S Y BANCORP INC
Form 10-Q
November 08, 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**

For the transition period from to .

Commission file number **0-17262**

S.Y. BANCORP, INC.
(Exact name of registrant as specified in its charter)

Kentucky	**61-1137529**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1040 East Main Street, Louisville, Kentucky 40206
(Address of principal executive offices including zip code)

(502) 582-2571
(Registrant s telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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.).
Yes o No x

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

Common Stock, no par value 14,446,220
Shares issued and outstanding at November 1, 2006

PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

The following consolidated financial statements of S.Y. Bancorp, Inc. and Subsidiary, Stock Yards Bank & Trust Company, are submitted herewith:

Unaudited Condensed Consolidated Balance Sheets
September 30, 2006 and December 31, 2005

Unaudited Condensed Consolidated Statements of Income
for the three and nine months ended September 30, 2006 and 2005

Unaudited Condensed Consolidated Statements of Cash Flows
for the nine months ended September 30, 2006 and 2005

Unaudited Condensed Consolidated Statement of Changes in Stockholders Equity
for the nine months ended September 30, 2006

Unaudited Condensed Consolidated Statement of Comprehensive Income
for the three and nine months ended September 30, 2006 and 2005

Notes to Unaudited Condensed Consolidated Financial Statements

S.Y. BANCORP, INC. AND SUBSIDIARY
Unaudited Condensed Consolidated Balance Sheets
September 30, 2006 and December 31, 2005
(In thousands, except share data)

	September 30, 2006	December 31, 2005
Assets		
Cash and due from banks	$ 37,073	$ 34,082
Federal funds sold	275	9,957
Mortgage loans held for sale	4,069	7,444
Securities available for sale (amortized cost of $129,052 in 2006 and $158,371 in 2005)	127,655	156,950
Securities held to maturity (approximate fair value of $3,416 in 2006 and $4,180 in 2005)	3,397	4,124
Federal Home Loan Bank stock	3,540	3,391
Loans	1,116,799	1,053,871
Less allowance for loan losses	12,442	12,035
Net loans	1,104,357	1,041,836
Premises and equipment, net	24,970	25,187
Accrued interest receivable and other assets	48,557	47,467
Total assets	$ 1,353,893	$ 1,330,438
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing	$ 168,190	$ 180,628
Interest bearing	898,774	850,729
Total deposits	1,066,964	1,031,357
Securities sold under agreements to repurchase and federal funds purchased	91,804	79,886
Other short-term borrowings	1,210	2,139
Accrued interest payable and other liabilities	29,219	30,490
Federal Home Loan Bank advances	30,000	40,000
Subordinated debentures	120	20,769
Total liabilities	1,219,317	1,204,641
Stockholders equity:		
Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued or outstanding		
Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 14,441,852 and 13,815,837 shares in 2006 and 2005, respectively	9,016	6,931
Additional paid-in capital	28,990	14,773
Retained earnings	97,756	105,290
Accumulated other comprehensive loss	(1,186)	(1,197)
Total stockholders equity	134,576	125,797
Total liabilities and stockholders equity	$ 1,353,893	$ 1,330,438

See accompanying notes to unaudited condensed consolidated financial statements.

S.Y. BANCORP, INC. AND SUBSIDIARY

Unaudited Condensed Consolidated Statements of Income

For the three and nine months ended September 30, 2006 and 2005

(In thousands, except per share data)

	For three months ended September 30, 2006	2005	For nine month ended September 30, 2006	2005
Interest income:				
Loans	$ 20,402	$ 16,974	$ 58,429	$ 47,934
Federal funds sold	206	63	771	290
Mortgage loans held for sale	66	89	177	240
Securities taxable	1,047	1,088	3,297	3,139
Securities tax-exempt	308	347	926	1,038
Total interest income	22,029	18,561	63,600	52,641
Interest expense:				
Deposits	7,188	4,817	19,753	13,677
Securities sold under agreements to repurchase and federal funds purchased	642	419	1,628	1,027
Other short-term borrowings	278	8	296	24
Federal Home Loan Bank advances	312	124	959	389
Subordinated debentures	2	465	934	1,396
Total interest expense	8,422	5,833	23,570	16,513
Net interest income	13,607	12,728	40,030	36,128
Provision for loan losses	450		1,400	225
Net interest income after provision for loan losses	13,157	12,728	38,630	35,903
Non-interest income:				
Investment management and trust services	2,882	2,618	8,600	8,065
Service charges on deposit accounts	2,188	2,240	6,596	6,289
Bankcard transaction revenue	509	436	1,495	1,242
Gains on sales of mortgage loans held for sale	339	324	946	980
Brokerage commissions and fees	460	533	1,559	1,574
Other	564	667	1,800	2,034
Total non-interest income	6,942	6,818	20,996	20,184
Non-interest expenses:				
Salaries and employee benefits	6,314	6,063	19,692	18,365
Net occupancy expense	899	894	2,608	2,560
Data processing expense	929	910	2,819	2,748
Furniture and equipment expense	285	291	888	896
Amortization of issuance costs of trust preferred securities	879	9	897	26
State bank taxes	327	626	971	1,202
Other	2,213	2,086	6,939	6,717
Total non-interest expenses	11,846	10,879	34,814	32,514
Income before income taxes	8,253	8,667	24,812	23,573
Income tax expense	2,832	2,816	8,203	7,453
Net income	$ 5,421	$ 5,851	$ 16,609	$ 16,120
Net income per share:				
Basic	$ 0.38	$ 0.40	$ 1.15	$ 1.10
Diluted	0.37	0.40	1.13	1.09
Average common shares:				
Basic	14,426	14,569	14,471	14,605
Diluted	14,718	14,807	14,736	14,843

See accompanying notes to unaudited condensed consolidated financial statements.

S.Y. BANCORP, INC. AND SUBSIDIARY

Unaudited Condensed Consolidated Statements of Cash Flows

For the nine months ended September 30, 2006 and 2005

(In thousands)

	2006	2005
Operating activities:		
Net income	$ 16,609	$ 16,120
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,400	225
Depreciation, amortization and accretion, net	2,264	2,459
Amortization of debt issuance cost	897	26
Gains on sales of mortgage loans held for sale	(946)	(980)
Origination of mortgage loans held for sale	(66,568)	(82,640)
Proceeds from sale of mortgage loans held for sale	70,889	82,301
Loss on the sale of premises and equipment	13	
Bank owned life insurance income	674	660
Gain (loss) on the sale of other real estate	(15)	8
Share-based compensation	469	
Excess tax benefits from share-based compensation arrangements	(297)	241
Increase in accrued interest receivable and other assets	(3,227)	(3,591)
Increase (decrease) in accrued interest payable and other liabilities	(1,344)	6,760
Net cash provided by operating activities	20,818	21,589
Investing activities:		
Purchases of securities available for sale	(40,618)	(59,075)
Proceeds from maturities of securities available for sale	69,744	47,922
Proceeds from maturities of securities held to maturity	725	859
Net increase in loans	(63,921)	(41,406)
Purchases of premises and equipment	(2,151)	(1,791)
Proceeds from sales of premises and equipment	138	
Proceeds from sales of other real estate	567	753
Net cash used in investing activities	(35,516)	(52,738)
Financing activities:		
Net increase in deposits	35,607	44,338
Net (decrease) increase in securities sold under agreements to repurchase and federal funds purchased	11,918	13,558
Net (decrease) increase in other short-term borrowings	(929)	(175)
Repayments of Federal Home Loan Bank advances	(10,000)	(10,000)
Repayments of subordinated debentures	(20,649)	(30)
Issuance of common stock for options and employee benefit plans	1,534	755
Excess tax benefits from share-based compensation arrangements	297	
Common stock repurchases	(3,993)	(4,498)
Cash dividends paid	(5,778)	(4,597)
Net cash provided by financing activities	8,007	39,351
Net increase in cash and cash equivalents	(6,691)	8,202
Cash and cash equivalents at beginning of period	44,039	31,547
Cash and cash equivalents at end of period	$ 37,348	$ 39,749
Supplemental cash flow information:		
Income tax payments	$ 5,860	$ 7,475
Cash paid for interest	$ 23,600	$ 16,443
Supplemental non-cash activitiy:		
Transfers from loans to other real estate owned	$ 824	$ 870

See accompanying notes to unaudited condensed consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Unaudited Condensed Consolidated Statement of Changes in Stockholders Equity
For the nine months ended September 30, 2006
(In thousands, except per share data)

	Common stock Number of shares	Amount	Additional Paid in Capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance December 31, 2005	13,816	$ 6,931	$ 14,773	$ 105,290	$ (1,197)	$ 125,797
Net income				16,609		16,609
Change in accumulated other comprehensive loss, net of tax					11	11
Stock compensation expense			469			469
5% stock dividend	690	2,301	15,694	(17,995)		
Stock issued for stock options exercised and employee benefit plans	96	306	1,525			1,831
Cash dividends, $0.42 per share				(6,148)		(6,148)
Shares repurchased	(160)	(522)	(3,471)			(3,993)
Balance September 30, 2006	14,442	$ 9,016	$ 28,990	$ 97,756	$ (1,186)	$ 134,576

See accompanying notes to unaudited condensed consolidated financial statements.

S.Y. BANCORP, INC. AND SUBSIDIARY

Unaudited Condensed Consolidated Statements of Comprehensive Income
For the three and nine months ended September 30, 2006 and 2005
(In thousands)

	Three months ended September 30 2006	2005	Nine months ended September 30 2006	2005
Net income	$ 5,421	$ 5,851	$ 16,609	$ 16,120
Other comprehensive gain (loss), net of tax:				
Unrealized holding gains (losses) on securities available for sale arising during the period	1,171	(903)	11	(1,115)
Other comprehensive income (loss)	1,171	(903)	11	(1,115)
Comprehensive income	$ 6,592	$ 4,948	$ 16,620	$ 15,005

See accompanying notes to unaudited condensed consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Notes to Unaudited Condensed Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The consolidated financial statements of S.Y. Bancorp, Inc. (Bancorp) and its subsidiary reflect all adjustments (consisting only of adjustments of a normal recurring nature) which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods.

The financial statements include the accounts of S.Y. Bancorp, Inc. and its wholly-owned subsidiary, Stock Yards Bank & Trust Company (Bank). All significant intercompany transactions have been eliminated in consolidation. Bancorp also owns S.Y. Bancorp Capital Trust I (Trust), a Delaware statutory business trust that is a 100% owned finance subsidiary. The Trust is not consolidated in the financial statements of Bancorp. See note 4 to the financial statements below for more information on the Trust.

A description of other significant accounting policies is presented in the notes to the Consolidated Financial Statements for the year ended December 31, 2005 included in S.Y. Bancorp, Inc. s Annual Report on Form 10-K. Certain reclassifications have been made in the prior year financial statements to conform to current year classifications.

Interim results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results for the entire year.

(a) Critical Accounting Policies

Management has identified the accounting policy related to the allowance for loan losses as critical to the understanding of Bancorp s results of operations and discussed this conclusion with the Audit Committee of the board of directors. Since the application of this policy requires significant management assumptions and estimates, it could result in materially different amounts to be reported if conditions or underlying circumstances were to change. Assumptions include many factors such as changes in borrowers financial condition which can change quickly or historical loss ratios related to certain loan portfolios which may or may not be indicative of future losses. To the extent that management s assumptions prove incorrect, the results from operations could be materially affected by a higher provision for loan losses. The accounting policy related to the allowance for loan losses is applicable to the commercial banking segment of Bancorp.

Additionally, management has identified the accounting policy related to accounting for income taxes as critical to the understanding of Bancorp s results of operations and discussed this conclusion with the Audit Committee of the board of directors. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in Bancorp s financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences, including the effects of periodic IRS and state agency examinations, could materially impact Bancorp s financial position and its results from operations.

(b) Securities

Unrealized losses on Bancorp s bond portfolio have not been recognized in income because the bonds are of high credit quality, management has the intent and the ability to hold for the foreseeable future, and the decline in fair values is largely due to an increase in prevailing interest rates since the purchase date. The fair value is expected to recover as the securities reach their maturity date and/or interest rates decline. These investments consist of 62 and 32 separate investment positions as of September 30, 2006 and 2005, respectively that are not considered other-than-temporarily impaired.

(c) Stock-Based Compensation

Prior to January 1, 2006, Bancorp used the intrinsic value method as described in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) to measure stock-based compensation. Under the intrinsic value method, compensation expense was measured as the difference between the market value of the underlying shares and the price the employee is required to pay on the grant date, if any. Since Bancorp granted options at the current value of shares as of date of grant, no compensation expense was recorded.

On January 1, 2006, Bancorp adopted the modified version of prospective application of Statement of Financial Statement No. 123 (R) Share-based Payment , (SFAS No. 123R). Under this method, the fair value of all new and modified awards granted subsequent to the date of adoption will be recognized as compensation expense, net of estimated forfeitures. Further, the fair value of any unvested awards at the date of adoption was recognized as compensation expense, net of estimated forfeitures.

Bancorp currently has one stock-based compensation plan. Bancorp s 1995 Stock Incentive Plan expired in 2005; however, options granted under this plan expire as late as 2015. The 2005 Stock Incentive Plan reserved 735,000 shares of common stock for issuance of stock based awards. As of September 30, 2006, there were 543,896 shares available for future awards. Options granted have been subject to a vesting schedule of 20% per year except for those granted to certain executive officers which vest six months after grant date. All outstanding options were granted at an exercise price equal to the market value of common stock at the time of grant and expire ten years after the grant date.

The fair value of Bancorp s stock options is estimated at the date of grant using the Black-Scholes option pricing model, a leading formula for calculating the value of stock options. This model requires the input of subjective assumptions, changes to which can materially affect the fair value estimate. As a result of applying the provisions of SFAS No. 123R, Bancorp recognized, within salaries and employee benefits in the unaudited condensed consolidated income statements, stock-based compensation expense of $469,000 before income taxes and a deferred tax benefit of $164,000 resulting in a reduction of net income of $305,000, or $0.02 per basic and diluted shares for the nine months ended September 30, 2006. For the third quarter of 2006, Bancorp recognized $85,000 of compensation expense before taxes, a deferred tax benefit of $30,000 and a reduction of net income of $55,000, or less than $0.01 per basic and diluted shares. Bancorp expects to record an additional $56,000 of compensation expense in the fourth quarter of 2006 for outstanding stock options. As of September 30, 2006 Bancorp has $698,000 of unrecognized stock-based compensation expense that will be recorded as compensation expense over the next 4.25 years, the weighted-average remaining life of these options. Bancorp received cash of $1,534,000 from the exercise of options during the first nine months of 2006.

In accordance with the Financial Accounting Standards Board Staff Position SFAS No. 123R 3, Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards , Bancorp has elected the alternative transition method to calculate the beginning balance of the pool of excess tax benefits. The beginning balance of excess tax benefits was calculated as the sum of all net increases in additional paid-in-capital related to tax benefits from stock-based employee compensation, less the incremental stock-based after-tax compensation costs that would have been recognized if the fair value recognition provisions of SFAS No. 123 had been used to account for stock-based compensation costs.

Prior to the adoption of SFAS No. 123R, Bancorp presented all tax benefits of deductions resulting from the exercise of share-based awards as operating cash inflows in the unaudited condensed consolidated statement of cash flows. SFAS No. 123R requires the cash flows resulting from excess tax deductions related to the compensation costs recognized for the share-based awards be classified as financing cash inflows. Cash flows provided by financing activities relating to excess tax benefits from share-based compensation arrangements increased by $297,000 and cash flows used in operating activities decreased by $297,000 for the nine months ended September 30, 2006. Cash flows relating to tax benefits from the exercise of stock options were previously reported as operating activities.

Had compensation cost for Bancorp s stock-based compensation plan been determined using the fair value method as described in SFAS No. 123, Bancorp s net income and earnings per share for the three and nine months periods ended September 30, 2005 would have approximated the pro forma amounts indicated below:

	Three months ended September 30, 2005		**Nine months ended September 30, 2005**	
Net income, as reported	$	5,851	$	16,120
Less stock-based compensation expense determined under fair value method, net of tax	80		239	
Pro forma net income	$	5,771	$	15,881
Basic EPS:				
As reported	$	0.40	$	1.10
Pro forma	0.40		1.09	
Diluted EPS:				
As reported	0.40		1.09	
Pro forma	0.39		1.07	

The weighted average fair value of each stock option included in the preceding pro forma amounts was estimated using a Black-Scholes option-pricing model and is amortized over the vesting period of the underlying options.

Under SFAS No. 123, Bancorp recognized actual forfeitures as they occurred within the above pro forma income calculation. Under SFAS No. 123R, Bancorp is required to reduce future stock-based compensation expense by estimated forfeitures at the grant date. These forfeiture estimates are based on historical experience.

The following assumptions were used in option valuations:

	2006		2005	
Dividend yield	1.63	%	1.56	%
Expected volatility	16.53		16.60	
Risk free interest rate	4.42		4.13	
Forfeitures	5.69			
Expected life of options (in years)	7.7		7.0	

The expected life of options is based on actual experience of past like-term options. All outstanding options have a 10-year contractual term. Bancorp evaluated historical exercise and post-vesting termination behavior when determining the expected life of 7.7 and 7.0 years for options granted during the first nine months of 2006 and 2005, respectively.

The dividend yield and expected volatility are based on historical information corresponding to the expected life of options granted. The expected volatility is the volatility of the underlying shares for the expected term on a quarterly basis.

The risk free interest rate is the implied yield currently available on U. S. Treasury issues with a remaining term equal to the expected life of the options.

A summary of stock option activity and related information for the nine months ended September 30, 2006 follows. The number of options and aggregate intrinsic value are stated in thousands of dollars.

	Options	Exercise Price	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Fair Value	Weighted Average Remaining Contractual Life
At December 31, 2005						
Vested and exercisable	834	$ 6.90-$22.96	$ 16.31	$ 9,312	$ 3.40	
Unvested	8	16.00-20.90	19.80	66	4.52	
Total outstanding	842	6.90-22.96	16.34	9,378	3.41	
Vested	57	18.05-24.07	23.91	1,356	5.77	
Granted	196	24.07	24.07	4,726	5.81	
Exercised	66	6.90-22.96	13.19	1,127	2.62	
Forfeited	7	24.07	24.07	164	5.81	
At September 30, 2006						
Vested and exercisable	824	6.90-24.07	17.08	14,069	3.63	5.89
Unvested	141	16.00-24.07	23.87	3,376	5.75	9.21
Total outstanding	965	6.90-24.07	18.08	$ 17,445	3.94	6.38

On January 17, 2006, Bancorp granted 196,350 options to purchase common stock shares at the current market price of $24.07. These options were awarded to employees and will primarily vest 20% per year over the next five years. Of these options, 54,600 were granted to certain executive officers that vested in the third quarter, six months from the date of grant. All options expire ten years from the date of grant.

On December 31, 2005, the Board of Directors of Bancorp accelerated the vesting of all employee stock options outstanding. This resulted in the accelerated vesting of approximately 190,000 options to purchase shares of common stock of Bancorp. The Board approved the accelerated vesting to reduce future compensation expense that Bancorp would otherwise be required to report in its consolidated financial statements upon adoption of SFAS No. 123R. By vesting these stock options early, Bancorp avoided recognizing approximately $1,000,000 in expense over future vesting periods. There are 8,000 options granted to non-employee directors that continue to vest on their original terms. In the fourth quarter of 2006, 2,100 of these options will vest.

(2) Allowance for Loan Losses

An analysis of the changes in the allowance for loan losses for the nine months ended September 30 follows (in thousands):

	2006	2005
Beginning balance January 1,	$ 12,035	$ 12,521
Provision for loan losses	1,400	225
Loans charged off	(1,733)	(1,060)
Recoveries	740	522
Ending balance September 30,	$ 12,442	$ 12,208

(3) Federal Home Loan Bank Advances

Under a blanket collateral agreement with the Federal Home Loan Bank of Cincinnati and secured by certain residential real estate loans, the Bank has outstanding borrowings of $30,000,000 via two separate fixed rate, non-callable advances of $10,000,000 and $20,000,000, which are due in February of 2007 and October of 2008, respectively, with a weighted average rate of 4.13%. Interest payments are due monthly, with principal due at maturity.

(4) Subordinated Debentures

On June 1, 2001, S.Y. Bancorp Capital Trust I, a Delaware statutory business trust and 100%-owned finance subsidiary of Bancorp, issued $20.0 million of 9.00% Cumulative Trust Preferred Securities (Securities). The principal asset of the Trust I was a $20.0 million subordinated debenture of Bancorp, and Bancorp owned all of the common securities of the Trust. The securities and subordinated debenture bore interest at the rate of 9.00% and would have matured June 30, 2031, subject to prior redemption under certain circumstances. The Securities, the assets of the Trust, and the common securities issued by the Trust were redeemable in whole or in part on or after June 30, 2006, or at any time in whole, but not in part, from the date of issuance upon the occurrence of certain events. The Securities were included in Tier 1 capital for regulatory capital adequacy determination purposes, subject to certain limitations. The obligations of Bancorp with respect to the issuance of the Securities constituted a full and unconditional guarantee by Bancorp of the Trust s obligation with respect to the Securities.

On July 1, 2006, Bancorp redeemed these securities at par value. Remaining unamortized issuance costs of $879,000 were recognized as non-interest expense in the third quarter of 2006.

The Bank also had subordinated debentures outstanding amounting to $120,000 at September 30, 2006 and $150,000 at December 31, 2005. Interest due on these debentures is at a variable rate equal to one percent less than the Bank s prime rate adjusted annually on January 1. The rate for the debentures was 6.25% and 4.25% for 2006 and 2005, respectively. The debentures are subordinated to the claims of creditors and depositors of the Bank and are subject to redemption by the Bank at the principal amount outstanding, upon the earlier of the death of the registered owners, or an event of default by the registered owners with respect to loans from the Bank. While the debentures mature in 2049, the owners may redeem the debentures at any time.

(5) Intangible Assets

Statement of Financial Accounting Standards No. 142, Goodwill and Intangible Assets (SFAS No. 142), requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. Annual evaluations have resulted in no charges for impairment. Bancorp currently has goodwill from the acquisition of a bank in southern Indiana in the amount of $682,000. This goodwill is assigned to the commercial banking segment of Bancorp.

(6) Defined Benefit Retirement Plan

The Bank sponsors an unfunded, non-qualified, defined benefit retirement plan for certain key officers. Benefits vest based on years of service. The Bank does not make contributions to this plan. Information about the components of the net periodic benefit cost of the defined benefit plan follows:

	Three months ended September 30	
	2006	**2005**
Components of net periodic benefit cost:		
Service cost	$	$
Interest cost		