



Edgar Filing: OLD SECOND BANCORP INC - Form 10-Q

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 Rule 12b-2 of the Exchange Act).

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 May 9, 2014, the Registrant had outstanding 29,442,508 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) March 31, 2014	December 31, 2013
<b>Assets</b>		
Cash and due from banks	\$ 40,245	\$ 33,210
Interest bearing deposits with financial institutions	14,242	14,450
Cash and cash equivalents	54,487	47,660
Securities available-for-sale, at fair value	400,212	372,191
Securities held-to-maturity, at amortized cost	264,298	256,571
Federal Home Loan Bank and Federal Reserve Bank stock	10,292	10,292
Loans held-for-sale	2,507	3,822
Loans	1,111,237	1,101,256
Less: allowance for loan losses	25,476	27,281
Net loans	1,085,761	1,073,975
Premises and equipment, net	45,716	46,005
Other real estate owned	40,220	41,537
Mortgage servicing rights, net	5,614	5,807
Core deposit intangible, net	665	1,177
Bank-owned life insurance (BOLI)	55,768	55,410
Deferred tax assets, net	74,453	75,303
Other assets	19,426	14,284
Total assets	\$ 2,059,419	\$ 2,004,034
<b>Liabilities</b>		
Deposits:		
Noninterest bearing demand	\$ 387,090	\$ 373,389
Interest bearing:		
Savings, NOW, and money market	872,521	836,300
Time	464,670	472,439
Total deposits	1,724,281	1,682,128
Securities sold under repurchase agreements	23,212	22,560
Other short-term borrowings	20,000	5,000
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
Other liabilities	38,560	42,776
Total liabilities	1,909,931	1,856,342
<b>Stockholders Equity</b>		
Preferred stock	73,000	72,942
Common stock	18,840	18,830
Additional paid-in capital	66,297	66,212
Retained earnings	94,693	92,549

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Accumulated other comprehensive loss		(7,493)		(7,038)
Treasury stock		(95,849)		(95,803)
Total stockholders' equity		149,488		147,692
Total liabilities and stockholders' equity	\$	2,059,419	\$	2,004,034

	March 31, 2014		December 31, 2013	
	Preferred Stock	Common Stock	Preferred Stock	Common Stock
Par value	\$ 1	\$ 1	\$ 1	\$ 1
Liquidation value	1,000	n/a	1,000	n/a
Shares authorized	300,000	60,000,000	300,000	60,000,000
Shares issued	73,000	18,839,734	73,000	18,829,734
Shares outstanding	73,000	13,917,508	73,000	13,917,108
Treasury shares	-	4,922,226	-	4,912,626

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)	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Interest and dividend income</b>		
Loans, including fees	\$ 12,938	\$ 14,914
Loans held-for-sale	25	41
Securities:		
Taxable	3,502	2,298
Tax-exempt	148	119
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	76	76
Interest bearing deposits with financial institutions	15	42
Total interest and dividend income	16,704	17,490
<b>Interest expense</b>		
Savings, NOW, and money market deposits	199	228
Time deposits	1,321	1,853
Securities sold under repurchase agreements	1	1
Other short-term borrowings	1	19
Junior subordinated debentures	1,387	1,287
Subordinated debt	196	196
Notes payable and other borrowings	4	4
Total interest expense	3,109	3,588
Net interest and dividend income	13,595	13,902
Loan loss reserve release	(1,000)	(2,500)
Net interest and dividend income after loan loss reserve release	14,595	16,402
<b>Noninterest income</b>		
Trust income	1,459	1,491
Service charges on deposits	1,720	1,677
Secondary mortgage fees	112	230
Mortgage servicing (loss) gain, net of changes in fair value	(47)	244
Net gain on sales of mortgage loans	662	1,976
Securities (losses) gains, net	(69)	1,453
Increase in cash surrender value of bank-owned life insurance	358	407
Debit card interchange income	830	792
Other income	1,296	1,737
Total noninterest income	6,321	10,007
<b>Noninterest expense</b>		
Salaries and employee benefits	9,101	9,032
Occupancy expense, net	1,481	1,279
Furniture and equipment expense	983	1,144
FDIC insurance	279	1,035
General bank insurance	489	849
Amortization of core deposit	512	525
Advertising expense	303	166
Debit card interchange expense	378	344
Legal fees	257	323
Other real estate expense, net	1,008	3,097
Other expense	2,725	3,144
Total noninterest expense	17,516	20,938
Income before income taxes	3,400	5,471

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Income tax expense		1,198		-
<b>Net income</b>		2,202		5,471
<b>Preferred stock dividends and accretion of discount</b>		1,572		1,289
<b>Net income available to common shareholders</b>	\$	630	\$	4,182
<b>Share and per share information:</b>				
Basic income per share	\$	0.04	\$	0.30
Diluted income per share		0.04		0.30
Dividends paid per share		-		-

See accompanying notes to consolidated financial statements.

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

(In thousands)

	(Unaudited)	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net income	\$ 2,202	\$ 5,471
Total unrealized holding losses on available-for-sale securities arising during the period	(1,089)	(35)
Related tax benefit	448	17
Holding losses after tax	(641)	(18)
Less: Reclassification adjustment for the net gains and losses realized during the period		
Net realized (losses) gains	(69)	1,453
Income tax benefit (expense) on net realized gains	28	(596)
Net realized (losses) gains after tax	(41)	857
Other comprehensive loss on available-for-sale securities	(600)	(875)
Accretion of net unrealized holding gains on held-to-maturity transferred from available-for-sale securities	247	-
Related tax expense	(102)	-
Other comprehensive income on held-to-maturity securities	145	-
Total other comprehensive loss	(455)	(875)
Total comprehensive income	\$ 1,747	\$ 4,596

See accompanying notes to consolidated financial statements.



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

(In thousands)

	(Unaudited)	
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 2,202	\$ 5,471
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of leasehold improvement	644	746
Change in market value on mortgage servicing rights	304	106
Loan loss reserve release	(1,000)	(2,500)
Gain on recapture of restricted stock	-	(612)
Provision for deferred tax expense	1,168	-
Originations of loans held-for-sale	(19,764)	(53,138)
Proceeds from sales of loans held-for-sale	21,592	57,755
Net gain on sales of mortgage loans	(662)	(1,976)
Increase in cash surrender value of bank-owned life insurance	(358)	(407)
Change in accrued interest receivable and other assets	(6,238)	(5,215)
Change in accrued interest payable and other liabilities	(3,082)	634
Net discount (accretion)/premium amortization on securities	(474)	414
Securities losses (gains), net	69	(1,453)
Amortization of core deposit, net	512	525
Tax effect on vesting of restricted stock	29	-
Stock based compensation	66	14
Net gain on sale of other real estate owned	(386)	(181)
Provision for other real estate owned losses	436	1,987
Net gain on disposal of fixed assets	-	(5)
Net cash (used in) provided by operating activities	(4,942)	2,165
<b>Cash flows from investing activities</b>		
Proceeds from maturities and calls including pay down of securities available-for-sale	2,361	18,055
Proceeds from sales of securities available-for-sale	31,781	231,155
Purchases of securities available-for-sale	(62,931)	(240,190)
Proceeds from maturities and calls including pay down of securities held-to-maturity	1,893	-
Purchases of securities held-to-maturity	(9,220)	-
Net change in loans	(15,474)	26,971
Improvements in other real estate owned	-	(50)
Proceeds from sales of other real estate owned	5,955	11,842
Proceeds from disposition of fixed assets	-	6
Net purchases of premises and equipment	(355)	(1,123)
Net cash (used in) provided by investing activities	(45,990)	46,666
<b>Cash flows from financing activities</b>		
Net change in deposits	42,153	1,037
Net change in securities sold under repurchase agreements	652	2,927
Net change in other short-term borrowings	15,000	(100,000)
Purchase of treasury stock	(46)	(185)
Net cash provided by (used in) financing activities	57,759	(96,221)
Net change in cash and cash equivalents	6,827	(47,390)
Cash and cash equivalents at beginning of period	47,660	128,507
Cash and cash equivalents at end of period	\$ 54,487	\$ 81,117



Table of Contents**Old Second Bancorp, Inc. and Subsidiaries****Consolidated Statements of Cash Flows - Continued**

(In thousands)

	(Unaudited) Three Months Ended March 31,	
<b>Supplemental cash flow information</b>	<b>2014</b>	<b>2013</b>
Interest paid for deposits	\$ 1,584	\$ 2,124
Interest paid for borrowings	202	225
Noncash transfer of loans to other real estate owned	4,688	6,985
Noncash transfer of loans to securities available-for-sale	-	5,329
Accretion on preferred stock warrants	58	261
Fair value difference on recapture of restricted stock	-	43

See accompanying notes to consolidated financial statements.

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

(In thousands)

(Unaudited)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity
Balance, December 31, 2012	\$ 18,729	\$ 71,869	\$ 66,189	\$ 12,048	\$ (1,327)	\$ (94,956)	\$ 72,552
Net income				5,471			5,471
Change in net unrealized loss on securities available-for-sale, net of \$613 tax effect					(875)		(875)
Change in restricted stock	51		(51)				-
Recapture of restricted stock			(43)			(569)	(612)
Stock based compensation			14				14
Purchase of treasury stock						(185)	(185)
		261		(772)			(511)

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Preferred stock accretion and  
declared dividends  
Balance, March 31, 2013

\$	18,780	\$	72,130	\$	66,109	\$	16,747	\$	(2,202)	\$	(95,710)	\$	75,854
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