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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

or

o 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. x Yes o 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 o Accelerated filer x Non-accelerated filer o

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

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

17,309,184 shares of Class A Common Stock, no par value and 2,238,543 shares of Class B Common Stock, no par value were outstanding at October 31, 2006, the latest practicable date.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS (*in thousands*)

	September 30, 2006 (unaudited)	**December 31, 2005**
ASSETS:		
Cash and cash equivalents	$ 66,145	$ 77,169
Securities available for sale	453,678	447,865
Securities to be held to maturity (fair value of $57,481 in 2006 and $64,402 in 2005)	57,296	64,298
Mortgage loans held for sale	1,530	6,582
Loans, net of allowance for loan losses of $10,857 and $11,009 (2006 and 2005)	2,201,388	2,049,647
Federal Home Loan Bank stock, at cost	22,666	21,595
Premises and equipment, net	31,981	31,786
Other assets and accrued interest receivable	43,818	36,614
TOTAL ASSETS	$ 2,878,502	$ 2,735,556
LIABILITIES:		
Deposits:		
Non-interest-bearing	$ 282,134	$ 286,484
Interest-bearing	1,265,120	1,316,081
Total deposits	1,547,254	1,602,565
Securities sold under agreements to repurchase and other short-term borrowings	304,246	292,259
Federal Home Loan Bank advances	725,732	561,133
Subordinated note	41,240	41,240
Other liabilities and accrued interest payable	27,052	24,785
Total liabilities	2,645,524	2,521,982
STOCKHOLDERS EQUITY:		
Preferred stock, no par value		
Class A Common Stock and Class B Common Stock, no par value	4,670	4,475
Additional paid in capital	96,763	77,295
Retained earnings	134,413	136,381
Unearned shares in Employee Stock Ownership Plan	(1,128)	(1,468)
Accumulated other comprehensive loss	(1,740)	(3,109)
Total stockholders equity	232,978	213,574
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,878,502	$ 2,735,556

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (*UNAUDITED*)

(*in thousands, except per share data*)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
INTEREST INCOME:				
Loans, including fees	$ 37,363	$ 30,554	$ 111,558	$ 94,516
Securities				
Taxable	5,622	4,466	15,873	13,393
Non taxable	80		80	
Federal Home Loan Bank stock and other	551	623	1,934	2,025
Total interest income	43,616	35,643	129,445	109,934
INTEREST EXPENSE:				
Deposits	11,267	8,101	31,776	22,366
Securities sold under agreements to repurchase and other short-term borrowings	3,954	2,613	10,946	7,190
Federal Home Loan Bank advances	7,070	5,065	18,049	14,311
Subordinated note	634	317	1,881	317
Total interest expense	22,925	16,096	62,652	44,184
NET INTEREST INCOME	20,691	19,547	66,793	65,750
Provision for loan losses	110	(300)	2,013	423
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,581	19,847	64,780	65,327
NON INTEREST INCOME:				
Service charges on deposit accounts	4,291	3,682	12,043	9,996
Electronic refund check fees	3	77	3,954	5,905
Net RAL securitization income	113		2,531	
Mortgage banking income	657	797	1,599	2,149
Debit card interchange fee income	935	787	2,674	2,311
Title insurance commissions	347	481	1,042	1,266
Other	255	273	906	967
Total non interest income	6,601	6,097	24,749	22,594
NON INTEREST EXPENSES:				
Salaries and employee benefits	9,541	9,163	30,965	28,128
Occupancy and equipment, net	3,550	3,361	10,933	10,049
Communication and transportation	593	662	1,895	2,165
Marketing and development	543	637	1,728	1,681
Bankshares tax	546	490	1,648	1,350
Data processing	536	509	1,630	1,359
Debit card interchange expense	425	348	1,198	1,003
Supplies	289	302	947	827
Other	1,539	1,730	4,652	4,723
Total non interest expenses	17,562	17,202	55,596	51,285

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (*UNAUDITED) (Continued)*

(*in thousands, except per share data*)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE	$ 9,620	$ 8,742	$ 33,933	$ 36,636
INCOME TAX EXPENSE FROM CONTINUING OPERATIONS	3,294	2,965	11,798	12,493
INCOME FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS, NET OF INCOME TAX EXPENSE	6,326	5,777	22,135	24,143
INCOME FROM DISCONTINUED OPERATIONS BEFORE INCOME TAX EXPENSE	522	3,445	345	7,843
INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS	182	1,172	120	2,674
INCOME FROM DISCONTINUED OPERATIONS OPERATIONS, NET OF INCOME TAX EXPENSE	340	2,273	225	5,169
NET INCOME	$ 6,666	$ 8,050	$ 22,360	$ 29,312
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Change in unrealized gain (loss) on securities	$ 2,062	$ (643)	$ 1,369	$ (1,721)
Less: Reclassification of realized amount				
Net unrealized gain (loss) recognized in comprehensive income	2,062	(643)	1,369	(1,721)
COMPREHENSIVE INCOME	$ 8,728	$ 7,407	$ 23,729	$ 27,591

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

	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS:				
Class A Common Stock	$ 0.32	$ 0.29	$ 1.14	$ 1.22
Class B Common Stock	0.31	0.29	1.11	1.22
BASIC EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:				
Class A Common Stock	$ 0.02	$ 0.12	$ 0.01	$ 0.26
Class B Common Stock	0.02	0.11	0.01	0.24
BASIC EARNINGS PER SHARE:				
Class A Common Stock	$ 0.34	$ 0.41	$ 1.15	$ 1.48
Class B Common Stock	0.33	0.40	1.12	1.46
DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS:				
Class A Common Stock	$ 0.31	$ 0.28	$ 1.11	$ 1.17
Class B Common Stock	0.30	0.27	1.08	1.17
DILUTED EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:				
Class A Common Stock	$ 0.02	$ 0.11	$ 0.01	$ 0.25
Class B Common Stock	0.02	0.10	0.01	0.23
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	$ 0.33	$ 0.39	$ 1.12	$ 1.42
Class B Common Stock	0.32	0.39	1.09	1.40

See accompanying footnotes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (*UNAUDITED*)

(*in thousands, except per share data*)

(in thousands, except per share data)	Common Stock Class A Shares Outstanding	Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Unearned Shares in Employee Stock Ownership Plan	Accumulated Other Comprehensive Loss	Total Stockholders Equity
BALANCE, January 1, 2006	17,188	2,249	$ 4,475	$ 77,295	$ 136,381	$ (1,468)	$ (3,109)	$ 213,574
Net income					22,360			22,360
Net change in accumulated other comprehensive loss							1,369	1,369
Dividend declared Common Stock:								
Class A ($0.282 per share)					(4,860)			(4,860)
Class B ($0.256 per share)					(575)			(575)
Stock options exercised, net of shares redeemed	107		25	723	(360)			388
Repurchase of Class A Common Stock	(29)		(7)	(144)	(424)			(575)
Conversion of Class B Common Stock to Class A Common Stock	10	(10)						
Shares committed to be released under the Employee Stock Ownership Plan	30			272		340		612
Stock dividend			177	17,932	(18,109)			
Note receivable on common stock, net of cash payments				(38)				(38)
Deferred compensation expense				104				104
Stock option expense				619				619
BALANCE, September 30, 2006	17,306	2,239	$ 4,670	$ 96,763	$ 134,413	$ (1,128)	$ (1,740)	$ 232,978

See accompanying footnotes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (*UNAUDITED*)

NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (*in thousands*)

	2006	2005
OPERATING ACTIVITIES:		
Net income	$ 22,360	$ 29,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion net	3,207	3,417
Federal Home Loan Bank stock dividends	(933)	(745)
Provision for loan losses, including provision from discontinued operations	1,660	(968)
Net gain on sale of mortgage loans held for sale	(1,034)	(1,787)
Origination of mortgage loans held for sale	(121,270)	(171,273)
Proceeds from sale of mortgage loans held for sale	127,356	173,929
Net RAL securitization income	2,531	
Origination of refund anticipation loans sold	213,423	
Proceeds from sale of refund anticipation loans	(215,954)	
Employee Stock Ownership Plan expense	612	613
Deferred compensation plan expense	104	95
Stock option expense	619	
Changes in other assets and liabilities:		
Other assets and accrued interest receivable	(4,523)	(2,379)
Other liabilities and accrued interest payable	1,796	147
Net cash provided by operating activities	29,954	30,361
INVESTING ACTIVITIES:		
Purchases of securities available for sale	(1,605,681)	(3,339,058)
Purchases of securities to be held to maturity	(383)	
Purchases of Federal Home Loan Bank stock	(138)	(270)
Proceeds from calls, maturities and paydowns of securities available for sale	1,603,764	3,400,240
Proceeds from calls, maturities and paydowns of securities to be held to maturity	7,365	34,040
Net increase in loans	(154,475)	(178,796)
Investment in unconsolidated subsidiary		(1,240)
Investment in new market tax credits	(3,040)	(8,992)
Purchases of premises and equipment, net	(4,337)	(2,088)
Net cash used in investing activities	(156,925)	(96,164)
FINANCING ACTIVITIES:		
Net change in deposits	(55,311)	140,647
Net change in securities sold under agreements to repurchase and other short-term borrowings	11,987	(83,266)
Payments on Federal Home Loan Bank advances	(237,401)	(53,047)
Proceeds from Federal Home Loan Bank advances	402,000	40,333
Net proceeds from subordinated note		41,240
Common Stock repurchases	(575)	(5,957)
Net proceeds from Common Stock options exercised	388	202
Cash dividends paid	(5,141)	(4,389)
Net cash provided by financing activities	115,947	75,763
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,024)	9,960
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	77,169	77,850
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 66,145	$ 87,810
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 62,302	$ 43,658
Income taxes	10,505	13,264

SUPPLEMENTAL NONCASH DISCLOSURES:		
Transfers from loans to real estate acquired in settlement of loans	$ 1,036	$ 294

See accompanying footnotes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2006 AND 2005 (UNAUDITED) AND DECEMBER 31, 2005

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. See Footnote 13 Subsequent Event of Item 1 Financial Statements for additional information regarding the acquisition of GulfStream Community Bank.

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 fair presentation have been included. Operating results for quarter and nine months ended September 30, 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 February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments, which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement amends SFAS No. 133 to permit the fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation. This statement also eliminates the interim guidance in SFAS No. 133. Finally, this statement amends SFAS No. 140 to eliminate the restriction on the passive derivative instruments that a qualifying special purpose entity (SPE) may hold. This statement is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company is in process of evaluating the impact, if any, the adoption of SFAS No. 155 will have on our financial statements.

In March 2006, the FASB issued SFAS No. 156 Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125 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 adoption is permitted earlier. The Company currently plans to adopt this standard on January 1, 2007.

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. FIN 48 is effective beginning in 2007. The Company is in the process of evaluating the impact, if any, the adoption of FIN 48 will have on the Company s financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. More specifically,

this statement clarifies the definition of fair value, establishes a fair valuation hierarchy based upon observable (i.e. quoted prices, interest rates, yield curves) and unobservable market inputs, and expands disclosure requirements to include the inputs used to develop estimates of fair value and the effects of the estimates on income for the period. This statement does not require any new fair value measurements. The new standard is effective for fiscal years beginning after November 15, 2007. The Company is in process of evaluating the impact, if any, the adoption of SFAS No. 157 will have on our financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 Topic 1N, Financials Statements - Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 requires that a dual approach be used to compute the amount of a financial statement misstatement. More specifically, the amount should be computed using both the rollover (current year income statement) and iron curtain (year end balance sheet perspective) methods. A registrant s financial statements require adjustment when either approach results in quantifying a misstatement that is material, after considering all relevant quantitative and qualitative factors. Registrants will not be required to restate prior period financial statements when initially applying SAB 108 if management properly applied its previous approach (i.e. rollover of iron curtain) given that all relevant qualitative factors were considered. SAB 108 states that, upon initial application, registrants may elect to (a) restate prior periods, or (b) record the cumulative effect of the initial impact of SAB 108 in the carrying amounts of assets and liabilities, with the offsetting adjustment made to retained earnings. To the extent that registrants elect to record the cumulative effect of initially applying SAB 108, they will disclose the nature and amount of each individual error being corrected in the cumulative adjustment. The disclosure will also include when and how each error being corrected arose and the fact that the errors had previously been considered immaterial. SAB 108 is effective for the Company for the fiscal year ending December 31, 2006. The Company is in process of evaluating the impact, if any, the adoption of SAB 108 will have on our financial statements.

In September 2006, the FASB ratified the Emerging Task Force s (EITF) consensus on Issue 06-4. Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Agreements, which requires entities to recognize a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. The liability should be recognized in accordance with SFAS No. 106: Employers Accounting for Postretirement Benefits Other Than Pensions, based on the substantive agreement with the employee. This issue is effective for the Company beginning January 1, 2007. The Company is in process of evaluating the impact, if any, the adoption of Issue 06-4 will have on our financial statements.

In September 2006, the FASB ratified the EITF consensus on Issue 06-5, Accounting for Purchases of Life Insurance Determining the Amount that Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4: Accounting for Purchases of Life Insurance. FASB Technical Bulletin No. 85-4 requires that assets such as bank owned life insurance be carried at their cash surrender value (CSV) or the amount that could be realized, with changes in CSV reported in earnings. Issue 06-5 requires that a policyholder consider any additional amounts (i.e. claims stabilization reserves and deferred acquisition costs) included in the contractual terms of the policy in determining the amount that could be realized under the insurance contract. Certain life insurance contracts provide the policyholder with an amount that, upon surrender, is greater if all individual policies are surrendered at the same time rather than if the policies were surrendered over a period of time. The issue requires that policyholders determine the amount that could be realized under the life insurance contract assuming the surrender of an individual-life by individual-life policy. This issue is effective for the Company beginning January 1, 2007. The Company is in process of evaluating the impact, if any, the adoption of Issue 06-4 will have on our financial statements.

See Footnote 2 regarding the new accounting pronouncement related to stock options that has impacted Republic s consolidated financial statements during 2006.

Securitization The Company utilizes a securitization structure to fund a portion of the RALs originated during the Tax Refund Solutions tax season. The securitization consisted of a total of $206 million in loans over a four week period in January and February The Company s continuing involvement in loans sold into the securitization is limited to only servicing of the loans. Compensation for servicing of the loans securitized is not contingent upon performance of the loans securitized.

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Generally, from mid January to the end of February of each year, Refund Anticipation Loans which meet certain underwriting criteria related to refund amount and Earned Income Tax credit amount are classified as loans held for sale upon origination and sold into the securitization. All other RALs originated are retained by the Company. There are no loans held for sale as of any quarter end. The Company retained a related residual value in the securitization which is classified as a trading asset. On a quarterly basis, the Company adjusts the carrying amount based on its fair value.

The Company concluded that the transaction was a sale as defined in SFAS 140. This conclusion was based on, among other things, legal isolation of assets, the ability of the purchaser to pledge or sell the assets, and the absence of a right or obligation of the Company to repurchase the financial assets.

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. The payday loan segment of business 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.

In prior period financial statement filings, the Company classified daily fees associated with overdrawn deposit accounts within service charges on deposits along with per item overdraft fees. In 2006, the Company reclassified daily overdraft fees into loan fees, which is included as a component of interest income on loans. All prior period amounts presented have been reclassified to conform to current period presentation. For the quarter and nine months ended September 30, 2006, the amount of fees reclassified was $527,000 and $1.5 million. For the quarter and nine months ended September 30, 2005, the amount of fees reclassified was $460,000 and $1.2 million.

2. STOCK PLANS AND STOCK BASED COMPENSATION

At September 30, 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 (1995 Plan) and the 2005 Stock Incentive Plan (2005 Plan). With regard to the 1995 Plan, no additional grants were made in 2006 and none will be made in the future. The 2005 Plan permits the grant of stock options and stock awards for up to 3,150,000 shares, of which 3,086,000 shares remain available for issue with 64,000 allocated at September 30, 2006. With regard to the 2005 Plan, 10,000 option grants were made in 2006. All shares issued under the above mentioned plans came from authorized and unissued shares.

Effective January 1, 2006, the Company adopted SFAS 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 (APB) Opinion No. 25, Accounting for Stock Issued to Employees. 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. As a result, the recognition of stock based compensation expense was limited to the expense attributed to the deferred director 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 the fair value of the options. For options with graded vesting, the Company values the stock option grants and recognizes compensation expense as if each vesting portion of the award was a separate award. Under the modified prospective method, unvested awards and 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. 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 September 30, 2006 and December 31, 2005.

The following table summarizes stock option activity:

	Three Months Ended September 30, 2006		2005		Nine Months Ended September 30, 2006		2005	
	Options Class A Shares	Weighted Average Price Per Share	Options Class A Shares	Weighted Average Price Per Share	Options Class A Shares	Weighted Average Price Per Share	Options Class A Shares	Weighted Average Price Per Share
Outstanding at beginning of period	1,444,272	$ 12.06	1,756,201	$ 11.50	1,686,442	$ 11.60	1,760,805	$ 11.29
Granted	10,000	21.88			10,000	21.88	43,050	21.55
Exercised	(16,202)	7.63	(24,590)	10.82	(130,917)	6.50	(41,948)	10.99
Forfeited	(42,573)	13.46	(7,716)	16.53	(170,028)	11.70	(38,012)	14.38
Outstanding at end of period	1,395,497	$ 12.14	1,723,895	$ 11.49	1,395,497	$ 12.14	1,723,895	$ 11.49

The following table details stock options outstanding:

(dollars in thousands except per share data)	September 30, 2006
Stock options vested and currently exercisable:	
Number	46,581
Weighted average exercise price	$ 7.11
Aggregate intrinsic value	$ 654
Weighted average remaining life (in years)	0.40
Total Options Outstanding:	
Aggregate intrinsic value	$ 12,622
Weighted average remaining life (in years)	2.85

The intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the market price of the Company s Common Stock as of the reporting date. Stock option compensation expense is recorded as a component of salaries and employee benefits in the consolidated income statement. Since the stock options are incentive stock options and there were no disqualifying dispositions, no tax benefit related to this expense was recognized. No options were modified during the three and nine month periods ended September 30, 2006 and 2005. The following table provides further detail regarding intrinsic value of options exercised, stock option compensation expense and options granted.

(dollars in thousands)	Three Months Ended Sept. 30, 2006	2005	Nine Months Ended Sept. 30, 2006	2005
Intrinsic value of options exercised	$ 212	$ 240	$ 1,742	$ 442
Stock option compensation expense recorded	$ 216	$	$ 619	$
Options granted	10,000		10,000	43,050

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Non executive officer employees had loans outstanding of $747,000 and $708,000 at September 30, 2006 and December 31, 2005 that were originated to fund stock option exercises.

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 at the time of grant.

The weighted average assumptions for options granted during the three and nine month period ended September 30, 2006 and the resulting estimated weighted average fair values per share used in the Black-Scholes option pricing model are as follows:

Risk-free interest rate	4.75	%
Expected dividend yield	1.81	
Expected life of options (in years)	6.00	
Expected volatility	23	%
Estimated fair value per share	$ 5.69	

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. 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	**(in thousands)**
October December 2006	$ 206
2007	670
2008	493
2009	328
2010	84
2011 and thereafter	29
Total	$ 1,810

In November 2004, the Company s Board of Directors approved a Non Qualified Deferred Compensation Plan (the Deferred Compensation Plan). The Deferred Compensation Plan governs the deferral of board and committee fees of non-employee members of the Board of Directors. Members of the Board of Directors may defer up to 100% of their board and committee fees for a specified period ranging from two to five years. The value of the deferred director compensation account is deemed invested in Company stock and is immediately vested. On a quarterly basis, the Company reserves shares of Republic s stock within the Company s stock option plan for ultimate distribution to Directors at the end of the deferral period. The Deferred Compensation Plan has not and will not materially impact the Company, as director compensation expense will continue to be recorded when incurred.

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The following table presents information on director deferred compensation shares outstanding for the periods shown:

	Three Months Ended September 30, 2006		2005		Nine Months Ended September 30, 2006		2005	
	Deferred Shares	Weighted Average Market Price at Date of Deferral	Deferred Shares	Weighted Average Market Price at Date of Deferral	Deferred Shares	Weighted Average Market Price at Date of Deferral	Deferred Shares	Weighted Average Market Price at Date of Deferral
Balance, beginning of period	9,002	$ 20.47	2,716	$ 20.95	5,845	$ 20.51		$
Awarded	1,862	21.15	1,891	19.92	5,019	20.69	4,607	20.53
Released								
Balance, end of period	10,864	$ 20.59	4,607	$ 20.53	10,864	$ 20.59	4,607	$ 20.53

Director deferred compensation has been expensed as follows:

(dollars in thousands)	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Director Deferred Compensation Expense	$ 39	$ 38	$ 104	$ 95

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The following table illustrates the effect on net income and earnings per share if stock based compensation expense were measured using the fair value recognition provisions of SFAS 123R for the three and nine month periods ended September 30, 2005:

(dollars in thousands, except per share data)	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	$ 8,050	$ 29,312
Deduct:		
Stock based compensation expense determined under the fair value based method, net of tax	379	1,090
Pro forma net income	$ 7,671	$ 28,222
Earnings per share from continuing operations, as reported:		
Class A Common Share	$ 0.29	$ 1.22
Class B Common Share	0.29	1.20
Earnings per share, as reported:		
Class A Common Share	0.41	1.48
Class B Common Share	0.40	1.46
Pro forma basic earnings per share from continuing operations:		
Class A Common Share	0.28	1.19
Class B Common Share	0.27	1.16
Pro forma basic earnings per share:		
Class A Common Share	0.40	1.45
Class B Common Share	0.39	1.43
Diluted earnings per share from continuing operations, as reported:		
Class A Common Share	0.28	1.17
Class B Common Share	0.27	1.15
Diluted earnings per share, as reported:		
Class A Common Share	0.39	1.42
Class B Common Share	0.39	1.40
Pro forma diluted earnings per share from continuing operations:		
Class A Common Share	0.27	1.14
Class B Common Share	0.26	1.12
Pro forma diluted earnings per share:		
Class A Common Share	0.38	1.39
Class B Common Share	0.37	1.37

3. DISCONTINUED OPERATIONS PAYDAY LENDING

By letter to Republic Bank & Trust Company dated February 17, 2006, the FDIC cited inherent risks associated with payday lending activities and requested that the Board of Directors consider terminating this line of business. Consequently, on February 24, 2006, Republic Bank & Trust Company and ACE Cash Express, Inc. (ACE) amended the agreement regarding Republic Bank & Trust Company s payday loan activities in Texas, Pennsylvania and Arkansas. With respect to Texas, Republic Bank & Trust Company ceased offering payday loans the week of February 27, 2006. With respect to Arkansas and Pennsylvania, Republic Bank & Trust Company ceased offering payday loans on June 30, 2006. The Company did not incur any additional costs related to the termination of the ACE contract and does not anticipate incurring any additional costs in the future. The Company had no payday loans outstanding related to the above contract at September 30, 2006.

By letter to Republic Bank & Trust Company of Indiana dated February 17, 2006, the FDIC cited inherent risks associated with payday lending activities and asked the Board of Directors to consider terminating this line of business. Republic Bank & Trust Company of Indiana voluntarily elected to terminate its Internet payday loan program the week of February 20, 2006. The Internet payday loan program began operating in July 2005 and remained in a developmental stage until its termination date. The Company had no payday loans outstanding related to the above program at September 30, 2006.

The following table illustrates the financial statements of the discontinued operation:

Balance Sheets

(dollars in thousands)	September 30, 2006	December 31, 2005
Cash and cash equivalents	$	