

REPUBLIC BANCORP INC /KY/  
Form 10-Q  
May 09, 2006

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

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**FORM 10-Q**

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**For the quarterly period ended March 31, 2006**

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**Commission File Number: 0-24649**

**REPUBLIC BANCORP, INC.**

(Exact name of registrant as specified in its charter)

Kentucky

(State of other jurisdiction of incorporation or organization)

61-0862051

(I.R.S. Employer Identification  
No.)

601 West Market Street, Louisville, Kentucky

(Address of principal executive offices)

40202

(Zip Code)

(502) 584-3600

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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. (Check one):

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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17,266,998 shares of Class A Common Stock, no par value and 2,246,654 shares of Class B Common Stock, no par value were outstanding at April 30, 2006, the latest practicable date. All share and per share data has been restated to reflect the five percent (5%) stock dividend declared in January 2006.

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SIGNATURES

**PART I**  **FINANCIAL INFORMATION****Item 1. Financial Statements.****REPUBLIC BANCORP, INC.****CONSOLIDATED BALANCE SHEETS** (in thousands)

	<b>March 31, 2006</b> <i>(unaudited)</i>	<b>December 31, 2005</b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 74,952	\$ 77,169
Securities available for sale	398,764	447,865
Securities to be held to maturity (fair value of \$63,894 in 2006 and \$64,402 in 2005)	63,847	64,298
Mortgage loans held for sale	6,756	6,582
Loans, net of allowance for loan losses of \$11,023 and \$11,009 (2006 and 2005)	2,099,189	2,049,647
Federal Home Loan Bank stock, at cost	21,905	21,595
Premises and equipment, net	32,198	31,786
Other assets and accrued interest receivable	43,054	36,614
	<hr/>	<hr/>
<b>TOTALASSETS</b>	<b>\$ 2,740,665</b>	<b>\$ 2,735,556</b>
	<hr/>	<hr/>
<b>LIABILITIES:</b>		
Deposits:		
Non-interest-bearing	\$ 300,142	\$ 286,484
Interest-bearing	1,336,253	1,316,081
	<hr/>	<hr/>
Total deposits	1,636,395	1,602,565
Securities sold under agreements to repurchase and other short-term borrowings	314,671	292,259
Federal Home Loan Bank borrowings	494,513	561,133
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	31,766	24,785
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>2,518,585</b>	<b>2,521,982</b>
	<hr/>	<hr/>
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, no par value	-	-
Class A Common Stock and Class B Common Stock, no par value	4,667	4,475

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Additional paid in capital	95,964	77,295
Retained earnings	126,075	136,381
Unearned shares in Employee Stock Ownership Plan	(1,357)	(1,468)
Accumulated other comprehensive loss	(3,269)	(3,109)
	<hr/>	<hr/>
<b>Total stockholders' equity</b>	222,080	213,574
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ 2,740,665	\$ 2,735,556
	<hr/>	<hr/>

*See accompanying notes to consolidated financial statements.*

**REPUBLIC BANCORP, INC.****CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)***(in thousands, except per share data)*

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>INTEREST INCOME:</b>		
Loans, including fees	\$ 37,859	\$ 34,901
Securities	5,135	4,465
Federal Home Loan Bank stock and other	774	782
	<hr/>	<hr/>
Total interest income	43,768	40,148
	<hr/>	<hr/>
<b>INTEREST EXPENSE:</b>		
Deposits	10,007	6,892
Securities sold under agreements to repurchase and other short-term borrowings	3,268	2,127
Federal Home Loan Bank borrowings	5,109	4,634
Subordinated note	620	-
	<hr/>	<hr/>
Total interest expense	19,004	13,653
	<hr/>	<hr/>
<b>NET INTEREST INCOME</b>	24,764	26,495
Provision for loan losses	1,330	1,590
	<hr/>	<hr/>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	23,434	24,905
	<hr/>	<hr/>
<b>NON INTEREST INCOME:</b>		
Service charges on deposit accounts	4,113	3,262
Electronic refund check fees	3,428	4,995
Net gain on sale of refund anticipation loans	2,014	-
Mortgage banking income	455	626
Debit card interchange fee income	840	730
Title insurance commissions	292	350
Other	281	382
	<hr/>	<hr/>
Total non-interest income	11,423	10,345
	<hr/>	<hr/>
<b>NON INTEREST EXPENSES:</b>		

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Salaries and employee benefits	11,368	9,535
Occupancy and equipment, net	3,723	3,356
Communication and transportation	707	870
Marketing and development	580	531
Bankshares tax	556	430
Data processing	530	419
Debit card interchange fee expense	388	311
Supplies	348	241
Other	1,641	1,562
	<hr/>	<hr/>
Total non-interest expenses	19,841	17,255
	<hr/>	<hr/>

*(continued)*

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED) (Continued)**  
(in thousands, except per share data)

<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE</b>	15,016	17,995
<b>INCOME TAX EXPENSE FROM CONTINUING OPERATIONS</b>	5,169	6,210
<b>INCOME FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS</b>	9,847	11,785
<b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS BEFORE INCOME TAX EXPENSE</b>	(174)	2,341
<b>INCOME TAX EXPENSE (BENEFIT) FROM DISCONTINUED OPERATIONS</b>	(60)	808
<b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX</b>	(114)	1,533
<b>NET INCOME</b>	\$ 9,733	\$ 13,318
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX:</b>		
Change in unrealized loss on securities available for sale	\$ (160)	\$ (2,337)
Less: Reclassification of realized amount	-	=
Net unrealized loss recognized in comprehensive income	(160)	(2,337)
<b>COMPREHENSIVE INCOME</b>	\$ 9,573	\$ 10,981
<b>BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS:</b>		
Class A Common Stock	\$ 0.51	\$ 0.59
Class B Common Stock	0.50	0.59
<b>BASIC EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:</b>		
Class A Common Stock	\$ (0.01)	\$ 0.08
Class B Common Stock	(0.01)	0.07
<b>BASIC EARNINGS PER SHARE:</b>		
Class A Common Stock	\$ 0.50	\$ 0.67
Class B Common Stock	0.49	0.67



**DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS:**

Class A Common Stock	\$	0.49	\$	0.57
Class B Common Stock		0.49		0.56

**DILUTED EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:**

Class A Common Stock	\$	(0.01)	\$	0.07
Class B Common Stock		(0.01)		0.07

**DILUTED EARNINGS PER SHARE:**

Class A Common Stock	\$	0.49	\$	0.64
Class B Common Stock		0.48		0.64

*See accompanying notes to consolidated financial statements.*

**REPUBLIC BANCORP, INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)***(in thousands, except per share data)*

<i>(in thousands, except per share data)</i>	<b>Common Stock</b>			<b>Additional Paid In Capital</b>	<b>Retained Earnings</b>	<b>Unearned Shares in Employee Stock Ownership Plan</b>
	<b>Class A Shares Outstanding</b>	<b>Class B Shares Outstanding</b>	<b>Amount</b>			
BALANCE, January 1, 2006	17,188	2,249	\$ 4,475	\$ 77,295	\$ 136,381	\$ (1,468)
Net Income	-	-	-	-	9,733	-
Net change in accumulated other comprehensive loss	-	-	-	-	-	-
Dividend declared Common Stock:						
Class A (\$0.084 per share)	-	-	-	-	(1,447)	-
Class B (\$0.076 per share)	-	-	-	-	(171)	-
Stock options exercised, net of shares redeemed	64	-	15	381	(308)	-
Repurchase of Class A Common Stock	-	-	-	-	-	-
Conversion of Class B Common Stock to Class A Common Stock	2	(2)	-	-	-	-
Shares committed to be released under the Employee Stock Ownership Plan	10	-	-	84	-	111
Stock dividend	-	-	177	17,936	(18,113)	-
Note receivable on common stock, net of cash payments	-	-	-	9	-	-
Deferred compensation expense	-	-	-	43	-	-
Stock option expense	-	-	-	216	-	-
<b>BALANCE, March 31, 2006</b>	<b>17,264</b>	<b>2,247</b>	<b>\$ 4,667</b>	<b>\$ 95,964</b>	<b>\$ 126,075</b>	<b>\$ (1,357)</b>

*See accompanying notes to consolidated financial statements.*

**REPUBLIC BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**THREE MONTHS ENDED MARCH 31, 2006 AND 2005** (in thousands)

	<b>2006</b>	<b>2005</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 9,733	\$ 13,318
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	1,035	1,177
Federal Home Loan Bank stock dividends	(310)	(215)
Provision for loan losses, including provision from discontinued operations	1,037	1,820
Net gain on sale of mortgage loans held for sale	(278)	(464)
Origination of mortgage loans held for sale	(26,454)	(44,650)
Proceeds from sale of mortgage loans held for sale	26,558	50,505
Stock option expense	216	-
Employee Stock Ownership Plan expense	195	213
Deferred compensation plan expense	43	33
Changes in other assets and liabilities:		
Other assets and accrued interest receivable	(4,231)	(8,695)
Other liabilities and accrued interest payable	6,795	14,898
	<u>14,339</u>	<u>27,940</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of securities available for sale	(650,450)	(1,425,305)
Purchases of Federal Home Loan Bank stock	-	(2)
Proceeds from calls, maturities and paydowns of securities available for sale	700,112	1,437,813
Proceeds from calls, maturities and paydowns of securities to be held to maturity	444	19,162
Net increase in loans	(50,920)	(69,712)
Investment in new market tax credits	(2,000)	(8,992)
Purchases of premises and equipment, net	(1,843)	(580)
	<u>(4,657)</u>	<u>(47,616)</u>
<b>FINANCING ACTIVITIES:</b>		
Net change in deposits	33,830	156,712
Net change in securities sold under agreements to repurchase and other short-term borrowings	22,412	6,087
Payments on Federal Home Loan Bank borrowings	(182,120)	(22,545)
Proceeds from Federal Home Loan Bank borrowings	115,500	194
Net proceeds from Common Stock options exercised	88	-
Cash dividends paid	(1,609)	(1,370)
	<u>(11,899)</u>	<u>139,078</u>

<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(2,217)	119,402
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	77,169	77,850
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 74,952	\$ 197,252
	<hr/>	<hr/>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for:		
Interest	\$ 19,578	\$ 13,373
Income taxes	34	111
<b>SUPPLEMENTAL NONCASH DISCLOSURES:</b>		
Transfers from loans to real estate acquired in settlement of loans	\$ 350	\$ -

*See accompanying footnotes to consolidated financial statements.*

**REPUBLIC BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS □ MARCH 31, 2006 AND 2005 (UNAUDITED)**  
**AND DECEMBER 31, 2005**

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**1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** □ The consolidated financial statements include the accounts of Republic Bancorp, Inc. (the "Parent Company") and its wholly-owned subsidiaries: Republic Bank & Trust Company and Republic Bank & Trust Company of Indiana (together referred to as the "Bank"), Republic Funding Company, Republic Invest Co. and Republic Bancorp Capital Trust. Republic Invest Co. includes its subsidiary, Republic Capital LLC. Republic Bancorp Capital Trust is a Delaware statutory business trust that is a wholly-owned unconsolidated finance subsidiary of Republic Bancorp, Inc. The consolidated financial statements also include the wholly-owned subsidiaries of Republic Bank & Trust Company: TRS RAL Funding LLC, Republic Financial Services, LLC and Republic Insurance Agency, LLC. All companies are collectively referred to as "Republic" or the "Company." All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in Republic's Form 10-K for the year ended December 31, 2005.

**New Accounting Standards** □ In March 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 156 "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140," that changes the accounting for all servicing rights which are recorded as the result of purchasing a servicing right or selling a loan with servicing retained. SFAS No. 156 amends the current accounting guidance for servicing rights in that it allows companies to carry their servicing rights at fair value, where presently servicing rights are assessed for impairment based on their fair value at each reporting date, using lower of cost or market value. This pronouncement is effective January 1, 2007, although earlier adoption is permitted during the first quarter of 2006. The Company currently plans to adopt this standard on January 1, 2007.

See Footnote 2 regarding the new accounting pronouncement related to stock options that impacted Republic's consolidated financial statements during the period.

**Reclassifications** □ Certain amounts presented in prior periods have been reclassified to conform to the current period presentation. All prior period share and per share data have been restated to reflect the five percent (5%) stock dividend that was declared in the first quarter of 2006.

In February 2006, the Company substantially exited the payday loan segment of business. This has been treated as a discontinued operation for financial reporting purposes in accordance with SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" and all applicable current period and prior period data has been restated to reflect operations absent of the payday loan segment of business.

## 2. STOCK PLANS AND STOCK BASED COMPENSATION

At March 31, 2006, the Company had two stock option plans and a director deferred compensation plan. The stock option plans consist of the 1995 Stock Option Plan (the "1995 Plan") and the 2005 Stock Incentive Plan (the "2005 Plan"). With regard to the 1995 Plan, no additional grants were made in 2006 and none are expected to be made in the future. The 2005 Plan permits the grant of stock options and restricted stock awards for up to 3,150,000 shares, of which 3,099,000 shares remain available for issue with 51,000 allocated at March 31, 2006. All shares issued under the above mentioned plans came from authorized and unissued shares.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, Share Based Payment. The Company elected to utilize the modified prospective transition method; therefore, prior period results were not restated. Prior to the adoption of SFAS 123R, stock-based compensation expense related to stock options was not recognized in the results of operations if the exercise price was at least equal to the market value of the common stock on the grant date, in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. As a result, the recognition of stock-based compensation expense was limited to the expense attributed to the director deferred compensation plan.

SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense over the service period (generally the vesting period) in the consolidated financial statements based on their fair values. For options with graded vesting, we value the stock option grants and recognize compensation expense as if each vesting portion of the award was a separate award. Under the modified prospective method, unvested awards, awards that were granted, modified, or settled on or after January 1, 2006 are measured and accounted for in accordance with SFAS 123R. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized.

Under the stock option plans, certain key employees are granted options to purchase shares of Republic's Common Stock at fair value at the date of the grant. All stock options have an exercise price that is at least equal to the fair market value of the Company's stock on the date the options were granted. Options granted generally become fully exercisable at the end of five to six years of continued employment and must be exercised within one year from the date they become exercisable. There were no Class B stock options outstanding at March 31, 2006 and December 31, 2005.

The following table summarizes stock option activity:

	Three Months Ended March 31, 2006		Three Months Ended March 31, 2005	
	Options Class A Shares	Weighted Average Price Per Share	Options Class A Shares	Weighted Average Price Per Share
Outstanding at beginning of period	1,686,442	\$ 11.60	1,760,805	\$ 11.29
Granted	-	-	-	-
Exercised	(84,046)	5.73	(7,233)	11.23
Forfeited	(5,097)	12.35	(6,943)	9.03
Outstanding at year of period	<u>1,597,299</u>	11.91	<u>1,746,629</u>	11.30



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The following table details stock options outstanding:

<i>(dollars in thousands except per share data)</i>	March 31, 2006
Stock options vested and currently exercisable:	
Number	54,825
Weighted average exercise price	\$ 6.86
Aggregate intrinsic value	\$ 738
Weighted average remaining life (in years)	0.65
Total Options Outstanding:	
Aggregate intrinsic value	\$ 13,520
Weighted average remaining life (in years)	3.24

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of our common stock as of the reporting date. The intrinsic value of options exercised during the first quarter of 2006 and 2005 was \$1.2 million and \$97,000. The Company recorded \$216,000 in stock option compensation expense during the three months ended March 31, 2006 to salaries and employee benefits. Since the stock options are incentive stock options and there were no disqualifying dispositions, no tax benefit related to this expense was recognized. There were no options granted or modified during the three month periods ended March 31, 2006 and 2005.

Non executive officer employees had loans outstanding of \$699,000 and \$709,000 at March 31, 2006 and December 31, 2005 that were originated to fund stock option exercises. To the extent of unpaid loan balance, shares from exercises funded by loans from Company are not included as outstanding shares for financial reporting purposes.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. This model requires the input of subjective assumptions that will usually have a significant impact on the fair value estimate. Expected volatilities are based on historical volatility of Republic's stock, and other factors. Expected dividends are based on dividend trends and the market price of Republic's stock price at grant. Republic uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. There were no grants during the three months ended March 31, 2006 and 2005.

SFAS 123R requires the recognition of stock based compensation for the number of awards that are ultimately expected to vest. As a result, recognized stock option compensation expense was reduced for estimated forfeitures prior to vesting primarily based on historical annual forfeiture rates of approximately 3%. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances. Prior to January 1, 2006, actual forfeitures were accounted for as they occurred for purposes of required pro forma stock compensation disclosures.

Unrecognized stock option compensation expense related to unvested awards (net of estimated forfeitures) for the remainder of 2006 and beyond is estimated as follows:

Year	<i>(in thousands)</i>
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