

Kentucky First Federal Bancorp
Form 10-Q
November 16, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File Number: 0-51176

KENTUCKY FIRST FEDERAL BANCORP
(Exact name of registrant as specified in its charter)

United States of America 61-1484858
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

479 Main Street, Hazard, Kentucky 41702
(Address of principal executive offices)(Zip Code)

(606) 436-3860
(Registrant's telephone number, including area code)

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(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 such shorter period that the issuer was required to file such reports and (2) has been subject to such filing requirements for the past ninety days: Yes

x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

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

Large accelerated filer "

Accelerated filer "

Non-accelerated filer "

Smaller Reporting Company x

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes " No x

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: At November 9, 2012, the latest practicable date, the Corporation had 7,717,903 shares of \$.01 par value common stock outstanding.

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PART I

ITEM 1: Financial Information**Kentucky First Federal Bancorp****CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands, except per share data)

	September 30, 2012	June30, 2012
ASSETS		
Cash and due from financial institutions	\$ 1,348	\$1,244
Interest-bearing demand deposits	5,975	4,491
Cash and cash equivalents	7,323	5,735
Interest-bearing deposits in other financial institutions	100	100
Securities available for sale	187	189
Securities held-to-maturity, at amortized cost- approximate fair value of \$4,746 and \$5,144 at September 30, 2012 and June 30, 2012, respectively	4,370	4,756
Loans held for sale	664	481
Loans, net of allowance of \$873 and \$875 at September 30, 2012 and June 30, 2012, respectively	177,930	182,473
Real estate owned, net	2,485	2,445
Premises and equipment, net	2,605	2,644
Federal Home Loan Bank stock, at cost	5,641	5,641
Accrued interest receivable	513	497
Bank-owned life insurance	2,719	2,697
Goodwill	14,507	14,507
Prepaid FDIC assessments	221	246
Prepaid federal income taxes	—	30
Prepaid expenses and other assets	496	508
Total assets	\$ 219,761	\$222,949
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$ 133,337	\$134,552

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Federal Home Loan Bank advances	24,498	27,065
Advances by borrowers for taxes and insurance	625	487
Accrued interest payable	49	64
Accrued federal income taxes	110	—
Deferred federal income taxes	771	774
Deferred revenue	645	648
Other liabilities	642	506
Total liabilities	160,677	164,096
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, 500,000 shares authorized, \$.01 par value; no shares issued and outstanding	-	-
Common stock, 20,000,000 shares authorized, \$.01 par value; 8,596,064 shares issued	86	86
Additional paid-in capital	36,857	36,870
Retained earnings	32,216	31,971
Unearned employee stock ownership plan (ESOP)	(1,712) (1,772)
Treasury shares at cost, 834,175 and 826,375 common shares at September 30, 2012 and June 30, 2012, respectively	(8,366) (8,305)
Accumulated other comprehensive income	3	3
Total shareholders' equity	59,084	58,853
Total liabilities and shareholders' equity	\$ 219,761	\$222,949

See accompanying notes.

Kentucky First Federal Bancorp**CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(Dollars in thousands, except per share data)

	Three months ended September 30,	
	2012	2011
Interest income		
Loans	\$ 2,313	\$ 2,466
Mortgage-backed securities	51	72
Interest-bearing deposits and other	61	56
Total interest income	2,425	2,594
Interest expense		
Deposits	304	484
Borrowings	135	160
Total interest expense	439	644
Net interest income	1,986	1,950
Provision for losses on loans	26	—
Net interest income after provision for losses on loans	1,960	1,950
Non-interest income		
Gain on sale of loans	58	—
Earnings on bank-owned life insurance	22	22
Gain (loss) on sale of real estate acquired through foreclosure	3	(17)
Unrealized loss-other real estate	—	(10)
Other	26	31
Total non-interest income	109	26
Non-interest expense		
Employee compensation and benefits	854	747
Occupancy and equipment	78	87
Legal fees	47	61
Outside service fees	37	76
Data processing	60	54
Auditing and accounting	26	59
Federal deposit insurance	29	40
Franchise and other taxes	44	46
Amortization of intangible assets	—	33
Foreclosure and real estate owned expense, net	(28)	17
Other operating	143	129
Total non-interest expense	1,290	1,349

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Income before income taxes	779	627
Federal income taxes		
Current	264	657
Deferred	(7)	(451)
Total federal income tax expense	257	206
NET INCOME	\$ 522	\$ 421
EARNINGS PER SHARE		
Basic and diluted	\$ 0.07	\$ 0.06
DIVIDENDS PER SHARE	\$ 0.10	\$ 0.10

See accompanying notes.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three months ended September 30,	
	2012	2011
Net income	\$ 522	\$ 421
Other comprehensive income, net of taxes (benefits): Unrealized holding gains (losses) on securities designated as available for sale, net of taxes (benefits) of \$— and \$— during the respective periods		—
Comprehensive income	\$ 522	\$ 421

See accompanying notes.

Kentucky First Federal Bancorp**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

	Three months ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 522	\$ 421
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on loans	26	—
Depreciation	42	48
Amortization of deferred loan origination (fees) costs	8	—
Amortization of premiums on FHLB advances	—	(5)
Amortization of core deposit intangibles	—	32
Net gain on sale of loans	(58)	—
Net loss (gain) on sale of real estate owned	—	9
Deferred gain on sale of real estate owned	(3)	667
ESOP compensation expense	46	55
Amortization of stock benefit plans	1	(27)
Bank-owned life insurance earnings	(22)	(22)
Origination of loans held for sale	(1,273)	(188)
Proceeds from loans held for sale	1,148	—
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	(16)	48
Prepaid expenses and other assets	37	65
Accrued interest payable	(15)	3
Accounts payable and other liabilities	136	108
Federal income taxes		
Current	140	572
Deferred	(3)	(451)
Net cash provided by operating activities	716	1,335
Cash flows from investing activities:		
Securities maturities, prepayments and calls:		
Held to maturity	386	447
Available for sale	2	4
Loans originated for investment, net of principal collected	4,469	2,273
Proceeds from sale of real estate owned	—	(586)
Additions to premises and equipment, net	(3)	(77)
Net cash provided by investing activities	4,854	2,061

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Cash flows from financing activities:		
Net change in deposits	(1,215)	819
Payments by borrowers for taxes and insurance, net	138	174
Repayments on Federal Home Loan Bank advances	(2,567)	(622)
Dividends paid on common stock	(277)	(282)
Treasury stock repurchases	(61)	—
Net cash provided by (used in) financing activities	(3,982)	89
Net increase in cash and cash equivalents	1,588	3,485
Beginning cash and cash equivalents	5,735	5,049
Ending cash and cash equivalents	\$ 7,323	\$ 8,534

See accompanying notes.

Kentucky First Federal Bancorp**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

(Unaudited)

(In thousands)

	Three months ended September 30,	
	2012	2011
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$ 120	\$ —
Interest on deposits and borrowings	\$ 454	\$ 646
Transfers from loans to real estate acquired through foreclosure, net	\$ 40	\$ —
Loans made on sale of real estate acquired through foreclosure	\$ —	\$ 2,260
Deferred gain on sale of real estate acquired through foreclosure	\$ —	\$ 648
Capitalization of mortgage servicing rights	\$ 9	\$ —

See accompanying notes.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

On March 2, 2005, First Federal Savings and Loan Association of Hazard (“First Federal of Hazard” or the “Association”) completed a Plan of Reorganization (the “Plan” or the “Reorganization”) pursuant to which the Association reorganized into the mutual holding company form of ownership with the incorporation of a stock holding company, Kentucky First Federal Bancorp (the “Company”) as parent of the Association. Coincident with the Reorganization, the Association converted to the stock form of ownership, followed by the issuance of all the Association’s outstanding stock to Kentucky First Federal Bancorp. Completion of the Plan of Reorganization culminated with Kentucky First Federal Bancorp issuing 4,727,938 common shares, or 55% of its common shares, to First Federal Mutual Holding Company (“First Federal MHC”), a federally chartered mutual holding company, with 2,127,572 common shares, or 24.8% of its shares offered for sale at \$10.00 per share to the public and a newly formed Employee Stock Ownership Plan (“ESOP”). The Company received net cash proceeds of \$16.1 million from the public sale of its common shares. The Company’s remaining 1,740,554 common shares were issued as part of the \$31.4 million cash and stock consideration paid for 100% of the common shares of Frankfort First Bancorp (“Frankfort First”) and its wholly-owned subsidiary, First Federal Savings Bank of Frankfort (“First Federal of Frankfort”). The acquisition was accounted for using the purchase method of accounting and resulted in the recordation of goodwill and other intangible assets totaling \$15.4 million.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which represent the consolidated balance sheets and results of operations of the Company, were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three-month periods ended September 30, 2012, are not necessarily indicative of the results which may be expected for an entire fiscal year. The consolidated balance sheet as of June 30, 2012 has been derived from the audited consolidated balance sheet as of that date. Certain information and note disclosures normally included in the Company’s annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K annual report for 2012 filed with the Securities and Exchange Commission.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Unsecured consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to nonaccrual status in accordance with the Company's policy, typically after 90 days of non-payment.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS