SECOND BANCORP INC
Form 10-Q/A
August 30, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q/A

(X)	QUARTERLY REPORT UNDER SECTION 13 OR 15(d) THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2001

OR ( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period ______ to ______

Commission file number: 0-15624

SECOND BANCORP INCORPORATED

(exact name of registrant as specified in its charter)

Ohio	34-1547453
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
108 Main Ave. S. W. Warren, Ohio	44482-1311
(Address of principal executive offices)	(Zip Code)

330.841.0123

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 periods 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 __

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

Common Stock, without par value 10,033,510 shares outstanding as of July 31, 2001.

Explanatory Note: We are amending our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 to include in Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operation additional information regarding changes in financial condition from December 31, 2000 to June 30, 2001 and additional information regarding changes in results of operations with respect to the most recent fiscal year-to-date periods of June 30, 2001 and June 30, 2000.

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SECOND BANCORP INCORPORATED AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Second Bancorp Incorporated and Subsidiary
Consolidated Balance Sheets

	June 30	December 31	June 30
(Dollars in thousands)	**2001**	**2000**	**2000**
ASSETS			

Cash and due from
banks$36,024$35,272$38,526Federal
funds sold and temporary
investments27,97900Securities:Available-for-sale
(at market
value)380,262382,098370,250Trading
account (at market value)0328944

Total
securities:380,262382,426371,194Loans1,075,0391,070,0891,157,123Less
reserve for loan
losses15,60915,21711,378

Net
loans1,059,4301,054,8721,145,745Premises
and
equipment17,12218,03918,119Accrued
interest
receivable9,75911,18110,508Goodwill
and intangible
assets7,5476,0385,472Other
assets40,24738,46243,349

Total
assets$1,578,370$1,546,290$1,632,913

LIABILITIES AND SHAREHOLDERS EQUITY Deposits:Demand non-interest
bearing$109,477$110,045$115,380Demand
interest
bearing90,07787,26888,184Savings234,314246,056269,925Time
deposits625,890592,766631,960

Total
deposits1,059,7581,036,1351,105,449Federal
funds purchased and securities sold under
agreements to
repurchase117,275129,895124,930Note
payable1,0001,0000Other borrowed
funds4,9812,1632,609Federal Home Loan
Bank
advances261,447251,733276,009Accrued
expenses and other
liabilities10,8028,1678,548

Total liabilities1,455,2631,429,0931,517,545Shareholders equity:Common stock, no par value; 30,000,000 shares authorized; 10,802,510; 10,787,310 and 10,776,870 shares issued, respectively37,16636,93536,974Treasury stock; 785,000, 730,200 and 575,720 shares, respectively(14,740)(13,947)(11,646)Other comprehensive income (loss)1,810281(8,631)Retained earnings98,87193,92898,671

Total shareholders equity123,107117,197115,368

Total liabilities and shareholders equity$1,578,370$1,546,290$1,632,913

See notes to consolidated financial statements.

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Second Bancorp Incorporated and Subsidiary

Consolidated Statements of Income

(Dollars in thousands,	**For the Three Months Ended June 30**	**For the Six Months Ended June 30**
except per share data)	**20012000**	**20012000**

INTEREST INCOME

Loans (including fees):Taxable$21,751$22,887$43,852$44,423Exempt from federal income taxes279238567453Securities:Taxable5,3025,26110,4279,970Exempt from federal income taxes7757771,5481,659Federal funds sold and other29816489109

Total interest income28,40529,17956,88356,614**INTEREST EXPENSE**Deposits11,19211,31222,66122,191Federal funds purchased and securities sold under agreements to repurchase1,0531,3562,2402,540Note payable1603419Other borrowed funds155852101Federal Home Loan Bank advances3,8313,8087,6826,700

Total interest expense16,10716,53432,66931,551

Net interest income12,29812,64524,21425,063Provision for loan losses1,3426962,1031,383

Net interest income after provision for loan losses10,95611,94922,11123,680**NON-INTEREST INCOME**Service charges on deposit accounts1,2731,0792,5342,133Trust fees7491,0491,5052,053Gain on sale of loans1,1063091,889700Trading account gain (loss)13(431)71(317)Security (loss) gain(12)206517305Other operating income1,5021,2342,6742,375

Total non-interest income4,6313,4469,1907,249**NON-INTEREST EXPENSE**Salaries and employee benefits5,0965,18910,29010,505Net occupancy1,0621,0372,1782,089Equipment9219591,9701,946Professional services3976987401,175Assessment on deposits and other taxes405425806838Amortization of goodwill and other intangibles80115161231Other operating expenses1,8442,0083,7113,944

Total non-interest expense9,80510,43119,85620,728

Income before federal income taxes5,7824,96411,44510,201Income tax expense1,5241,2512,9992,552

Net income before cumulative effect of accounting change$4,258$3,713$8,446$7,649

Cumulative effect of accounting change, net of tax FAS13300(101)0

Net income$4,258$3,713$8,345$7,649

NET INCOME PER COMMON SHARE:Basic before cumulative effect of accounting change$0.42$0.36$0.84$0.74Diluted before cumulative effect of accounting change$0.42$0.36$0.84$0.74Basic$0.42$0.36$0.83$0.74Diluted$0.42$0.36$0.83$0.74Weighted average common shares outstanding:Basic10,007,90410,318,82810,013,96610,362,424Diluted10,103,06010,340,08210,079,97310,396,194

See notes to consolidated financial statements.

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Second Bancorp Incorporated and Subsidiary

Consolidated Statements of Comprehensive Income

(Dollars in thousands, except per share data)	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2001	2000	2001	2000
Net income	$4,258	$3,713	$8,345	$7,649

Other comprehensive income, net of tax: Change in other comprehensive income SFAS 133(490)Change in other comprehensive income deferred compensation plan(71) (71)Change in unrealized market value adjustment on securities available-for-sale(1,069)(34)1,600(840)

Total other comprehensive (loss) income(1,630)(34)1,529(840)

Comprehensive income$2,628$3,679$9,874$6,809

See notes to consolidated financial statements.

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Second Bancorp Incorporated and Subsidiary

Consolidated Statements of Shareholders Equity

(Dollars in thousands)	Common Stock	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, January 1, 2000	$36,966	$(7,140)	$ (7,791)	$94,312	$116,347

Net income7,6497,649 Change in unrealized market value adjustment
on securities available-for-sale, net of tax of
$452(840)(840) Cash dividends declared: common ($.32 per share)(3,290)(3,290) Purchase of treasury shares(4,506)(4,506) Common stock issued dividend reinvestment plan88

Balance, June 30, 2000$36,974$(11,646)$(8,631)$98,671$115,368

Balance, January 1, 2001$36,935$(13,947)$281$93,928$117,197 Net income8,3458,345 Change in other comprehensive income deferred compensation plan, net of tax of
$38(71)(71) Change in unrealized market value adjustment

on securities available-for-sale, net of tax of
$8621,6001,600 Cash dividends declared: common ($.34
per share)(3,402)(3,402) Purchase of treasury
shares(793)(793) Common stock issued
stock options and dividend reinvestment plan231231

Balance, June 30,
2001$37,166$(14,740)$1,810$98,871$123,107

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
Second Bancorp Incorporated and Subsidiary

	For the Six Months Ended	
(Dollars in thousands) **Operating Activities**	**June 30** **2001**	**June 30** **2000**
Net income	$8,345	$7,649

Adjustments to reconcile
net income to net cash
provided by operating
activities:Provision for
loan
losses2,1031,383Provision
for
depreciation1,6651,721Provision
for amortization of
intangibles161231Provision
for allowance of
mortgage servicing
rights300Net (increase) /
amortization of servicing
rights(1,700)228(Accretion)
amortization of
investment discount and
premium(143)133Deferred

income
taxes(60)138Securities
gains(517)(305)Other
gains,
net(1,890)(704)Net
decrease (increase) in
trading account
securities328(944)Decrease
(increase) in interest
receivable1,422(1,231)(Decrease)
increase in interest
payable(33)265Originations
of loans
held-for-sale(175,077)(29,535)Proceeds
from sale of loans
held-for-sale176,96630,238Net
change in other assets &
other liabilities14(1,371)

Net cash provided by
operating
activities11,6147,896**Investing
Activities**Proceeds from
maturities of securities
available-for-sale50,89615,311Proceeds
from sales of securities
available-for-sale63,06744,497Purchases
of securities
available-for-sale(109,009)(63,590)Net
increase in
loans(6,661)(86,634)Net
increase in premises and
equipment(747)(1,265)

Net cash used by
investing
activities(2,454)(91,681)**Financing
Activities**Net
(decrease) increase in
demand deposits, interest
bearing demand and
savings
deposits(9,501)1,564Net
increase in time
deposits33,1246,296Net
(decrease) increase in
federal funds purchased
and securities sold under
agreements to
repurchase(12,620)18,398Decrease
in note
payable0(4,000)Net
increase (decrease) in
borrowings2,818(3,130)Net
advances from Federal
Home Loan
Bank9,71475,733Cash
dividends(3,402)(3,290)Purchase
of treasury

stock(793)(4,506)Issuance of common stock2318

Net cash provided by financing activities19,57187,073

Increase in cash and cash equivalents28,7313,288

Cash and cash equivalents at beginning of year35,27235,238

Cash and cash equivalents at end of period$64,003$38,526

Supplementary Cash Flow Information:
Cash paid for 1) Federal Income taxes $3,025 and $2,552 for the six months ended June 30, 2001 and 2000, respectively and 2) Interest $32,679 and $31,667 for the six months ended June 30, 2001 and 2000, respectively.

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (unaudited)
Second Bancorp Incorporated and Subsidiary
June 30, 2001
(Dollars in thousands)

NOTE 1 BASIS OF PRESENTATION
The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. Certain reclassifications have been made to amounts previously reported in order to conform to current period presentations. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2000.

NOTE 2 COMPREHENSIVE INCOME
During the first six months of 2001 and 2000, total comprehensive income amounted to $9,874 and $6,809, respectively. The components of comprehensive income, net of tax, for the six month periods ended June 30, 2001 and 2000 are as follows:

	2001	2000
Net income	$8,345	$7,649
Change in other comprehensive income deferred compensation plan	(71)	0
Unrealized gains (losses) on available-for-sale securities	1,600	(840)
Comprehensive income	$9,874	$6,809

Accumulated other comprehensive income, net of related tax, at June 30, 2001 totaled $1,810 and was comprised of accumulated changes in unrealized market value adjustments on securities available-for-sale, net of tax and deferred supplemental income, net of tax. Accumulated other comprehensive income and loss, net of related tax, at December 31, 2000 and June 30, 2000 totaled $281 and $(8,631), respectively, and was comprised entirely of accumulated changes in unrealized market value adjustments on securities available-for-sale, net of tax. Disclosure of reclassification amounts:

	Six Months Ended	
	June 30, 2001	June 30, 2000
Unrealized holding gains (losses) arising during the period	$2,117	$ (535)
Less: reclassification of gains included in net income	(517)	(305)

Net unrealized gains (losses) on available-for-sale securities	$1,600	$(840)

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NOTE 3 RECENT ACCOUNTING PRONOUNCEMENTS
In June 1998, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activity as amended in June 1999 by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133, and in June 2000, by SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, (collectively SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in the fair value of derivative (gains and losses) depends on the intended use of the derivative and resulting designation. On January 1, 2001, the Corporation adopted SFAS No. 133 resulting in a cumulative effect of accounting change transition adjustment of $(101), after tax. The impact on 2001 operating results is not considered to be material.

In June 2001, the FASB issued SFAS No. 141, Business Combinations , and No. 142, Goodwill and Other Intangible Assets , effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill [and intangible assets deemed to have indefinite lives] will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement to existing of goodwill and indefinite lived intangible assets is expected to result in an increase in net income of $103 ($.01 per share) per year. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

NOTE 4 ACQUISITION OF COMMERCE EXCHANGE CORPORATION
On July 23, 2001 the Company announced an agreement to acquire Commerce Exchange Corporation located in Beachwood, Ohio. The all-cash transaction is structured as a purchase for accounting purposes and, excluding transaction costs, is expected to be modestly accretive to earnings per share in the first year. The transaction is expected to close in the fourth quarter of 2001 and is subject to approval by Commerce s shareholders and appropriate regulatory agencies. Upon completion of the merger, Commerce Exchange Corporation s subsidiary, Commerce Exchange Bank, in expected to merge into Second National Bank. The two offices in Beachwood and North Olmstead, Ohio will be operated as Second National retail banking centers.

Under the agreement, Commerce s shareholders will receive cash in an aggregate amount of $26.5 million subject to adjustments tied to, among other things, Commerce s net retained earnings for the period through completion of the transaction.

The cash required to fund the pending acquisition is expected to be provided through the issuance of $26 to $30 million in trust preferred securities. The remaining net proceeds, if any, will be used to make payments on outstanding debt or for general corporate purposes.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

General

Second Bancorp Incorporated is a one-bank holding company headquartered in Warren, Ohio. Our bank, The Second National Bank of Warren, was originally established in 1880. Operating through 34 retail banking centers, we offer a wide range of commercial and consumer banking and trust services primarily to business and individual customers in various communities in a nine county area in northeastern and east-central Ohio. Among other things, our consumer banking business includes a large and growing mortgage banking function.

Forward-looking statements

The sections that follow contain certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). These forward-looking statements may involve significant risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the expectations discussed in these forward-looking statements.

Financial Condition

At June 30, 2001, the Company had consolidated total assets of $1.58 billion, deposits of $1.06 billion and shareholders equity of $123 million. Since June 30, 2000, total assets have decreased by $55 million or 3.4%, primarily as a result of the sale of $130 million in residential mortgage loans during the third quarter of 2000. The sale resulted in a decline in total assets and lower exposure to long-term fixed rate assets. Gross loans have decreased during the past year by $82 million to $1.075 billion as of June 30, 2001. Consumer lending activities have resulted in a strong increase in outstanding consumer loan balances, while the sale of the residential mortgage loans has resulted in a reduction of total residential mortgage loans from a 43% concentration of total loans as of June 30, 2000 to 30% at the most recent quarter end. Consumer loans represented 30% of loans at the end of the first quarter of 2001 versus 22% for the first quarter of 2000. Cash, federal funds sold and other liquid assets increased by $25 million during the past 12 months as a result of the reduction in total loans.

Deposits decreased by $46 million since June 30, 2000 primarily through decreases in savings account balances. Core funding, which includes DDA, NOW and savings accounts, decreased by $40 million since June 30, 2000, partially due to transfers of Private Banking account balances to off-balance sheet products. Federal Home Loan Bank advances have decreased by $15 million since a year ago.

Since December 31, 2000, total assets have increased by an annualized rate of 4%, primarily through an increase in liquid assets. Deposits have increased by $23.6 million and now total $1.06 billion. The increase in deposits was attributable to an increase in short-term time deposits totaling $33 million during the period. The short-term funding was acquired to meet anticipated loan demand. Gross loan growth has been nominal since the end of last year, increasing by $5 million over the period.

Results of Operations

Quarterly Comparison

The Company reported net operating income of $4,258,000 for the second quarter of 2001. Net income for the second quarter represented forty-two cents ($.42) per share on a diluted basis. Operating return on average assets (ROA) and return on average total shareholders equity (ROE) were 1.08% and 13.98%, respectively, for the second quarter of 2001 compared to 0.93% and 13.01% for last year s second quarter. A strong increase in non-interest income and a 6% reduction in expenses helped increase net income and offset a slight decline in the net interest margin and an increase of $646,000 in provision for loan losses from the second quarter of 2000.

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Commercial Lending. Commercial lending activities focus primarily on providing local independent commercial and professional firms with commercial business loans and loans secured by owner-occupied real estate. We primarily make secured and unsecured commercial loans for general business purposes, including working capital, accounts receivable financing, machinery and equipment acquisition, and commercial real estate financing. These loans have both fixed and floating interest rates and typically have maturities of three to seven years. To a lesser extent, we also make construction loans and finance commercial equipment leases. Commercial loans comprised approximately 40% of our total loan portfolio at June 30, 2001.

Retail Lending. The Company offers a full range of retail loans to individuals, including the owners and principals of our commercial customers and a wide range of retail customers in our market area. We offer consumer loans for a variety of personal financial needs, including home equity, new and used automobiles, boat loans, credit cards and overdraft protection for checking account customers. At June 30, 2001, approximately 50% of our consumer loans consisted of indirect auto loans. Our indirect auto loans are originated through new car dealers in the local area. Consumer loans comprised approximately 30% of our total loan portfolio at June 30, 2001.

Trust. The trust department is a traditional provider of fiduciary services with a focus on administration of estates, trusts and qualified employee benefit plans. During 2000, personal trust accounts and employee benefit accounts produced approximately 75% and 25% of the total revenues of the department, respectively. The anticipated addition in the third quarter 2001 of a daily valuation service for 401(k) plans is expected to position us well for future growth in employee benefit assets and revenues. Fee income is down 28.5% from the second quarter of 2000 due to the reduction in the amount of assets under management caused by the loss of over $150 million in accounts and the decline in overall equity values over the period. Our trust department had approximately $670 million in assets under management at June 30, 2001.

Mortgage Banking. Our mortgage department underwrites and originates a wide range of retail mortgage loan products and sells a significant volume of them primarily on a servicing retained basis. Generally, the loans sold into the secondary mortgage market make funds available for reuse in mortgage or other lending activities. The sales generate a net gain (including origination fee income and deferred origination costs), limit the interest rate risk caused by holding long-term, fixed-rate loans, and build a portfolio of serviced loans which generate a recurring stream of fee income. We sold approximately $175 million of loans through the first half of 2001 and serviced $565 million in mortgage loans for others at June 30, 2001.

Asset Quality. The reserve for loan losses represented 1.45% of loans as of June 30, 2001. The determination of the reserve for loan losses is based on Management s evaluation of the potential losses in the loan portfolio at June 30, 2001 considering, among other relevant factors, repayment status, borrowers ability to repay, collateral and current economic conditions. The methodology for the provision for loan losses includes analysis of various economic factors including loan losses and portfolio growth. The provision for loan losses increased to $1,342,000 for the second quarter of 2001 from $696,000 during the same period in 2000. The increase is due to an increase in consumer charge-offs, which elevated total charge-offs to $1,511,000 during the second quarter of 2001 versus $673,000 during the second quarter of 2000. Loan losses are expected to remain slightly above their historical level of .25% to .30% of loans for the remainder of the year. The reserve was 0.98% of total loans at June 30, 2000. Non-accrual loans have increased over the past year and total $4,666,000 as of June 30, 2001 versus $2,987,000 as of the same date last year. Similarly, loans past due over 90 days and still accruing totaled $5,415,000 as of June 30, 2001 versus $2,875,000 as of the same date last year, reflecting the general economic slowdown in both the national and local economies.

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Net Interest Income. Net interest income for the second quarter of 2001 decreased by $347,000 from the same period last year to $12,298,000. The decrease was due to a slightly lower net interest margin that is being influenced by a decline in low-cost core deposits and an increase in higher cost large time deposits as well as a $21 million reduction in average interest-earning assets. The net interest margin declined to 3.47% for the second quarter of 2001 versus 3.51% for the same period in 2000. The reduction in average interest earning assets during the past 12 months was strongly influenced by the sale of mortgage loans in the third quarter of 2000.

Non-interest Income. Non-interest income (excluding security gains and losses and trading activity) totaled $4,630,000, or 26% higher than the second quarter of 2000. The increase came from a variety of sources including: 1) an increase in 18% in service charges on deposit accounts attributable to a revised deposit account structure, fee schedule, collection procedures and an increase in the number of accounts, 2) an increase in the gain on sale of loans from $309,000 to $1,106,000 primarily due to lower mortgage rates and the resulting increase in refinancing activity. Trust income is down 28.5% from the second quarter of 2000 due to the reduction in the amount of assets under management caused by the loss of over $150 million in accounts and the decline in overall equity values over the period.

Non-interest Expense. Expenses for the second quarter of 2001 were 6% lower than for the same period in 2000. Reductions were realized in all expense categories except occupancy from a year ago. The Company expects to continue to focus on cost controls and reductions in the coming quarters.

Year-to-date Comparison:
The Company reported net income of $8,345,000 ($0.83 per diluted share) for the first six months of 2001. Income before cumulative effect of accounting change (operating net income) was $8,446,000 ($0.84 per diluted share), or 10.4% greater than the net income reported for the same period in 2000. The following ratio discussion references operating net income for 2001. Return on average assets (ROA) and return on average total shareholders equity (ROE) were 1.08% and 14.03%, respectively, for the first six months of 2001 compared to 0.97% and 13.36% for the same period last year. A strong increase in non-interest income and a 4% reduction in expenses helped increase net income and offset a slight decline in the net interest margin and an increase of $720,000 in provision for loan losses from the first half of 2000.

Asset Quality. The provision for loan losses increased to $2,103,000 for the first six months of 2001 from $1,383,000 during the same period in 2000. The increase is due to an increase in consumer charge-offs, which elevated total charge-offs to $1,511,000 during the second quarter of 2001 versus $673,000 during the second quarter of 2000. Loan losses are expected to remain slightly above their historical level of .25% to .30% of loans for the remainder of the year.

Net Interest Income. Net interest income for the first half of 2001 decreased by $849,000 from the same period last year to $24,214,000. The decrease was due to a slightly lower net interest margin that is being influenced by a decline in low-cost core deposits and an increase in higher cost large time deposits as well as a $5 million reduction in average interest-earning assets. The net interest margin declined to 3.45% for the first six months of 2001 versus 3.56% for the same period in 2000. The reduction in average interest earning assets was strongly influenced by the sale of mortgage loans in the third quarter of 2000.

Non-interest Income. Non-interest income (excluding security gains and losses and trading activity) totaled $8,602,000, or 18.5% higher than the first half of 2000. The increase came from a variety of sources including: 1) an increase of 19% in service charges on deposit accounts attributable to a revised deposit account structure, fee schedule, collection procedures and an increase in the number of accounts and 2) an increase in the gain on sale of loans from $700,000 to $1,889,000 primarily due to lower mortgage rates and the resulting increase in refinancing activity. Trust income is down 26.7% from the first half of 2000 due to the reduction in the amount of assets under management caused by the loss of over $150 million in accounts and the decline in overall equity values over the period. Security gains for the first six months of 2001 totaled $517,000 versus $305,000 for the same period in 2000. The proceeds from the sale of securities in 2001 were reinvested in higher yielding securities which is expected to improve future income streams.

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Non-interest Expense. Expenses for the first half of 2001 were 4% lower than for the same period in 2000. Reductions were realized in all expense categories except equipment and occupancy, which were 4% and 1% greater, respectively. The Company expects to continue to focus on cost controls and reductions in the coming quarters.

Capital resources. Shareholders equity has increased by $8 million since June 30, 2000 due primarily to the increase in accumulated other comprehensive income (OCI), which increased by nearly $11 million since a year earlier. Since December 31, 2000, shareholders equity has increased by $6 million, primarily through an increase in retained earnings. The company repurchased 54,800 shares of common stock into Treasury during 2001, all in the first quarter, which partially offset the increase in OCI. The Company has slightly more than 65,000 shares remaining under the present repurchase authorization. Repurchases under this authorization are expected to be completed through open market transactions at prevailing market prices and are discretionary, based upon management s periodic assessment of market conditions and financial benefit to the Company. This continuing repurchase authorization will remain in effect until amended or withdrawn by subsequent board action. As of June 30, 2001, the Company had repurchased 785,000 of the authorized shares of common stock.

Liquidity. Management of the Company s liquidity position is necessary to ensure that funds are available to meet the cash flow needs of depositors and borrowers as well as the operating cash needs of the Company. Funds are available from a number of sources including maturing securities, payments made on loans, the acquisition of new deposits, the sale of packaged loans, borrowing from the FHLB and overnight lines of credit of over $37 million through correspondent banks. The parent company has three major sources of funding including dividends from the Bank, $20 million in unsecured lines of credit with correspondent banks, which are renewable annually, and access to the capital markets. One million of the unsecured line of credit is in use as of June 30, 2001.

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Item 3. Qualitative and Quantitative Disclosure About Market Risk

Forward-looking statements
The section that follows contains certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). These forward-looking statements may involve significant risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the expectations discussed in these forward-looking statements.

Market Risk Management:
Market risk is the risk of economic loss from adverse changes in the fair value of financial instruments due to changes in (a) interest rates, (b) foreign exchange rates, or (c) other factors that relate to market volatility of the rate, index, or price underlying the financial instrument. The Company s market risk is composed primarily of interest rate risk. The Company s Asset/Liability Committee (ALCO) is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit the exposure to interest rate risk. Since nearly the Company s entire interest rate risk exposure relates to the financial instrument activity of the Bank, the Bank s Board of Directors review the policies and guidelines established by ALCO.

The primary objective of asset/liability management is to provide an optimum and stable net interest margin, after-tax return on assets and return on equity capital, as well as adequate liquidity and capital. Interest rate risk is monitored through the use of two complementary measures: dynamic gap analysis and earnings simulation models. While each of the measurement techniques has limitations, taken together they represent a reasonably comprehensive tool for measuring the magnitude of interest rate risk inherent in the Company.

The earnings simulation model forecasts earnings for a one-year horizon frame under a variety of interest rate scenarios; including interest rate shocks, stepped rates and yield curve shifts. Management evaluates the impact of the various rate simulations against earnings in a stable interest rate environment. The most recent model projects net income would decrease by 1.3% if interest rates would immediately rise by 200 basis points. It projects a decrease in net income of 2.5% if interest rates would immediately fall by 200 basis points. Management believes this reflects an acceptable level of risk from interest rate movements. The earnings simulation model includes assumptions about how the various components of the balance sheet and rate structure are likely to react through time in different interest rate environments. These assumptions are derived from historical analysis and management s outlook. Management expects interest rates to have a neutral to downward bias for the remainder of 2001.

Interest rate sensitivity is managed through the use of security portfolio management techniques, the use of fixed rate long-term borrowings from the FHLB, the establishment of rate and term structures for time deposits and loans and the sale of long-term fixed rate mortgages through the secondary mortgage market. The Company also uses off-balance sheet swaps, caps and floors to manage interest rate risk.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to various pending and threatened lawsuits in the ordinary course of business in which claims for monetary damages are asserted. While any litigation involves an element of uncertainty, in the opinion of management, liabilities, if any, arising from such litigation or threat thereof will not have a material impact on the financial position or results of operations of the Company.

Item 2. Changes in Securities On July 30, 2001, the Company issued and sold 10,000 common shares to an executive officer of the Company pursuant to the exercise of stock options issued to him under the Company s 1998 Non-Qualified Stock Option Plan (the 1998 Plan). The exercise price per share was $13.657, for an aggregate exercise price of $136,570. The executive officer immediately resold the common shares into the open market. Although the Company had not filed a Registration Statement on Form S-8 with respect to the 1998 Plan at the time of sale, the Company filed the registration statement on August 22, 2001.

Item 3. Defaults upon Senior Securities Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders
(a) - (d) Second Bancorp Incorporated s Annual Meeting of Shareholders was held on May 8, 2001. The results of the votes on the matters presented to shareholders were included in the Form 10-Q for the period ended March 31, 2001.

Item 5. Other Information Not Applicable

Item 6. Exhibits and Reports on Form 8-K:

The following exhibits are included herein:
Exhibit (11) Statement re: computation of earnings per share

The Company filed a report on Form 8-K on April 25, 2001 to announce earnings for the first quarter of 2001. The Company filed a report on Form 8-K on May 11, 2001 to announce the election of Rick L. Blossom as Chairman of Second Bancorp Incorporated and The Second National Bank of Warren. The Company filed a report on Form 8-K on July 26, 2001 to announce earnings for the second quarter of 2001. The Company filed a second report on Form 8-K on July 26, 2001 to announce the pending acquisition of Commerce Exchange Corporation. (See Note 4 of the Notes to Consolidated Financial Statements for more information regarding the acquisition).

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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.

SECOND BANCORP INCORPORATED

Date: August 29, 2001 /s/ David L. Kellerman

Signing on behalf of the registrant and as principal accounting officer and principal financial officer.