

Kentucky First Federal Bancorp  
Form 10-Q  
February 14, 2007

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**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 December 31, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-51176

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**KENTUCKY FIRST FEDERAL BANCORP**

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(Exact name of registrant as specified in its charter)

United States of America

61-1484858

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(State or other jurisdiction of incorporation or organization)

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

479 Main Street, Hazard, Kentucky 41702

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(Address of principal executive offices)(Zip Code)

(606) 436-3860

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(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:

YesNo

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 larger accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

YesNo

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 February 9, 2007, the latest practicable date, the Corporation had 8,441,483 shares of \$.01 par value common stock outstanding.

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## Kentucky First Federal Bancorp

## STATEMENTS OF FINANCIAL CONDITION

(In thousands, except per share data)

	December 31, 2006	June 30, 2006
	(Unaudited)	
<b>ASSETS</b>		
Cash and due from banks	\$ 1,552	\$ 832
Interest-bearing deposits in other financial institutions	270	1,462
Cash and cash equivalents	1,822	2,294
Investment securities available for sale - at market	12,520	12,211
Investment securities held to maturity, at amortized cost - approximate fair value of \$42,816 and \$44,019 at December 31 and June 30, 2006, respectively	43,946	45,944
Mortgage-backed securities available for sale - at market	893	1,079
Mortgage-backed securities held to maturity, at amortized cost - approximate fair value of \$16,188 and \$17,028 at December 31, and June 30, 2006, respectively	16,862	18,185
Loans receivable	163,044	156,110
Allowance for loan losses	(720)	(724)
Loans receivable-net	162,324	155,386
Real estate acquired through foreclosure	8	51
Office premises and equipment - at depreciated cost	2,795	2,857
Federal Home Loan Bank stock - at cost	5,421	5,264
Accrued interest receivable	883	868
Bank-owned life insurance	2,216	2,175
Goodwill	14,507	14,507
Intangible assets-net	677	743
Prepaid expenses and other assets	304	252
Prepaid federal income taxes	200	125
<b>Total assets</b>	<b>\$ 265,378</b>	<b>\$ 261,941</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$ 138,991	\$ 141,238
Advances from the Federal Home Loan Bank	61,818	54,849
Advances by borrowers for taxes and insurance	42	369
Accrued interest payable	295	253
Deferred federal income taxes	724	484
Other liabilities	156	867
<b>Total liabilities</b>	<b>202,026</b>	<b>198,060</b>
Commitments		
Shareholders' equity		
Preferred stock, 500,000 shares authorized, \$.01 par value; no shares issued		
Common stock, 20,000,000 shares authorized \$.01 par value; 8,596,064 shares issued	86	86
Additional paid-in capital	36,807	36,769
Retained earnings, restricted	32,567	32,761
Shares acquired by stock benefit plans	(4,520)	(4,845)
Treasury shares at cost, 120,595 and 32,589 shares at December 31 and June 30, 2006, respectively	(1,264)	(354)
Accumulated comprehensive loss, unrealized losses on securities designated as available for sale, net of related tax benefits	(324)	(536)

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Total shareholders' equity	63,352	63,881
Total liabilities and shareholders' equity	<b>\$ 265,378</b>	<b>\$ 261,941</b>

## Kentucky First Federal Bancorp

## STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except per share data)

	Six months ended December 31,		Three months ended December 31,	
	2006	2005	2006	2005
Interest income				
Loans	\$ 4,820	\$ 4,579	\$ 2,425	\$ 2,292
Mortgage-backed securities	401	461	196	224
Investment securities	1,000	1,065	496	521
Interest-bearing deposits and other	187	289	74	149
Total interest income	6,408	6,394	3,191	3,186
Interest expense				
Deposits	2,230	1,949	1,122	996
Borrowings	1,422	1,082	741	506
Total interest expense	3,652	3,031	1,863	1,502
Net interest income	2,756	3,363	1,328	1,684
Provision for losses on loans		24		10
Net interest income after provision for losses on loans	2,756	3,339	1,328	1,674
Other operating income				
Earnings on bank-owned life insurance	41	40	21	20
Gain on sale of loans	3	23	3	6
Gain (loss) on sale of real estate acquired through foreclosure	(6)	5	4	7
Other operating	45	54	19	30
Total other income	83	122	47	63
General, administrative and other expense				
Employee compensation and benefits	1,582	1,394	779	738
Occupancy and equipment	165	182	79	94
Franchise taxes	86	84	42	42
Data processing	69	74	34	33
Other operating	293	352	143	159
Total general, administrative and other expense	2,195	2,086	1,077	1,066
Earnings before income taxes	644	1,375	298	671
Federal income taxes				
Current	75	347	26	185
Deferred	131	88	68	37
Total federal income taxes	206	435	94	222
NET EARNINGS	\$ 438	\$ 940	\$ 204	\$ 449

## EARNINGS PER SHARE

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Basic	\$	0.06	\$	0.11	\$	0.03	\$	0.05
Diluted	\$	0.06	\$	0.11	\$	0.03	\$	0.05
DIVIDENDS PER SHARE	\$	0.20	\$	0.20	\$	0.10	\$	0.10

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## Kentucky First Federal Bancorp

## STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)  
(In thousands)

	Six months ended December 31,		Three months ended December 31,	
	2006	2005	2006	2005
Net earnings	\$ 438	\$ 940	\$ 204	\$ 449
Other comprehensive income, net of taxes (benefits):				
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of \$109, \$(88), \$19 and \$(29) during the respective periods	212	(170)	37	(56)
Comprehensive income	\$ 650	\$ 770	\$ 241	\$ 393
Accumulated comprehensive loss	\$ (324)	\$ (380)	\$ (324)	\$ (380)

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## Kentucky First Federal Bancorp

## STATEMENTS OF CASH FLOWS

For the six months ended December 31,

(Unaudited)  
(In thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net earnings for the period	\$ 438	\$ 940
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of discounts and premiums on loans, investments and mortgage-backed securities net	(6)	(3)
Amortization of deferred loan origination fees	(9)	4
Amortization of purchase accounting adjustments-net	(206)	(210)
Depreciation and amortization	75	85
Amortization of stock benefit plans	331	251
(Gain) loss on sale of real estate acquired through foreclosure	6	(5)
Provision for losses on loans		24
Federal Home Loan Bank stock dividends	(157)	(132)
Bank-owned life insurance earnings	(41)	(40)
Mortgage loans originated for sale	(209)	(2,073)
Gain on sale of loans	(3)	(23)
Proceeds from sale of mortgage loans	216	2,097
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	(15)	73
Prepaid expenses and other assets	(52)	(82)
Accrued interest payable	42	39
Other liabilities	(679)	(360)
Federal income taxes		
Current	(75)	210
Deferred	131	88
	<u>(213)</u>	<u>883</u>
Net cash provided by (used in) operating activities		
Cash flows provided by (used in) investing activities:		
Investment securities held to maturity:		
Maturities, prepayments and calls	2,100	4,100
Purchases	(100)	(100)
Mortgage-backed securities available for sale:		
Maturities, prepayments and calls	197	
Mortgage-backed securities held to maturity:		
Maturities, prepayments and calls	1,328	2,384
Proceeds from sale of real estate acquired through foreclosure	144	53
Loan principal repayments	11,765	15,652
Loan disbursements	(18,805)	(17,654)
Purchase of office equipment	(13)	(5)
	<u>(3,384)</u>	<u>4,430</u>
Net cash provided by (used in) investing activities		
Cash flows provided by (used in) financing activities:		
Net decrease in deposit accounts	(2,247)	(8,137)
Proceeds from Federal Home Loan Bank advances	46,050	500
Repayment of Federal Home Loan Bank advances	(38,809)	(949)
Advances by borrowers for taxes and insurance	(327)	(305)
Dividends paid on common stock	(632)	(774)
Purchase of shares for treasury	(1,015)	
Purchase of common stock for Equity Incentive Plan		(831)

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Net cash provided by (used in) financing activities	3,020	(10,496)
Net decrease in cash and cash equivalents	(472)	(5,183)
Cash and cash equivalents at beginning of period	2,294	8,358
Cash and cash equivalents at end of period	<b>\$ 1,822</b>	<b>\$ 3,175</b>

**Kentucky First Federal Bancorp**

**STATEMENTS OF CASH FLOWS (CONTINUED)**

For the six months ended December 31,

(Unaudited)  
(In thousands)

	<u>2006</u>	<u>2005</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$ 150	\$ 410
Interest on deposits and borrowings	\$ 3,816	\$ 2,992
Supplemental disclosure of noncash investing activities:		
Unrealized gains (losses) on securities designated as available for sale, net of related tax effects	\$ 212	\$ (114)
Transfers from loans to real estate acquired through foreclosure, net	\$ 107	\$

**Kentucky First Federal Bancorp**

**NOTES TO FINANCIAL STATEMENTS**

For the six- and three-month periods ended December 31, 2006 and 2005

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, Frankfort First Federal Savings Bank ( Frankfort First Federal ). 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 financial condition 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 accounting principles generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the six- and three-month periods ended December 31, 2006, are not necessarily indicative of the results which may be expected for an entire fiscal year.

2. Principles of Consolidation

The consolidated financial statements include the accounts of the Company, Frankfort First, and its wholly-owned banking subsidiaries, First Federal of Hazard and Frankfort First Federal (collectively hereinafter the Banks ). All intercompany transactions and balances have been eliminated in consolidation.

3. Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the allowance for loan losses and accounting for goodwill to be critical accounting policies.

The allowance for loan losses is the estimated amount considered necessary to cover probable incurred credit losses in the loan portfolio at the balance sheet date. The allowance is established through the provision for losses on loans which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this accounting policy as one of the most critical for the Company.

**Kentucky First Federal Bancorp**

**NOTES TO FINANCIAL STATEMENTS**

For the six- and three-month periods ended December 31, 2006 and 2005

3. Critical Accounting Policies (continued)

Management of the Banks perform a monthly evaluation of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews, volume and mix of the loan portfolio and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to change. Management considers the economic climate in the lending areas to be among the factors most likely to have an impact on the level of the required allowance for loan losses. However, in view of the fact that the Banks' local economies are diverse, without significant dependence on a single industry or employer, the economic climate in the Banks' market areas are considered to be stable, and improving. Nevertheless, management continues to monitor and evaluate factors which could have an impact on the required level of the allowance. Nationally, management will watch for issues that may negatively affect a significant percentage of homeowners in the Banks' lending areas. These may include significant increases in unemployment or significant depreciation in home prices. Management reviews employment statistics periodically when determining the allowance for loan losses and generally finds the unemployment rate in the Banks' lending areas to be acceptable in relation to historical trends. Given the aforementioned indicators of economic stability, management does not foresee in the near term, any significant increases in the required allowance for loan losses related to economic factors. Finally, Company management has no current plans to alter the type of lending offered or collateral accepted by the Banks, but if such plans change or market conditions result in large concentrations of certain types of loans, such as commercial real estate or high loan-to-value ratio residential loans, management would respond with an increase in the overall allowance for loan losses.

The allowance for loan losses analysis has two components, specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk-weighting (if applicable) and payment history. Historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations are also analyzed. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve. Actual loan losses may be significantly more than the allowance established, which could have a material negative effect on the Company's consolidated financial results.

The Company has recorded goodwill and core deposit intangibles as a result of its acquisition of Frankfort First. Goodwill represents the excess purchase price paid over the net book value of the assets acquired in a merger or acquisition. Pursuant to SFAS No. 142, Goodwill and Intangible Assets, goodwill is not amortized, but is tested for impairment at the reporting unit annually or whenever an impairment indicator arises. The evaluation involves assigning assets and liabilities to reporting units and comparing the fair value of each reporting unit to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered impaired. However, if the carrying amount of the reporting unit exceeds the fair value, goodwill is considered impaired. The impairment loss equals the excess of carrying value over fair value.

Core deposit intangibles represent the value of long-term deposit relationships and are amortized over their estimated useful lives. The Company annually evaluates these estimated useful lives. If the Company determines that events or circumstances warrant a change in these estimated useful lives, the Company will adjust the amortization of the core deposit intangibles, which could affect future amortization expense.

## Kentucky First Federal Bancorp

## NOTES TO FINANCIAL STATEMENTS

For the six- and three-month periods ended December 31, 2006 and 2005

4. Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period less shares in the Company's ESOP that are unallocated and not committed to be released. Weighted average common shares deemed outstanding give effect to 301,262 unallocated ESOP shares for the six- and three-month periods ended December 31, 2006, and 319,152 unallocated ESOP shares for the six- and three-month periods ended December 31, 2005.

	<u>Six months ended December 31, 2006</u>	<u>Three months ended December 31, 2006</u>
Weighted-average common shares outstanding (basic)	8,161,113	8,178,356
Dilutive effect of assumed exercise of stock options		
Weighted-average common shares outstanding (diluted)	<b>8,161,113</b>	<b>8,178,356</b>
	<u>Six months ended December 31, 2005</u>	<u>Three months ended December 31, 2005</u>
Weighted-average common shares outstanding (basic)	8,268,686	8,278,975
Dilutive effect of assumed exercise of stock options	9,050	9,050
Weighted-average common shares outstanding (diluted)	<b>8,277,736</b>	<b>8,288,025</b>

5. Stock Plans

On November 15, 2005, the Company approved a Stock Incentive Plan that provides for grants of up to 421,216 stock options. On December 13, 2005, approximately 347,600 option shares were granted subject to five year vesting.

Prior to July 1, 2006, the Company utilized APB Opinion No. 25 and related Interpretations in accounting for its stock option plan. As the Stock Incentive Plan was approved late in the December 31, 2005 quarter, no pro-forma disclosures are required for the six months ended December 31, 2005.

In 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( SFAS ) No. 123(R), Share-Based Payment, which revises SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires that cost related to the fair value of all equity-based awards to employees, including grants of employee stock options, be recognized in the financial statements.

## Kentucky First Federal Bancorp

## NOTES TO FINANCIAL STATEMENTS

For the six- and three-month periods ended December 31, 2006 and 2005

5. Stock Plans (continued)

The Company adopted the provisions of SFAS No. 123(R) effective July 1, 2006, using the modified prospective transition method, and therefore has not restated its financial statements for prior periods. Under this method, the Company has applied the provisions of SFAS No. 123(R) to new equity-based awards and to equity-based awards modified, repurchased, or cancelled after July 1, 2006. In addition, the Company will recognize compensation cost for the portion of equity-based awards for which the requisite service period has not been rendered ( unvested equity-based awards ) that are outstanding as of July 1, 2006. The compensation cost recorded for unvested equity-based awards is based on their grant-date fair value. For the six and three months ended December 31, 2006, the Company recorded \$61,000 and \$30,000, respectively, in compensation cost for stock option-based awards (\$40,000 and \$20,000, respectively, after-tax). The Company has \$487,000 of unrecognized pre-tax compensation cost related to non-vested stock option awards granted under its stock incentive plan as of December 31, 2006, which is expected to be recognized over a weighted-average vesting period of approximately 3.9 years.

A summary of the status of the Company's stock option plan as of December 31, 2006, and changes during the period then ended is presented below:

	Six months ended December 31, 2006		Year ended June 30, 2006	
	Shares	Weighted- average exercise price	Shares	Weighted- average exercise price
Outstanding at beginning of period	347,600	\$ 10.10		\$
Granted			347,600	10.10
Exercised				
Forfeited				
Outstanding at end of period	347,600	\$ 10.10	347,600	\$ 10.10
Options exercisable at period-end	69,520	\$ 10.10		
Options expected to be exercisable at year-end				69,520
Fair value of options granted				\$ 1.75

The following information applies to options outstanding at December 31, 2006:

Number outstanding	347,600
Weighted-average exercise price	\$ 10.10
Weighted-average remaining contractual life	8.9 years
Aggregate intrinsic value of granted options	\$ 52,140

**Kentucky First Federal Bancorp**

**NOTES TO FINANCIAL STATEMENTS**

For the six- and three-month periods ended December 31, 2006 and 2005

5. Stock Plans (continued)

The expected term of options is based on evaluations of historical and expected future employee exercise behavior. The risk free interest rate is based upon the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at grant date. Volatility is based upon the historical volatility of the Company's stock.

The fair value of each option was estimated on the date of grant using the modified Black-Scholes options pricing model with the following weighted-average assumptions used for grants: dividend yield of 3.96%, expected volatility of 20%, a risk-free interest rate of 4.49% and an expected life of 7 years for each grant.

The Company's Stock Incentive plan also provides for the awarding of 168,486 shares of restricted common stock. At December 31, 2006, 134,500 shares under the Equity Incentive Plan have been awarded.

6. Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Instruments an amendment of FASB Statements No. 133 and 140, to simplify and make more consistent the accounting for certain financial instruments. Specifically, SFAS No. 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, to permit fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. SFAS No. 155 amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, to allow a qualifying special purpose entity to hold a derivative instrument that pertains to a beneficial interest other than another derivative financial instrument.

SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, or July 1, 2007 as to the Corporation, with earlier application allowed. The Corporation is currently evaluating SFAS No. 155, but does not expect it to have a material effect on the Corporation's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of SFAS No. 140, to simplify the accounting for separately recognized servicing assets and servicing liabilities. Specifically, SFAS No. 156 amends SFAS No. 140 to require an entity to take the following steps:

Separately recognize financial assets as servicing assets or servicing liabilities, each time it undertakes an obligation to service a financial asset by entering into certain kinds of servicing contracts;

Initially measure all separately recognized servicing assets and liabilities at fair value, if practicable, and;

Separately present servicing assets and liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.



**Kentucky First Federal Bancorp**

**NOTES TO FINANCIAL STATEMENTS**

For the six- and three-month periods ended December 31, 2006 and 2005

6. Recent Accounting Pronouncements (continued)

Additionally, SFAS No. 156 permits, but does not require, an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. SFAS No. 156 also permits a servicer that uses derivative financial instruments to offset risks on servicing to use fair value measurement when reporting both the derivative financial instrument and related servicing asset or liability.

SFAS No. 156 applies to all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006, or July 1, 2007 as to the Corporation, with earlier application permitted. The Corporation is currently evaluating SFAS No. 156, but does not expect it to have a material effect on the Corporation's financial position or results of operations.

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 was issued to provide consistency between how registrants quantify financial statement misstatements.

Historically, there have been two widely-used methods for quantifying the effects of financial statement misstatements. These methods are referred to as the *roll-over* and *iron curtain* method. The *roll-over* method quantifies the amount by which the current year income statement is misstated. Exclusive reliance on an income statement approach can result in the accumulation of errors on the balance sheet that may not have been material to any individual income statement, but which may misstate one or more balance sheet accounts. The *iron curtain* method quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Exclusive reliance on a balance sheet approach can result in disregarding the effects of errors in the current year income statement that results from the correction of an error existing in previously issued financial statements. We currently use the *roll-over* method for quantifying identified financial statement misstatements.

SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatement on each of the company's financial statements and the related financial statement disclosures. This approach is commonly referred to as the *dual approach* because it requires quantification of errors under both the *roll-over* and *iron curtain* methods.

SAB 108 allows registrants to initially apply the *dual approach* either by (1) retroactively adjusting prior financial statements as if the *dual approach* had always been used, or by (2) recording the cumulative effect of initially applying the *dual approach* as adjustments to the carrying values of assets and liabilities as of July 1, 2006, with an offsetting adjustment recorded to the opening balance of retained earnings as of that date. Use of this *cumulative effect transition method* requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose.

Management is currently evaluating the requirements of SAB 108 but does not expect it to have a material adverse effect on the Company's financial position or results of operations.

**Kentucky First Federal Bancorp**

**NOTES TO FINANCIAL STATEMENTS**

For the six- and three-month periods ended December 31, 2006 and 2005

6. Recent Accounting Pronouncements (continued)

In July 2006, the FASB issued FASB Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes. The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. Specifically, FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax provision taken or expected to be taken on a tax return. FIN 48 also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure, and transition of uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006, or July 1, 2007 as to the Company. The Company is currently evaluating the requirements of FIN 48 and has not quantified the possible effects of adoption, if any.

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. This Statement emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. This Statement clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, this Statement establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. This Statement is effective for fiscal years beginning after November 15, 2007, or July 1, 2008 for the Company. The adoption of this Statement is not expected to have a material effect on the Company's Consolidated Financial Statements.

**Kentucky First Federal Bancorp**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

Forward-Looking Statements

Certain statements contained in this report that are not historical facts are forward-looking statements that are subject to certain risks and uncertainties. When used herein, the terms anticipates, plans, expects, believes, and similar expressions as they relate to Kentucky First Federal Bancorp or its management are intended to identify such forward looking statements. Kentucky First Federal Bancorp's actual results, performance or achievements may materially differ from those expressed or implied in the forward-looking statements. Risks and uncertainties that could cause or contribute to such material differences include, but are not limited to, general economic conditions, prices for real estate in the Company's market areas, interest rate environment, competitive conditions in the financial services industry, changes in law, governmental policies and regulations, and rapidly changing technology affecting financial services.

Discussion of Financial Condition Changes from June 30, 2006 to December 31, 2006

**Assets:** At December 31, 2006, the Company's assets totaled \$265.4 million, an increase of \$3.4 million, or 1.3%, from total assets at June 30, 2006. The primary reason for the growth in assets was an increase of \$6.9 million, or 4.5%, in loans receivable, which increased to \$162.3 million at December 31, 2006. The increase in loans receivable was composed primarily of one- to four-family, variable rate loans and was primarily funded by an increase in short-term Federal Home Loan Bank advances. It is anticipated that such advances will be repaid as the Company's short-term, lower-yielding investment securities mature over the next three years. Management has emphasized the origination and retention of adjustable rate mortgage loans and, as the ability to make such loans changes with market conditions, believes it is prudent to continue to originate such loans with the funding that is available.

**Cash and cash equivalents:** Cash and cash equivalents decreased by \$472,000 or 20.6%. It is the Company's preference to minimize the level of cash and cash equivalents and invest liquidity into higher-yielding assets, when possible. Cash was drawn down to partially fund the overall increase in loans which is discussed more fully under Loans.

**Loans:** Loans receivable, net, increased to \$162.3 million at December 31, 2006, an increase of \$6.9 million or 4.5%. Management believes that the successful redeployment of the Company's funds from lower-yielding cash, cash equivalents and investment securities to higher-yielding mortgage loans is important for the long-term success of the Company. The Company will continue to emphasize loan originations to the extent that it is profitable and prudent.

**Non-Performing Loans:** At December 31, 2006, the Company had approximately \$1.3 million, or 0.8% of net loans, in loans 90 days or more past due, compared to \$1.4 million, or 0.9%, of net loans at June 30, 2006. At December 31, 2006, the Company's allowance for loan losses of \$720,000 represented 55.6% of nonperforming loans and 0.4% of total loans.

The Company had \$1.8 million in loans classified as substandard for regulatory purposes at December 31, 2006. On a percentage basis, classified loans remained constant at 1.1% of net loans at both June 30, 2006 and December 31, 2006. Substandard assets included 39 single-family home loans with loan-to-value ratios (percentage of loan balance to the original or an updated appraisal) ranging from 11% to 91%; two home equity lines of credit secured by single-family homes; and one single-family home acquired through foreclosure (with a fair value of \$8,000). At December 31, 2006, the Company had \$601,000 in loans classified as special mention. This category includes assets which do not currently expose us to a sufficient degree of risk to warrant classification, but do possess credit deficiencies or potential weaknesses deserving our close attention.

**Kentucky First Federal Bancorp**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (continued)**

Discussion of Financial Condition Changes from June 30, 2006 to December 31, 2006 (continued)

*Non-Performing Loans (continued)*

At December 31, 2006, no loans were classified as doubtful or loss for regulatory purposes. Subsequent to December 31, 2006 the Company foreclosed on two single-family homes with carrying values of approximately \$170,000. Management does not anticipate any material unreserved loss as a result of these foreclosures.

**Investment and Mortgage-Backed Securities:** At December 31, 2006, the Company's investment and mortgage-backed securities had decreased \$3.2 million or 4.1% to \$74.2 million. This decrease was due primarily to the maturity of \$2.1 million of investment securities and repayment of principal on mortgage-backed securities which was partially offset by a net increase of \$212,000 in the market value of investments and mortgage-backed securities held as available for sale. Approximately \$42.9 million of the Company's investment and agency securities are scheduled to mature within the next three years with another \$5.0 million are scheduled to mature within five years.

**Liabilities:** At December 31, 2006, the Company's liabilities totaled \$202.0 million, an increase of \$4.0 million, or 2.0%, from total liabilities at June 30, 2006. The increase in liabilities was attributed primarily to a \$7.0 million, or 12.7%, increase in Federal Home Loan Bank advances, which increased to \$61.8 million at December 31, 2006. Of these approximately \$24.6 million were in overnight advances, which reprice daily. Such advances were utilized to fund the increase in loans during the period as well as offset a reduction of \$2.2 million, or 1.6% in deposits, which totaled \$139.0 million at December 31, 2006. Deposits have decreased as market interest rates have increased. At times, the Company has chosen not to meet market rates if the deposits cannot be invested profitably in interest-earning assets. As stated previously, management anticipates reducing the level of Federal Home Loan Bank advances as lower-yielding investment securities mature over the next three years.

**Shareholders' Equity:** At December 31, 2006, the Company's shareholders' equity totaled \$63.4 million, a decrease of \$529,000 or 0.8% from the June 30, 2006 total. The primary reason for the decrease in shareholders' equity is the acquisition of \$910,000 of treasury shares at an average cost of \$10.33 per share.

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2006 and 2005

General

Net earnings totaled \$438,000 for the six months ended December 31, 2006, a decrease of \$502,000, or 53.4% from the \$940,000 in net earnings for the same period in 2005. The decrease was primarily attributable to a decline in net interest income.

Net Interest Income

Net interest income declined \$607,000 or 18.0% to \$2.8 million for the six month period ended December 31, 2006, compared to the 2005 period, due to increased cost of funds. Interest income increased by \$14,000, or 0.2%, while interest expense increased \$621,000 or 20.5% to \$3.7 million for the six months ended December 31, 2006. The growth in interest expense was attributable to increased costs for both deposits and advances.

**Kentucky First Federal Bancorp**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (continued)**

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2006 and 2005 (continued)

Net Interest Income (continued)

Interest expense on deposits increased \$281,000 or 14.4% to \$2.2 million, while interest expense on advances increased \$340,000, or 31.4%, to \$1.4 million for the 2006 period compared to the prior year period. The increase in interest expense on deposits was due an increase in the average rate paid on deposits, as the average balance of deposits outstanding declined for the six-month periods year over year. The average rate paid on deposits increased 67 basis points to 3.17% for the six month period ended December 31, 2006, while the average balance outstanding declined 9.7% to \$140.9 million for the current period ended. The increase in interest expense on advances was attributable both to increases in the average balance outstanding and the average rate paid on those advances. The average balance of advances outstanding increased \$9.5 million, or 18.7%, to \$60.2 million for the six month period ended December 31, 2006. The average rate paid on advances increased by 46 basis points to 4.73% for the 2006 six month period. Net interest margin decreased by 45 basis points to 2.31% for the six months ended December 31, 2006, compared to 2.76% for the comparable 2005 period.

Provision for Losses on Loans

The Company charges a provision for losses on loans to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Banks, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Banks' market areas and other factors related to the collectibility of the Banks' loan portfolio. The Company recorded no provision for losses on loans during the six months ended December 31, 2006, compared to a provision of \$24,000, for the comparable six-month period in 2005. The lack of a provision for the most recent period was influenced by the relatively stable level of nonperforming loans discussed above (See Critical Accounting Policies ). There can be no assurance that the loan loss allowance will be adequate to absorb unidentified losses on loans in the portfolio, which could adversely affect the Company's results of operations.

Other Income

Other income totaled \$83,000 for the six months ended December 31, 2006, a decrease of \$39,000 from the same period in 2005. The decrease in the 2006 period is attributable primarily to a decline of \$20,000 in gain on sale of loans.

General, Administrative and Other Expense

General, administrative and other expense totaled \$2.2 million for the six months ended December 31, 2006, an increase of \$109,000, or 5.2%, compared to the same period in 2005. This increase was due primarily to an increase in employee compensation and benefits, which totaled \$1.6 million for the six months ended December 31, 2006, an increase of \$188,000, or 13.5%, from the same period in 2005. The increase in employee compensation and benefits is primarily related to expenses associated with the Company's 2005 Equity Incentive Plan and increased costs associated with retirement plans which was somewhat offset by slight reductions in employee compensation. The expenses associated with the Equity Incentive Plan totaled \$205,000 for the recent six-month period, compared to no expense for the prior year period. Expenses associated with the Company's defined benefit retirement plans totaled \$259,000 for the six months ended December 31, 2006, compared to \$163,000 for the 2005 period, an increase of \$96,000 or 58.9% period to period.

**Kentucky First Federal Bancorp**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (continued)**

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2006 and 2005 (continued)

Federal Income Taxes

The provision for federal income taxes totaled \$206,000 for the six months ended December 31, 2006, an decrease of \$229,000, or 52.6%, compared to the same period in 2005. The effective tax rates were 32.0% and 31.6% for the six-month periods ended December 31, 2006 and 2005, respectively.

Comparison of Operating Results for the Three-Month Periods Ended December 31, 2006 and 2005

General

Net earnings totaled \$204,000 for the three months ended December 31, 2006, a decrease of \$245,000, or 54.6% from the \$449,000 in net earnings for the same period in 2005. The decrease was primarily attributable to a decline in net interest income.

Net Interest Income

Net interest income declined \$356,000 or 21.1% to \$1.3 million for the three month period ended December 31, 2006, compared to the 2005 period, due to increased cost of funds. Interest income increased by \$5,000, or 0.2%, while interest expense increased \$361,000 or 24.0% to \$1.9 million for the three months ended December 31, 2006. The growth in interest expense was attributable to increased costs for both deposits and advances.

Interest expense on deposits increased \$126,000 or 12.7% to \$1.1 million, while interest expense on advances increased \$235,000, or 46.4%, to \$741,000 for the 2006 quarter compared to the prior year quarter. The increase in interest expense on deposits was due an increase in the average rate paid on deposits, as the average balance of deposits outstanding declined for the quarterly periods year over year. The average rate paid on deposits increased 64 basis points to 3.21% for the three month period ended December 31, 2006, while the average balance outstanding declined 9.6% to \$139.7 million for the current quarter. The increase in interest expense on advances was attributable both to increases in the average balance outstanding and the average rate paid on those advances. The average balance of advances outstanding increased \$11.8 million, or 23.4%, to \$62.3 million for the three month period ended December 31, 2006. The average rate paid on advances increased of 75 basis points to 4.76% for the 2006 quarter. Net interest margin decreased by 56 basis points to 2.22% for the three months ended December 31, 2006, compared to 2.77% for the comparable 2005 quarter.

Provision for Losses on Loans

The Company charges a provision for losses on loans to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Banks, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Banks' market areas and other factors related to the collectibility of the Banks' loan portfolio. The Company recorded no provision for losses on loans during the three months ended December 31, 2006, compared to a provision of \$10,000, for the comparable three-month period in 2005. The lack of a provision for the most recent period was influenced by the stable level of nonperforming loans discussed above (See Critical Accounting Policies). There can be no assurance that the loan loss allowance will be adequate to absorb unidentified losses on loans in the portfolio, which could adversely affect the Company's results of operations.

**Kentucky First Federal Bancorp**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (continued)**

Comparison of Operating Results for the Three-Month Periods Ended December 31, 2006 and 2005 (continued)

Other Income

Other income totaled \$47,000 for the three months ended December 31, 2006, a decrease of \$16,000 from the same period in 2005. The decrease in the 2006 period is attributable primarily to a decline of \$11,000 other operating income, which consists primarily of fees and charges on bank loan and deposit products

General, Administrative and Other Expense

General, administrative and other expense totaled \$1.1 million for the three months ended December 31, 2006, an increase of \$11,000, or 1.0%, compared to the same period in 2005. This increase was due primarily to an increase in employee compensation and benefits, which totaled \$779,000 for the three months ended December 31, 2006, an increase of \$41,000, or 5.6%, from the same period in 2005. The increase in employee compensation and benefits is primarily related to expenses associated with the Company's 2005 Equity Incentive Plan and was somewhat offset by slight reductions in employee compensation. The expenses associated with the Equity Incentive Plan totaled \$103,000 for the recent quarterly period, compared to no expense for the prior year period.

Federal Income Taxes

The provision for federal income taxes totaled \$94,000 for the three months ended December 31, 2006, an decrease of \$128,000, or 57.7%, compared to the same period in 2005. The effective tax rates were 31.5% and 33.1% for the three-month periods ended December 31, 2006 and 2005, respectively.

**Kentucky First Federal Bancorp**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (CONTINUED)**

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the Company's market risk since the disclosure included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management" in the Company's Form 10-K filed September 28, 2006.

ITEM 4: Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective. During the quarterly period ended December 31, 2006, there were no changes in the Company's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.



## Kentucky First Federal Bancorp

## PART II

ITEM 1. Legal Proceedings

Not applicable.

ITEM 1A. Risk Factors

The Registrant's risk factors have not changed from those set forth in the Annual Report on Form 10-K.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table sets forth information regarding Company's repurchases of its common stock during the quarter ended December 31, 2006.

Period	Total # of shares purchased	Average price paid per share (incl commissions)	Total # of shares purchased as part of publicly announced plans or programs	Maximum # of shares that may yet be purchased under the plans or programs
October 1-31, 2006	12,500	\$ 10.36	12,500	109,992
November 1-30, 2006	22,500	\$ 10.34	22,500	87,492
December 1-31, 2006	11,881	\$ 10.36	11,881	75,611

(1) On December 14, 2005, the Company announced a program to repurchase up to 168,486 shares of its Common Stock. This program was completed on June 1, 2006 when the Company completed the repurchase of substantially all shares authorized under this program, and announced another program to repurchase up to 193,000 shares of its Common Stock.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

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

(a) The registrant held its Annual Meeting of Shareholders on November 14, 2006.

(b) Not applicable

(c) Two matters were voted upon at the Annual Meeting:

1) Election of three individuals as directors:

	Votes For	Votes Withheld
Stephen G. Barker	7,825,776	28,805
Tony D. Whitaker	7,821,757	32,824
David R. Harrod	7,835,533	19,048

2) Ratification of Grant Thornton LLP, as the Company's independent registered public accountants for the fiscal year ending June 30, 2007:

Votes For	Votes Against	Abstain
7,831,267	10,220	13,093

There were no broker nonvotes.

**Kentucky First Federal Bancorp**

PART II (continued)

ITEM 5. Other Information

None.

ITEM 6. Exhibits

- 31.1 CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**Kentucky First Federal Bancorp**

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.

KENTUCKY FIRST FEDERAL BANCORP

Date: February 14, 2007

By: /s/ Tony D. Whitaker

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Tony D. Whitaker  
Chairman of the Board and Chief Executive  
Officer

Date: February 14, 2007

By: /s/ R. Clay Hulette

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R. Clay Hulette  
Vice President and Chief Financial Officer