

OLD SECOND BANCORP INC
Form 10-Q
August 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from to

Commission File Number 0 -10537

OLD SECOND BANCORP, INC.

(Exact name of Registrant as specified in its charter)

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Delaware
(State or other jurisdiction
of incorporation or organization)

36-3143493
(I.R.S. Employer Identification Number)

37 South River Street, Aurora, Illinois 60507

(Address of principal executive offices) (Zip Code)

(630) 892-0202

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of August 5, 2011, the Registrant had outstanding 14,034,991 shares of common stock, \$1.00 par value per share.

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OLD SECOND BANCORP, INC.

Form 10-Q Quarterly Report

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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****Old Second Bancorp, Inc. and Subsidiaries****Consolidated Balance Sheets***(In thousands, except share data)*

| | (Unaudited) June 30, 2011 | December 31, 2010 |
|---|---------------------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 36,088 | \$ 28,584 |
| Interest bearing deposits with financial institutions | 69,696 | 69,492 |
| Federal funds sold | | 682 |
| Cash and cash equivalents | 105,784 | 98,758 |
| Securities available-for-sale | 145,613 | 148,647 |
| Federal Home Loan Bank and Federal Reserve Bank stock | 14,050 | 13,691 |
| Loans held-for-sale | 7,273 | 10,655 |
| Loans | 1,530,406 | 1,690,129 |
| Less: allowance for loan losses | 66,018 | 76,308 |
| Net loans | 1,464,388 | 1,613,821 |
| Premises and equipment, net | 52,692 | 54,640 |
| Other real estate owned | 82,611 | 75,613 |
| Mortgage servicing rights, net | 4,018 | 3,897 |
| Core deposit and other intangible assets, net | 5,090 | 5,525 |
| Bank-owned life insurance (BOLI) | 51,863 | 50,966 |
| Other assets | 48,027 | 47,708 |
| Total assets | \$ 1,981,409 | \$ 2,123,921 |
| Liabilities | | |
| Deposits: | | |
| Noninterest bearing demand | \$ 343,789 | \$ 330,846 |
| Interest bearing: | | |
| Savings, NOW, and money market | 738,027 | 782,116 |
| Time | 687,244 | 795,566 |
| Total deposits | 1,769,060 | 1,908,528 |
| Securities sold under repurchase agreements | 1,331 | 2,018 |
| Other short-term borrowings | 4,133 | 4,141 |
| Junior subordinated debentures | 58,378 | 58,378 |
| Subordinated debt | 45,000 | 45,000 |
| Notes payable and other borrowings | 500 | 500 |
| Other liabilities | 22,033 | 21,398 |
| Total liabilities | 1,900,435 | 2,039,963 |
| Stockholders Equity | | |
| | 70,385 | 69,921 |

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Preferred stock, (\$1.00 par value; authorized 300,000 shares at June 30, 2011; series B, 5% cumulative perpetual, 73,000 shares issued and outstanding at June 30, 2011 and December 31, 2010, \$1,000.00 liquidation value)

| | | |
|---|--------------|--------------|
| Common stock, \$1.00 par value; authorized 60,000,000 shares; issued 18,627,858 at June 30, 2011 and 18,466,538 at December 31, 2010; outstanding 14,034,991 at June 30, 2011 and 13,911,475 at December 31, 2010 | 18,628 | 18,467 |
| Additional paid-in capital | 65,539 | 65,209 |
| Retained earnings | 23,894 | 28,335 |
| Accumulated other comprehensive loss | (2,579) | (3,130) |
| Treasury stock, at cost, 4,592,867 shares at June 30, 2011 and 4,555,063 shares at December 31, 2010 | (94,893) | (94,844) |
| Total stockholders' equity | 80,974 | 83,958 |
| Total liabilities and stockholders' equity | \$ 1,981,409 | \$ 2,123,921 |

See accompanying notes to consolidated financial statements.

Table of Contents**Old Second Bancorp, Inc. and Subsidiaries****Consolidated Statements of Operations**

(In thousands, except share data)

| | (unaudited) Three Months Ended June 30, | | (unaudited) Year to Date June 30, | |
|---|---|-----------|---|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest and Dividend Income | | | | |
| Loans, including fees | \$ 20,749 | \$ 25,138 | \$ 41,965 | \$ 51,770 |
| Loans held-for-sale | 75 | 108 | 126 | 180 |
| Securities: | | | | |
| Taxable | 885 | 1,215 | 1,763 | 2,453 |
| Tax exempt | 127 | 689 | 269 | 1,434 |
| Dividends from Federal Reserve Bank and Federal Home Loan Bank stock | 74 | 62 | 143 | 118 |
| Federal funds sold | 1 | 1 | 1 | 1 |
| Interest bearing deposits with financial institutions | 69 | 44 | 139 | 60 |
| Total interest and dividend income | 21,980 | 27,257 | 44,406 | 56,016 |
| Interest Expense | | | | |
| Savings, NOW, and money market deposits | 372 | 1,200 | 948 | 2,585 |
| Time deposits | 3,791 | 4,750 | 7,784 | 9,847 |
| Securities sold under repurchase agreements | | 13 | | 23 |
| Other short-term borrowings | | | | 18 |
| Junior subordinated debentures | 1,133 | 1,072 | 2,246 | 2,144 |
| Subordinated debt | 206 | 203 | 409 | 398 |
| Notes payable and other borrowings | 4 | 4 | 8 | 5 |
| Total interest expense | 5,506 | 7,242 | 11,395 | 15,020 |
| Net interest and dividend income | 16,474 | 20,015 | 33,011 | 40,996 |
| Provision for loan losses | 500 | 44,623 | 4,500 | 63,843 |
| Net interest and dividend income (expense) after provision for loan losses | 15,974 | (24,608) | 28,511 | (22,847) |
| Noninterest Income | | | | |
| Trust income | 1,715 | 1,852 | 3,499 | 3,509 |
| Service charges on deposits | 2,047 | 2,286 | 3,864 | 4,304 |
| Secondary mortgage fees | 236 | 338 | 463 | 561 |
| Mortgage servicing income, net of changes in fair value | (263) | (642) | 107 | (554) |
| Net gain on sales of mortgage loans | 1,117 | 2,156 | 2,353 | 3,388 |
| Securities gains, net | 512 | 1,756 | 651 | 1,754 |
| Increase in cash surrender value of bank-owned life insurance | 434 | 262 | 897 | 691 |
| Debit card interchange income | 784 | 724 | 1,484 | 1,387 |
| Lease revenue from other real estate owned | 957 | 442 | 1,477 | 960 |
| Net gain on sale of other real estate owned | 402 | 347 | 636 | 498 |
| Other income | 1,456 | 1,327 | 2,907 | 2,617 |
| Total noninterest income | 9,397 | 10,848 | 18,338 | 19,115 |
| Noninterest Expense | | | | |
| Salaries and employee benefits | 8,580 | 8,918 | 17,509 | 17,943 |
| Occupancy expense, net | 1,310 | 1,237 | 2,655 | 2,762 |
| Furniture and equipment expense | 1,475 | 1,544 | 2,935 | 3,183 |

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| | | | | |
|---|-----------|-------------|------------|-------------|
| FDIC insurance | 1,113 | 1,527 | 2,852 | 2,955 |
| General bank insurance | 826 | 133 | 1,651 | 273 |
| Amortization of core deposit and other intangible asset | 206 | 283 | 435 | 565 |
| Advertising expense | 187 | 439 | 420 | 695 |
| Debit card interchange expense | 324 | 337 | 697 | 647 |
| Legal fees | 1,040 | 666 | 1,983 | 1,225 |
| Other real estate expense | 5,951 | 6,845 | 11,265 | 13,273 |
| Other expense | 3,346 | 3,550 | 6,554 | 6,707 |
| Total noninterest expense | 24,358 | 25,479 | 48,956 | 50,228 |
| Income (Loss) before income taxes | 1,013 | (39,239) | (2,107) | (53,960) |
| Benefit for income taxes | | (15,856) | | (22,023) |
| Net income (loss) | \$ 1,013 | \$ (23,383) | \$ (2,107) | \$ (31,937) |
| Preferred stock dividends and accretion | 1,175 | 1,131 | 2,334 | 2,259 |
| Net loss available to common stockholders | \$ (162) | \$ (24,514) | \$ (4,441) | \$ (34,196) |
| Basic loss per share | \$ (0.01) | \$ (1.74) | \$ (0.31) | \$ (2.43) |
| Diluted loss per share | (0.01) | (1.75) | (0.31) | (2.43) |
| Dividends declared per share | | 0.01 | | 0.02 |

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

| | (Unaudited) Six Months Ended June 30, | |
|--|---|-------------|
| | 2011 | 2010 |
| Cash flows from operating activities | | |
| Net loss | \$ (2,107) | \$ (31,937) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 2,142 | 2,320 |
| Amortization of leasehold improvement | 2 | 127 |
| Change in market value of mortgage servicing rights | 500 | 913 |
| Provision for loan losses | 4,500 | 63,843 |
| Provision for deferred tax benefit | | (15,972) |
| Originations of loans held-for-sale | (98,257) | (134,471) |
| Proceeds from sales of loans held-for-sale | 103,549 | 138,900 |
| Net gain on sales of mortgage loans | (2,353) | (3,388) |
| Change in current income taxes payable | | 9,250 |
| Increase in cash surrender value of bank-owned life insurance | (897) | (691) |
| Change in accrued interest receivable and other assets | (1,126) | 2,549 |
| Change in accrued interest payable and other liabilities | (866) | 3,242 |
| Net premium amortization on securities | 98 | 253 |
| Securities gains, net | (651) | (1,754) |
| Amortization of core deposit and other intangible assets | 435 | 565 |
| Tax effect from vesting of restricted stock | | (225) |
| Stock based compensation | 491 | 435 |
| Net gain on sale of other real estate owned | (636) | (498) |
| Write-down of other real estate owned | 6,502 | 10,739 |
| Net cash provided by operating activities | 11,326 | 44,200 |
| Cash flows from investing activities | | |
| Proceeds from maturities and pre-refunds including pay down of securities available-for-sale | 17,299 | 52,580 |
| Proceeds from sales of securities available-for-sale | 15,277 | 75,578 |
| Purchases of securities available-for-sale | (28,178) | (114,732) |
| Purchases of Federal Reserve Bank and Federal Home Loan Bank stock | (359) | (647) |
| Net change in loans | 114,420 | 88,923 |
| Investment in other real estate owned | (2,167) | (10) |
| Proceeds from sales of other real estate owned | 19,816 | 10,290 |
| Net purchases of premises and equipment | (196) | (546) |
| Net cash provided by investing activities | 135,912 | 111,436 |
| Cash flows from financing activities | | |
| Net change in deposits | (139,468) | (55,258) |
| Net change in securities sold under repurchase agreements | (687) | 2,005 |
| Net change in other short-term borrowings | (8) | (50,138) |
| Dividends paid | | (2,105) |
| Purchase of treasury stock | (49) | (40) |
| Net cash used in financing activities | (140,212) | (105,536) |
| Net change in cash and cash equivalents | 7,026 | 50,100 |
| Cash and cash equivalents at beginning of period | 98,758 | 79,796 |

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| | | | | |
|---|----|---------|----|----------|
| Cash and cash equivalents at end of period | \$ | 105,784 | \$ | 129,896 |
| Supplemental cash flow information | | | | |
| Income taxes (received) paid | \$ | | \$ | (15,076) |
| Interest paid for deposits | | 9,177 | | 13,065 |
| Interest paid for borrowings | | 417 | | 2,611 |
| Non-cash transfer of loans to other real estate owned | | 30,513 | | 27,449 |
| Change in dividends declared not paid | | 1,870 | | (454) |
| Accretion on preferred stock warrants | | 464 | | 434 |

See accompanying notes to consolidated financial statements.

Table of Contents**Old Second Bancorp, Inc. and Subsidiaries****Consolidated Statements of Changes in****Stockholders Equity**

(In thousands, except share data)

| | Common Stock | Preferred Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Stockholders Equity |
|--|-----------------|--------------------|----------------------------------|----------------------|--|-------------------|---------------------------------|
| Balance, December 31, 2009 | \$ 18,373 | \$ 69,039 | \$ 64,431 | \$ 141,774 | \$ (1,605) | \$ (94,804) | \$ 197,208 |
| Comprehensive loss: | | | | | | | |
| Net loss | | | | (31,937) | | | (31,937) |
| Change in net unrealized loss on securities available-for-sale net of \$178 tax effect | | | | | (293) | | (293) |
| Total comprehensive loss | | | | | | | (32,230) |
| Dividends Declared, \$.02 per share | | | | (282) | | | (282) |
| Change in restricted stock | 94 | | (94) | | | | |
| Tax effect from vesting of restricted stock | | | (225) | | | | (225) |
| Stock based compensation | | | 435 | | | | 435 |
| Purchase of treasury stock | | | | | | (40) | (40) |
| Preferred dividends declared (5% per preferred share) | | 434 | | (1,803) | | | (1,369) |
| Adoption of mark to market of mortgage servicing rights | | | | 29 | | | 29 |
| Balance, June 30, 2010 | \$ 18,467 | \$ 69,473 | \$ 64,547 | \$ 107,781 | \$ (1,898) | \$ (94,844) | \$ 163,526 |
| Balance, December 31, 2010 | \$ 18,467 | \$ 69,921 | \$ 65,209 | \$ 28,335 | \$ (3,130) | \$ (94,844) | \$ 83,958 |
| Comprehensive loss: | | | | | | | |
| Net loss | | | | (2,107) | | | (2,107) |
| Change in net unrealized gain on securities available-for-sale net of \$260 tax effect | | | | | 551 | | 551 |
| Total comprehensive loss | | | | | | | (1,556) |
| Change in restricted stock | 161 | | (161) | | | | |
| Stock based compensation | | | 491 | | | | 491 |
| Purchase of treasury stock | | | | | | (49) | (49) |
| Preferred dividends declared (5% per preferred share) | | 464 | | (2,334) | | | (1,870) |
| Balance, June 30, 2011 | \$ 18,628 | \$ 70,385 | \$ 65,539 | \$ 23,894 | \$ (2,579) | \$ (94,893) | \$ 80,974 |

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Table amounts in thousands, except per share data, unaudited)

Note 1 Summary of Significant Accounting Policies

The accounting policies followed in the preparation of the interim financial statements are consistent with those used in the preparation of the annual financial information. The interim financial statements reflect all normal and recurring adjustments, which are necessary, in the opinion of management, for a fair statement of results for the interim period presented. Results for the period ended June 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These interim financial statements should be read in conjunction with the audited financial statements and notes included in Old Second Bancorp, Inc.'s (the Company) annual report on Form 10-K for the year ended December 31, 2010. Unless otherwise indicated, amounts in the tables contained in the notes are in thousands. Certain items in prior periods have been reclassified to conform to the current presentation.

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements. Future changes in information may affect these estimates, assumptions, and judgments, which, in turn, may affect amounts reported in the financial statements.

All significant accounting policies are presented in Note 1 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2010. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined.

In January 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-01 Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (Topic 310). The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. ASU 2011-01 was effective upon issuance. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods beginning on or after June 15, 2011. Management does not expect this standard to have a material impact on the Company's financial statements.

In April 2011, the FASB issued ASU No. 2011-02, Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. Because of inconsistencies in practice and the increased volume of debt modifications, ASU No. 2011-02, amends FASB Accounting Standard Codification (ASC) 310-40, Receivables - Troubled Debt Restructurings by Creditors, to provide additional clarifying guidance in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring qualifies as a troubled debt restructuring. The effective date is for the first interim or annual period beginning on or after June 15, 2011, to be applied retrospectively to restructurings taking place on or after the beginning of the fiscal year of

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adoption. The impact of ASU 2011-02 on the Company's disclosures will be reflected in Note 3 - Loans. Management does not expect this standard to have a material impact on the Company's financial statements.

In May 2011, the FASB issued ASU No. 2011-04 - Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP

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and IFRSs. ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Consequently, the amendments in this update result in common fair value measurement and disclosure requirements in U.S.GAAP and IFRSs (International Financial Reporting Standards). ASU 2011-04 is effective prospectively during interim and annual periods beginning on or after December 15, 2011. Early application by public entities is not permitted. We are assessing the impact of ASU 2011-04 on our fair value disclosures.

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05 Comprehensive Income (Topic 220) - Presentation of Comprehensive Income. ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. We are assessing the impact of ASU 2011-05 on our comprehensive income presentation.

Table of Contents**Note 2 Securities**

Securities available-for-sale are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2011: | | | | |
| U.S. Treasury | \$ 1,501 | \$ 25 | \$ | \$ 1,526 |
| U.S. government agencies | 47,339 | 157 | (210) | 47,286 |
| U.S. government agency mortgage-backed | 69,265 | 711 | (146) | 69,830 |
| States and political subdivisions | 13,973 | 1,279 | (23) | 15,229 |
| Collateralized debt obligations | 17,869 | | (6,179) | 11,690 |
| Equity securities | 49 | 6 | (3) | 52 |
| | \$ 149,996 | \$ 2,178 | \$ (6,561) | \$ 145,613 |
| December 31, 2010: | | | | |
| U.S. Treasury | \$ 1,501 | \$ 20 | \$ | \$ 1,521 |
| U.S. government agencies | 37,810 | 117 | (501) | 37,426 |
| U.S. government agency mortgage-backed | 75,257 | 1,475 | (1) | 76,731 |