 million and is secured primarily by single-family houses for sale, residential lots and multi-family rental units in Northwest Arkansas. The borrower has been a successful residential builder for several years; but home sales in one of these subdivisions have slowed recently. These are participation loans purchased in November 2005 and January 2006 by the Company from the originating bank in the Northwest Arkansas market.

The fourth relationship totals \$2.7 million and is secured primarily by a motel in the State of Florida. This motel has operated for several years; however, it is currently experiencing cash flow problems resulting in inconsistent payment performance. In addition, the Small Business Administration has a significant loan, which is subordinated to the Bank's position, on this same collateral.

The fifth relationship totals \$1.6 million and is secured primarily by a retail center, subdivision lots and several houses being constructed for resale in the Springfield, Missouri, area. The houses have taken longer to build and sell than originally expected. This relationship was described as a \$3.3 million relationship in the December 31, 2006, Annual Report on Form 10-K. The balance was reduced in the first quarter of 2007 through the sale of several townhomes and other single-family houses.

The sixth relationship totals \$1.4 million and is secured primarily by three single-family houses constructed for sale in Springfield, Mo. There have been construction delays that have put the completion of the houses behind schedule. At this time, the houses are very near completion and are listed for sale with a realtor.

The seventh relationship totals \$820,000 and is secured primarily by single-family houses used as rental property and homes for sale in the Branson, Missouri, area. This relationship is part of (and in addition to) the \$3.5 million relationship described above in *Non-performing Loans*. These loans are not included in the relationship's non-performing totals due to adequate payment performance and income production realized by the borrower on these properties. Of this \$820,000, \$601,000 are loans to the original borrower in this relationship and \$219,000 are loans that are part of the assumption described above.

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**Non-interest Income**

Including the effects of the Company's accounting entries recorded for certain interest rate swaps in 2007 and 2006, total non-interest income increased \$486,000, or 6.5%, in the three months ended June 30, 2007 when compared to the three months ended June 30, 2006. Non-interest income for the second quarter of 2007 was \$7.9 million compared with \$7.4 million for the second quarter 2006. The \$486,000 increase in non-interest income was primarily the result of higher revenue from commissions and deposit account charges. Service charges on deposit accounts and ATM fees increased \$230,000, or 6.2%, compared to the same period in 2006. Most of the increase resulted from higher fee income on checking account overdrafts and increased fees on higher use of debit cards for purchases at various merchants. Second quarter 2007 commission income from the Company's travel, insurance and investment divisions increased \$269,000, or 10.8%, compared to the same period in 2006. The travel and insurance divisions experienced an increase in commission revenues, primarily due to the acquisition of the travel affiliate in St. Louis. The investment division experienced a decrease in commission revenues, primarily as a result of lower annuity sales in 2007. Non-interest income increased \$389,000 in the three months ended June 30, 2007, and increased \$460,000 in the three months ended June 30, 2006, as a result of the change in the fair value of certain interest rate swaps and the related change in fair value of hedged deposits.

Including the effects of the Company's accounting entries recorded for certain interest rate swaps in 2007 and 2006, total non-interest income increased \$329,000, or 2.3%, in the six months ended June 30, 2007 when compared to the six months ended June 30, 2006. Non-interest income for the first six months of 2007 was \$14.9 million compared with \$14.6 million for the first six months of 2006. The \$329,000 increase in non-interest income was primarily the result of higher revenue from commissions and deposit account charges, partially offset by lower fees on loans. For the six months ended June 30, 2007, service charges on deposit accounts and ATM fees increased \$419,000, or 6.0%, compared to the same period in 2006. The first six months of 2007 commission income from the Company's travel, insurance and investment divisions increased \$207,000, or 4.1%, compared to the same period in 2006. The travel division experienced an increase in commission revenues while the insurance and investment divisions experienced decreases for the reasons noted above. Increasing non-interest income in the 2006 period was the early repayment of five unrelated loans which triggered total prepayment fees of \$532,000 in the six months ended June 30, 2006. Total late charges and fees on loans decreased \$634,000 in the six months ended June 30, 2007, compared to the same period in 2006. Although the Company does receive prepayment fees from time to time, it is difficult to forecast when and in what amounts these fees will be collected. Non-interest income increased \$686,000 in the six months ended June 30, 2007, and increased \$282,000 in the six months ended June 30, 2006, as a result of the change in the fair value of certain interest rate swaps and the related change in fair value of hedged deposits.

Excluding the effects of the Company's accounting entries recorded for certain interest rate swaps in 2007 and 2006, economically, total non-interest income increased \$649,000, or 9.6%, in the three months ended June 30, 2007 when compared to the three months ended June 30, 2006. Excluding the effects of the Company's accounting entries recorded for certain interest rate swaps in 2007 and 2006, total non-interest income decreased \$57,000, or 0.4%, in the six months ended June 30, 2007 when compared to the six months ended June 30, 2006. The other increases and decreases are the same as those stated above.

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**Non-GAAP Reconciliation**

(Dollars in thousands)

Three Months Ended June 30, 2007

	<b>As Reported</b>	Effect of Hedge Accounting Entries Recorded	Excluding Hedge Accounting Entries Recorded
Non-interest income -- Net change in fair value of interest rate swaps and related deposits	<b>\$7,927</b>	\$527	\$7,400

Three Months Ended June 30, 2006

	<b>As Reported</b>	Effect of Hedge Accounting Entries Recorded	Excluding Hedge Accounting Entries Recorded
Non-interest income -- Net change in fair value of interest rate swaps and related deposits	<b>\$7,441</b>	\$690	\$6,751

Six Months Ended June 30, 2007

	<b>As Reported</b>	Effect of Hedge Accounting Entries Recorded	Excluding Hedge Accounting Entries Recorded
Non-interest income -- Net change in fair value of interest rate swaps and related deposits	<b>\$14,893</b>	\$868	\$14,025

Six Months Ended June 30, 2006

	<b>As Reported</b>	Effect of Hedge Accounting Entries Recorded	Excluding Hedge Accounting Entries Recorded
Non-interest income -- Net change in fair value of interest rate swaps and related deposits	<b>\$14,564</b>	\$482	\$14,082

**Non-interest Expense**

Total non-interest expense increased \$627,000, or 5.2%, from \$12.1 million in the three months ended June 30, 2006, to \$12.7 million in the three months ended June 30, 2007. The increase was primarily due to: (i) an increase of \$324,000, or 4.5%, in salaries and employee benefits; (ii) an increase of \$188,000, or 68.9%, in advertising and promotion expenses related primarily to the Company's marketing program aimed at customers and non-customers in

growth markets soliciting core deposit products; and (iii) smaller increases and decreases in other non-interest expense areas, such as occupancy and equipment expense, postage, insurance, telephone, legal and professional fees, and bank charges and fees related to additional correspondent relationships. As discussed in previous communications from the Company, changes were made to the Company's retirement plans in 2006. These changes resulted in a decrease of \$183,000 in expenses in the second quarter of 2007 compared to the same quarter in 2006.

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The Company's increase in non-interest expense in the second quarter of 2007 compared to the same period in 2006 related to the continued growth of the Company. During the latter half of 2006, Great Southern completed its acquisition of two travel agencies and opened banking centers in Lee's Summit, Mo. and Ozark, Mo. In the first quarter of 2006, Great Southern acquired a travel agency in Lee's Summit, Mo., and established a new loan production office in Columbia, Mo. At the end of the first quarter of 2007, Great Southern acquired a travel agency in St. Louis, Mo. As a result, in the three months ended June 30, 2007, compared to the three months ended June 30, 2006, non-interest expenses increased \$702,000 related to the ongoing operations of these entities.

Total non-interest expense increased \$796,000, or 3.3%, from \$23.9 million in the six months ended June 30, 2006, to \$24.7 million in the six months ended June 30, 2007. The increase was primarily due to: (i) an increase of \$479,000, or 3.4%, in salaries and employee benefits; (ii) an increase of \$183,000, or 34.8%, in advertising and promotion expenses related primarily to the Company's marketing program aimed at customers and non-customers in growth markets soliciting core deposit products; and (iii) smaller increases and decreases in other non-interest expense areas, such as occupancy and equipment expense, postage, insurance, telephone, legal and professional fees, and bank charges and fees related to additional correspondent relationships. As discussed in previous communications from the Company, changes were made to the Company's retirement plans in 2006. These changes resulted in a decrease of \$417,000 in expenses in the first six months of 2007 compared to the same period in 2006.

The Company's increase in non-interest expense in the first six months of 2007 compared to the same period in 2006 related to the continued growth of the Company, as stated above. As a result, in the six months ended June 30, 2007, compared to the six months ended June 30, 2006, non-interest expenses increased \$1.1 million related to the ongoing operations of these entities.

The Company's efficiency ratio for the quarter ended June 30, 2007, was 48.24% compared to 49.32% in the same quarter in 2006. These efficiency ratios include the impact of the accounting entries recorded for certain interest rate swaps. Excluding the effects of these entries, the efficiency ratio for the first quarter of 2007 was 48.82% compared to 49.26% in the same period in 2006. The Company's ratio of non-interest expense to average assets decreased from 2.21% for the three months ended June 30, 2006, to 2.17% for the three months ended June 30, 2007.

The Company's efficiency ratio for the six months ended June 30, 2007, was 48.77% compared to 49.39% in the same period in 2006. These efficiency ratios include the impact of the accounting entries recorded for certain interest rate swaps. Excluding the effects of these entries, the efficiency ratio for the first six months of 2007 was 49.18% compared to 48.88% in the same period in 2006. The Company's ratio of non-interest expense to average assets decreased from 2.21% for the six months ended June 30, 2006, to 2.13% for the six months ended June 30, 2007.

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**Non-GAAP Reconciliation**

(Dollars in thousands)

Three Months Ended June 30,

	2007			2006		
	Non-Interest Expense	Revenue Dollars*	%	Non-Interest Expense	Revenue Dollars*	%
<b>Efficiency Ratio</b>	<b>\$12,742</b>	<b>\$26,415</b>	<b>48.24%</b>	<b>\$12,115</b>	<b>\$24,564</b>	<b>49.32%</b>
Amortization of deposit broker origination fees	--	214	(.39)	--	720	(1.46)
Net change in fair value of interest rate swaps and related deposits	--	(527)	.97	--	(690)	1.40
Efficiency ratio excluding impact of hedge accounting entries	\$12,742	\$26,102	48.82%	\$12,115	\$24,594	49.26%

\* Net interest income plus non-interest income.

Six Months Ended June 30,

	2007			2006		
	Non-Interest Expense	Revenue Dollars*	%	Non-Interest Expense	Revenue Dollars*	%
<b>Efficiency Ratio</b>	<b>\$24,661</b>	<b>\$50,567</b>	<b>48.77%</b>	<b>\$23,865</b>	<b>\$48,319</b>	<b>49.39%</b>
Amortization of deposit broker origination fees	--	443	(.43)	--	983	(1.04)
Net change in fair value of interest rate swaps and related deposits	--	(868)	.84	--	(482)	.53
Efficiency ratio excluding impact of hedge accounting entries	\$24,661	\$50,142	49.18%	\$23,865	\$48,820	48.88%

\* Net interest income plus non-interest income.

**Provision for Income Taxes**

Provision for income taxes as a percentage of pre-tax income was 33.0% and 31.7% for the three months ended June 30, 2007 and 2006, respectively. Provision for income taxes as a percentage of pre-tax income was 32.8% and 32.2% for the six months ended June 30, 2007 and 2006, respectively. These effective tax rates were consistent with historical levels of approximately 32%. For future periods in 2007, the Company expects the effective tax rate to be in

the range of 31-33% of pre-tax income.

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Average Balances, Interest Rates and Yields

The following tables present, for the periods indicated, the total dollar amount of interest income from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Average balances of loans receivable include the average balances of non-accrual loans for each period. Interest income on loans includes interest received on non-accrual loans on a cash basis. Interest income on loans includes the amortization of net loan fees, which were deferred in accordance with accounting standards. Fees included in interest income were \$730,000 and \$703,000 for the three months ended June 30, 2007 and 2006, respectively. Fees included in interest income were \$1.4 million and \$1.3 million for the six months ended June 30, 2007 and 2006, respectively. Tax-exempt income was not calculated on a tax equivalent basis. The table does not reflect any effect of income taxes.

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	Three Months Ended June 30, 2007			Three Months Ended June 30, 2006		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
(Dollars in thousands)						
Interest-earning assets:						
Loans receivable:						
One- to four-family residential	\$174,912	\$3,104	7.12%	\$176,921	\$2,997	6.79%
Other residential	87,645	1,916	8.77	94,151	1,913	8.15
Commercial real estate	445,370	9,437	8.50	463,615	9,297	8.04
Construction	668,712	14,290	8.57	593,175	12,339	8.34
Commercial business	170,228	3,596	8.47	112,882	2,439	8.66
Other loans	148,109	2,809	7.61	139,108	2,602	7.50
Industrial revenue bonds(1)	58,789	1,011	6.90	73,166	1,327	7.27
<b>Total loans receivable</b>	<b>1,753,765</b>	<b>36,163</b>	<b>8.27</b>	<b>1,653,018</b>	<b>32,914</b>	<b>7.99</b>
Investment securities and other interest-earning assets(1)	454,592	5,540	4.89	396,959	4,314	4.36
<b>Total interest-earning assets</b>	<b>2,208,357</b>	<b>41,703</b>	<b>7.57</b>	<b>2,049,977</b>	<b>37,228</b>	<b>7.28</b>
Noninterest-earning assets:						
Cash and cash equivalents	88,370			97,739		
Other non-earning assets	44,885			39,733		
<b>Total assets</b>	<b>\$2,341,612</b>			<b>\$2,187,449</b>		
Interest-bearing liabilities:						
Interest-bearing demand and savings	\$ 486,533	4,234	3.49	\$ 422,964	3,087	2.93
Time deposits	1,150,650	15,161	5.28	1,019,418	12,935	5.09
<b>Total deposits</b>	<b>1,637,183</b>	<b>19,395</b>	<b>4.75</b>	<b>1,442,382</b>	<b>16,022</b>	<b>4.46</b>
Short-term borrowings	171,883	1,916	4.47	132,196	1,414	4.29
Subordinated debentures issued to capital trust	25,774	440	6.85	17,788	317	7.15
FHLB advances	123,058	1,464	4.77	215,057	2,352	4.39
<b>Total interest-bearing liabilities</b>	<b>1,957,898</b>	<b>23,215</b>	<b>4.75</b>	<b>1,807,423</b>	<b>20,105</b>	<b>4.46</b>

Noninterest-bearing liabilities:				
Demand deposits	171,887		190,802	
Other liabilities	26,688		30,986	
	<hr/>		<hr/>	
Total liabilities	2,156,473		2,029,211	
Stockholders' equity	185,139		158,238	
	<hr/>		<hr/>	
Total liabilities and stockholders' equity	\$2,341,612		\$2,187,449	
	<hr/>		<hr/>	
Net interest income:				
Interest rate spread		\$18,488	2.82%	\$17,123
		<hr/>		<hr/>
Net interest margin*			3.36%	3.35%
			<hr/>	<hr/>
Average interest-earning assets to average interest-bearing liabilities	112.8%		113.4%	
	<hr/>		<hr/>	

\*Defined as the Company's net interest income divided by total interest-earning assets.

(1) Of the total average balances of investment securities, average tax-exempt investment securities were \$68.7 million and \$64.5 million for the three months ended June 30, 2007 and 2006, respectively. In addition, average tax-exempt loans and industrial revenue bonds were \$30.4 million and \$22.7 million for the three months ended June 30, 2007 and 2006, respectively. Interest income on tax-exempt assets included in this table was \$1.3 million and \$1.0 million for the three months ended June 30, 2007 and 2006, respectively. Interest income net of disallowed interest expense related to tax-exempt assets was \$946,000 and \$641,000 for the three months ended June 30, 2007 and 2006, respectively.

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	Six Months Ended June 30, 2007			Six Months Ended June 30, 2006		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
(Dollars in thousands)						
Interest-earning assets:						
Loans receivable:						
One- to four-family residential	\$174,781	\$6,118	7.06%	\$176,648	\$5,873	6.70%
Other residential	81,129	3,473	8.63	96,529	3,910	8.17
Commercial real estate	454,211	19,109	8.48	460,796	17,887	7.83
Construction	661,384	27,938	8.52	568,458	23,073	8.19
Commercial business	162,942	6,805	8.42	106,308	4,435	8.41
Other loans	146,469	5,512	7.59	139,316	5,089	7.37
Industrial revenue bonds(1)	55,730	1,886	6.82	70,385	2,448	7.01
<b>Total loans receivable</b>	<b>1,736,646</b>	<b>70,841</b>	<b>8.23</b>	<b>1,618,440</b>	<b>62,715</b>	<b>7.81</b>
Investment securities and other interest-earning assets(1)	432,057	10,321	4.82	408,606	8,710	4.30
<b>Total interest-earning assets</b>	<b>2,168,703</b>	<b>81,162</b>	<b>7.54</b>	<b>2,027,046</b>	<b>71,425</b>	<b>7.10</b>
Noninterest-earning assets:						
Cash and cash equivalents	91,315			99,147		
Other non-earning assets	45,164			36,471		
<b>Total assets</b>	<b>\$2,305,182</b>			<b>\$2,162,664</b>		
Interest-bearing liabilities:						
Interest-bearing demand and savings	\$460,000	7,736	3.39	\$435,888	6,278	2.90
Time deposits	1,136,816	29,886	5.30	992,716	23,501	4.77
<b>Total deposits</b>	<b>1,596,816</b>	<b>37,622</b>	<b>4.75</b>	<b>1,428,604</b>	<b>29,779</b>	<b>4.20</b>
Short-term borrowings	164,393	3,659	4.49	140,303	2,905	4.18
Subordinated debentures issued to capital trust	25,774	880	6.89	17,888	602	6.79
FHLB advances	135,100	3,327	4.97	204,469	4,384	4.32
<b>Total interest-bearing liabilities</b>	<b>1,922,083</b>	<b>45,488</b>	<b>4.77</b>	<b>1,791,264</b>	<b>37,670</b>	<b>4.24</b>

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Noninterest-bearing liabilities:			
Demand deposits	173,233		186,180
Other liabilities	26,974		27,688
Total liabilities	2,122,290		2,005,132
Stockholders' equity	182,892		157,532
Total liabilities and stockholders' equity	\$2,305,182		\$2,162,664
Net interest income:			
Interest rate spread		\$35,674	2.77%
Net interest margin*			3.32%
Average interest-earning assets to average interest-bearing liabilities		112.8%	
			113.2%

\*Defined as the Company's net interest income divided by total interest-earning assets.

(1) Of the total average balances of investment securities, average tax-exempt investment securities were \$67.7 million and \$63.6 million for the six months ended June 30, 2007 and 2006, respectively. In addition, average tax-exempt loans and industrial revenue bonds were \$29.4 million and \$22.2 million for the six months ended June 30, 2007 and 2006, respectively. Interest income on tax-exempt assets included in this table was \$2.3 million and \$2.0 million for the six months ended June 30, 2007 and 2006, respectively. Interest income net of disallowed interest expense related to tax-exempt assets was \$1.7 million and \$1.4 million for the six months ended June 30, 2007 and 2006, respectively.

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## Rate/Volume Analysis

The following tables present the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities for the periods shown. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in rate (i.e., changes in rate multiplied by old volume) and (ii) changes in volume (i.e., changes in volume multiplied by old rate). For purposes of these tables, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to volume and rate. Tax-exempt income was not calculated on a tax equivalent basis.

	Three Months Ended June 30, 2007 vs. 2006		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume	
	(Dollars in thousands)		
Interest-earning assets:			
Loans receivable	\$ 1,198	\$ 2,051	\$ 3,249
Investment securities and other interest-earning assets	558	668	1,226
<b>Total interest-earning assets</b>	<b>1,756</b>	<b>2,719</b>	<b>4,475</b>
Interest-bearing liabilities:			
Demand deposits	644	503	1,147
Time deposits	512	1,714	2,226
<b>Total deposits</b>	<b>1,156</b>	<b>2,217</b>	<b>3,373</b>
Short-term borrowings	62	440	502
Subordinated debentures issued to capital trust	(13)	136	123
FHLBank advances	229	(1,117)	(888)
<b>Total interest-bearing liabilities</b>	<b>1,434</b>	<b>1,676</b>	<b>3,110</b>
<b>Net interest income</b>	<b>\$ 322</b>	<b>\$1,043</b>	<b>\$1,365</b>

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Six Months Ended June 30,  
2007 vs. 2006

	Increase (Decrease) Due to		Total Increase (Decrease)
	Rate	Volume	
(Dollars in thousands)			
Interest-earning assets:			
Loans receivable	\$ 3,405	\$ 4,721	\$ 8,126
Investment securities and other interest-earning assets	1,092	519	1,611
<b>Total interest-earning assets</b>	<b>4,497</b>	<b>5,240</b>	<b>9,737</b>
Interest-bearing liabilities:			
Demand deposits	1,096	362	1,458
Time deposits	2,759	3,626	6,385
<b>Total deposits</b>	<b>3,855</b>	<b>3,988</b>	<b>7,843</b>
Short-term borrowings	229	525	754
Subordinated debentures issued to capital trust	9	269	278
FHLBank advances	823	(1,880)	(1,057)
<b>Total interest-bearing liabilities</b>	<b>4,916</b>	<b>2,902</b>	<b>7,818</b>
<b>Net interest income</b>	<b>\$ (419)</b>	<b>\$2,338</b>	<b>\$1,919</b>

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## Liquidity and Capital Resources

Liquidity is a measure of the Company's ability to generate sufficient cash to meet present and future financial obligations in a timely manner through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. These obligations include the credit needs of customers, funding deposit withdrawals, and the day-to-day operations of the Company. Liquid assets include cash, interest-bearing deposits with financial institutions and certain investment securities and loans. As a result of the Company's management of the ability to generate liquidity primarily through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs. At June 30, 2007, the Company had commitments of approximately \$37.5 million to fund loan originations, \$372.7 million of unused lines of credit and unadvanced loans, and \$21.0 million of outstanding letters of credit.

Management continuously reviews the capital position of the Company and the Bank to ensure compliance with minimum regulatory requirements, as well as exploring ways to increase capital either by retained earnings or other means.

The Company's stockholders' equity was \$181.6 million, or 7.6% of total assets of \$2.39 billion at June 30, 2007, compared to equity of \$175.6 million, or 7.8%, of total assets of \$2.24 billion at December 31, 2006.

Banks are required to maintain minimum risk-based capital ratios. These ratios compare capital, as defined by the risk-based regulations, to assets adjusted for their relative risk as defined by the regulations. Guidelines require banks to have a minimum Tier 1 risk-based capital ratio, as defined, of 4.00%, a minimum total risk-based capital ratio of 8.00%, and a minimum 4.00% Tier 1 leverage ratio. To be considered "well capitalized," banks must have a minimum Tier 1 risk-based capital ratio, as defined, of 6.00%, a minimum total risk-based capital ratio of 10.00%, and a minimum 5.00% Tier 1 leverage ratio. On June 30, 2007, the Bank's Tier 1 risk-based capital ratio was 10.50%, total risk-based capital ratio was 11.75% and the Tier 1 leverage ratio was 8.82%. As of June 30, 2007, the Bank was "well capitalized" as defined by the Federal banking agencies' capital-related regulations. The Federal Reserve Bank has established capital regulations for bank holding companies that generally parallel the capital regulations for banks. On June 30, 2007, the Company's Tier 1 risk-based capital ratio was 10.61%, total risk-based capital ratio was 11.86% and the leverage ratio was 8.91%. As of June 30, 2007, the Company was "well capitalized" as defined by the Federal banking agencies' capital-related regulations.

At June 30, 2007, the held-to-maturity investment portfolio included no gross unrealized losses and gross unrealized gains of \$56,000.

The Company's primary sources of funds are certificates of deposit, FHLBank advances, other borrowings, loan repayments, proceeds from sales of loans and available-for-sale securities and funds provided from operations. The Company utilizes particular sources of funds based on the comparative costs and availability at the time. The Company has from time to time chosen not to pay rates on deposits as high as the rates paid by certain of its competitors and, when believed to be appropriate, supplements deposits with less expensive alternative sources of funds.

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Statements of Cash Flows. During the six months ended June 30, 2007 and 2006, respectively, the Company had positive cash flows from operating activities and positive cash flows from financing activities. The Company experienced negative cash flows from investing activities during each of these same time periods.

Cash flows from operating activities for the periods covered by the Statements of Cash Flows have been primarily related to changes in accrued and deferred assets, credits and other liabilities, the provision for loan losses, depreciation, and the amortization of deferred loan origination fees and discounts (premiums) on loans and investments, all of which are non-cash or non-operating adjustments to operating cash flows. Net income adjusted for non-cash and non-operating items and the origination and sale of loans held for sale were the primary source of cash flows from operating activities. Operating activities provided cash flows of \$7.8 million during the six months ended June 30, 2007, and \$18.9 million during the six months ended June 30, 2006.

During the six months ended June 30, 2007 and 2006, investing activities used cash of \$191.5 million and \$148.1 million, respectively, primarily due to the net increase of loans and investment securities in each period.

Changes in cash flows from financing activities during the periods covered by the Statements of Cash Flows are due to changes in deposits after interest credited, changes in FHLBank advances and changes in short-term borrowings, as well as purchases of treasury stock and dividend payments to stockholders. Financing activities provided \$149.3 million during the six months ended June 30, 2007 and \$150.4 million during the six months ended June 30, 2006. Financing activities in the future are expected to primarily include changes in deposits, changes in FHLBank advances, changes in short-term borrowings, stock repurchases and dividend payments to stockholders.

Dividends. During the three months ended June 30, 2007, the Company declared a dividend of \$0.17 per share (which was paid in July 2007), or 28% of net income per diluted share for that three month period, and paid a dividend of \$0.16 per share (which was declared in March 2007). During the three months ended June 30, 2006, the Company declared a dividend of \$0.15 (which was paid in July 2006), or 28% of net income per diluted share for that three month period, and paid a dividend of \$0.14 (which was declared in March 2006).

During the six months ended June 30, 2007, the Company declared dividends of \$0.33 per share, or 29% of net income per diluted share for that six month period, and paid dividends of \$0.32 per share. During the six months ended June 30, 2006, the Company declared dividends of \$0.29, or 27% of net income per diluted share for that six month period, and paid dividends of \$0.28.

Common Stock Repurchases and Issuances. The Company has been in various buy-back programs since May 1990. During the three months ended June 30, 2007, the Company repurchased 108,670 shares of its common stock at an average price of \$27.80 per share and issued 9,693 shares of stock at an average price of \$18.82 per share to cover stock option exercises. During the three months ended June 30, 2006, the Company repurchased 79,354 shares of its common stock at an average price of \$26.16 per share and issued 18,698 shares of stock at an average price of \$11.53 per share to cover stock option exercises.

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During the six months ended June 30, 2007, the Company repurchased 129,494 shares of its common stock at an average price of \$28.09 per share and issued 32,148 shares of stock at an average price of \$18.75 per share to cover stock option exercises. During the six months ended June 30, 2006, the Company repurchased 99,613 shares of its common stock at an average price of \$26.57 per share and issued 43,987 shares of stock at an average price of \$13.24 per share to cover stock option exercises.

In addition, year-to-date, the Company has repurchased 191,994 shares of its common stock at an average price of \$27.25. On November 15, 2006, the Company authorized a common stock repurchase program of up to 700,000 shares, and 568,125 shares remain available for repurchase under this plan.

Management intends to continue its stock buy-back programs from time to time as long as repurchasing the stock contributes to the overall growth of shareholder value. The number of shares of stock that will be repurchased and the price that will be paid is the result of many factors, several of which are outside of the control of the Company. The primary factors, however, are the number of shares available in the market from sellers at any given time and the price of the stock within the market as determined by the market.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Asset and Liability Management and Market Risk

A principal operating objective of the Company is to produce stable earnings by achieving a favorable interest rate spread that can be sustained during fluctuations in prevailing interest rates. The Company has sought to reduce its exposure to adverse changes in interest rates by attempting to achieve a closer match between the periods in which its interest-bearing liabilities and interest-earning assets can be expected to reprice through the origination of adjustable-rate mortgages and loans with shorter terms to maturity and the purchase of other shorter term interest-earning assets. Since the Company uses laddered brokered deposits and FHLBank advances to fund a portion of its loan growth, the Company's assets tend to reprice more quickly than its liabilities.

#### Our Risk When Interest Rates Change

The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is Great Southern's most significant market risk.

#### How We Measure the Risk To Us Associated with Interest Rate Changes

In an attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor Great Southern's interest rate risk. In monitoring interest rate risk we regularly analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities and their sensitivity to actual or potential changes in market interest rates.

The ability to maximize net interest income is largely dependent upon the achievement of a positive interest rate spread that can be sustained despite fluctuations in prevailing interest rates. Interest rate sensitivity is a measure of the difference between amounts of interest-earning assets and interest-bearing liabilities which either reprice or mature within a given period of time. The difference, or the interest rate repricing "gap," provides an indication of the extent to which an institution's interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest-rate sensitive assets exceeds the amount of interest-rate sensitive liabilities repricing during the same period, and is considered negative when the amount of interest-rate sensitive liabilities exceeds the amount of interest-rate sensitive assets during the same period. Generally, during a period of rising interest rates, a negative gap within shorter repricing periods would adversely affect net interest income, while a positive gap within shorter repricing periods would result in an increase in net interest income. During a period of falling interest rates, the opposite would be true. As of June 30, 2007, Great Southern's internal interest rate risk models indicate a one-year interest rate sensitivity gap that is close to neutral.

Interest rate risk exposure estimates (the sensitivity gap) are not exact measures of an institution's actual interest rate risk. They are only indicators of interest rate risk exposure produced in a simplified modeling environment designed to allow management to gauge the Bank's sensitivity to changes in interest rates. They do not necessarily indicate the impact of general interest rate movements on the Bank's net interest income because the repricing of certain categories of assets and liabilities is subject to competitive and other factors beyond the Bank's control. As a result, certain assets and liabilities indicated as maturing or otherwise repricing within a stated period may in fact mature or reprice at different times and in different amounts and cause a change, which potentially could be material, in the Bank's interest rate risk.

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In order to minimize the potential for adverse effects of material and prolonged increases and decreases in interest rates on Great Southern's results of operations, Great Southern has adopted asset and liability management policies to better match the maturities and repricing terms of Great Southern's interest-earning assets and interest-bearing liabilities. Management recommends and the Board of Directors sets the asset and liability policies of Great Southern which are implemented by the asset and liability committee. The asset and liability committee is chaired by the Chief Financial Officer and is comprised of members of Great Southern's senior management. The purpose of the asset and liability committee is to communicate, coordinate and control asset/liability management consistent with Great Southern's business plan and board-approved policies. The asset and liability committee establishes and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk and profitability goals. The asset and liability committee meets on a monthly basis to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital positions and anticipated changes in the volume and mix of assets and liabilities. At each meeting, the asset and liability committee recommends appropriate strategy changes based on this review. The Chief Financial Officer or his designee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the Board of Directors at their monthly meetings.

In order to manage its assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, Great Southern has focused its strategies on originating adjustable rate loans, and managing its deposits and borrowings to establish stable relationships with both retail customers and wholesale funding sources.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, we may determine to increase our interest rate risk position somewhat in order to maintain or increase our net interest margin.

The asset and liability committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity, which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity that are authorized by the Board of Directors of Great Southern.

The Company uses interest rate swap derivatives to manage its interest rate risks from recorded financial liabilities. Interest rate swaps are carried at fair value, estimated using quoted dealer prices, and are recognized in the statement of financial condition in the prepaid expenses and other assets or accounts payable and accrued expenses caption. The Company uses interest rate swaps to help manage its interest rate risks from recorded financial liabilities. These instruments are utilized when they can be demonstrated to effectively hedge a designated liability and the liability exposes the Company to interest rate risk. For those interest rate swaps which meet the requirements for hedge accounting treatment, amounts to be paid or received under interest rate swaps are accounted for on the accrual basis and recognized as interest income or expense of the related liability. For those interest rate swaps which do not meet the requirements for hedge accounting treatment, amounts to be paid or received under interest rate swaps are accounted for on the accrual basis and recognized as noninterest income. Gains and losses on early termination of these instruments are deferred and amortized as an adjustment to the yield on the related liability over the shorter of the remaining contract life or the maturity of the related asset or liability. If the related liability is sold or otherwise liquidated, the instrument is marked to market, with the resultant gains and losses recognized in noninterest income.

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The Company has entered into interest rate swap agreements with the objective of economically hedging against the effects of changes in the fair value of its liabilities for fixed rate brokered certificates of deposit and subordinated debentures issued to capital trust caused by changes in market interest rates. The swap agreements generally provide for the Company to pay a variable rate of interest based on a spread to the one-month or three-month London Interbank Offering Rate (LIBOR) and to receive a fixed rate of interest equal to that of the hedged instrument. Under the swap agreements the Company is to pay or receive interest monthly, quarterly, semiannually or at maturity.

In addition to the disclosures previously made by the Company in the December 31, 2006, Annual Report on Form 10-K, the following table summarizes interest rate sensitivity information for the Company's interest rate derivatives at June 30, 2007.

	Fixed to Variable	Average Pay Rate	Average Receive Rate
(In Millions)			
Interest Rate Derivatives			
Interest Rate Swaps:			
Expected Maturity Date			
2007	\$ 119.8	5.12%	5.15%
2008	109.2	5.12	5.16
2009	69.1	5.31	4.17
2010	24.2	5.30	3.85
2011	41.4	5.30	4.09
2012	12.5	5.29	4.81
2013	42.7	5.28	4.41
2014	16.3	5.29	4.55
2015	29.2	5.29	4.67
2016	34.0	5.36	5.21
2017	16.2	5.30	5.28
2019	46.3	5.29	4.89
2020	14.8	5.28	4.00
2023	7.4	5.31	5.10
Total Notional Amount	\$ 583.1	5.23%	4.76%
Fair Value Adjustment			
Asset (Liability)	\$ (6.9)		

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#### ITEM 4. CONTROLS AND PROCEDURES

An evaluation of our disclosure controls and procedures (as defined in Section 13(a)-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out as of June 30, 2007, under the supervision and with the participation of our principal executive officer, principal financial officer and several other members of our senior management. Our principal executive officer and principal financial officer concluded that, as of June 30, 2007, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is (i) accumulated and communicated to our management (including our principal executive officer and principal financial officer) to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We do not expect that our disclosure controls and procedures and internal control over financial reporting will prevent all errors and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

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## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

In the normal course of business, the Company and its subsidiaries are subject to pending and threatened legal actions, some for which the relief or damages sought are substantial. After reviewing pending and threatened litigation with counsel, management believes at this time that the outcome of such litigation will not have a material adverse effect on the results of operations or stockholders' equity. No assurance can be given in this regard, however.

## Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On November 15, 2000, the Company's Board of Directors authorized management to repurchase up to 400,000 shares of the Company's outstanding common stock, under a program of open market purchases or privately negotiated transactions. During the three months ended June 30, 2007, this plan was completed. Information on the shares purchased during the second quarter of 2007 is shown below.

On November 15, 2006, the Company's Board of Directors authorized management to repurchase up to 700,000 shares of the Company's outstanding common stock, under a program of open market purchases or privately negotiated transactions. The plan does not have an expiration date. This authorization is in addition to the authorization to repurchase up to 400,000 shares described in the immediately preceding paragraph.

	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan(1)
April 1, 2007 - April 30, 2007	25,000	\$28.07	25,000	714,315
May 1, 2007 - May 31, 2007	83,670	\$27.72	83,670	630,645
June 1, 2007 - June 30, 2007	--	--	--	630,645
	<u>108,670</u>	<u>\$27.80</u>	<u>108,670</u>	

(1) Amount represents the number of shares available to be repurchased under the plan as of the last calendar day of the month shown.

## Item 3. Defaults Upon Senior Securities

None.

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Item 4. Submission of Matters to a Vote of Security Holders

- a) On May 16, 2007, the Company held its Annual Meeting of Stockholders. The results of that meeting are as follows:
- 1) There were 13,687,301 shares entitled to vote at said meeting (without reduction for 10% voting limitation).
  - 2) William V. Turner received 12,215,916 votes for director, Julie T. Brown received 12,146,481 votes for director and Earl A. Steinert received 12,231,092 votes for director. Votes withheld were 337,078 for Mr. W. Turner, 406,513 for Ms. Brown and 321,902 for Mr. Steinert. There were no broker non-votes with respect to this proposal.
  - 3) The stockholders approved the proposal to ratify the engagement of BKD,LLP as the Company's Independent Auditor for 2007. The vote was as follows: For - 12,352,513; Against - 194,572; Abstain - None. There were no broker non-votes with respect to this proposal.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**GREAT SOUTHERN BANCORP, INC.**

Date: August 9, 2007

/s/ Joseph W. Turner

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Joseph W. Turner  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 9, 2007

/s/ Rex A. Copeland

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Rex A. Copeland  
Treasurer  
(Principal Financial and Accounting Officer)

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**EXHIBIT INDEX**

Exhibit No.	Description
(2)	Plan of acquisition, reorganization, arrangement, liquidation, or succession  Inapplicable.
(3)	Articles of incorporation and Bylaws  (i) The Registrant's Charter previously filed with the Commission as Appendix D to the Registrant's Definitive Proxy Statement on Schedule 14A filed on March 31, 2004 (File No. 000-18082), is incorporated herein by reference as Exhibit 3.1.  (ii) The Registrant's Bylaws, previously filed with the Commission (File no. 000-18082) as Appendix E to the Registrant's Definitive Proxy Statement on Schedule 14A filed on March 31, 2004, are incorporated herein by reference as Exhibit 3.2.
(4)	Instruments defining the rights of security holders, including indentures  The Company hereby agrees to furnish the SEC upon request, copies of the instruments defining the rights of the holders of each issue of the Registrant's long-term debt.
(9)	Voting trust agreement  Inapplicable.
(10)	Material contracts  The Registrant's 1989 Stock Option and Incentive Plan previously filed with the Commission (File no. 000-18082) as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1990, is incorporated herein by reference as Exhibit 10.1.  The Registrant's 1997 Stock Option and Incentive Plan previously filed with the Commission (File no. 000-18082) as Annex A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on September 18, 1997 is incorporated herein by reference as Exhibit 10.2.

The Registrant's 2003 Stock Option and Incentive Plan previously filed with the Commission (File No. 000-18082) as Annex A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 14, 2003, is incorporated herein by reference as Exhibit 10.3.

The employment agreement dated September 18, 2002 between the Registrant and William V. Turner previously filed with the Commission (File no. 000-18082) as Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, is incorporated herein by reference as Exhibit 10.4.

The employment agreement dated September 18, 2002 between the Registrant and Joseph W. Turner previously filed with the Commission (File no. 000-18082) as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, is incorporated herein by reference as Exhibit 10.5.

The form of incentive stock option agreement under the Registrant's 2003 Stock Option and Incentive Plan previously filed with the Commission as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File no. 000-18082) filed on February 24, 2005 is incorporated herein by reference as Exhibit 10.6.

The form of non-qualified stock option agreement under the Registrant's 2003 Stock Option and Incentive Plan previously filed with the Commission as Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File no. 000-18082) filed on February 24, 2005 is incorporated herein by reference as Exhibit 10.7.

A description of the salary and bonus arrangements for 2007 for the Registrant's named executive officers previously filed with the Commission as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 is incorporated herein by reference as Exhibit 10.8.

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A description of the current fee arrangements for the Registrant's directors previously filed with the Commission as Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 is incorporated herein by reference as Exhibit 10.9.

- (11) Statement re computation of per share earnings

Attached as Exhibit 11.

- (15) Letter re unaudited interim financial information

Inapplicable.

- (18) Letter re change in accounting principles

Inapplicable.

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