

OLD SECOND BANCORP INC  
Form 10-Q  
August 14, 2013  
Table of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2013  
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)

**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)

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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 12, 2013, the Registrant had outstanding 13,882,910 shares of common stock, \$1.00 par value per share.

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Table of Contents

**OLD SECOND BANCORP, INC.**

Form 10-Q Quarterly Report

Table of Contents

PART I

	Page Number	
<u>Item 1.</u>	<u>Financial Statements</u>	3
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	55
<u>Item 4.</u>	<u>Controls and Procedures</u>	56

PART II

<u>Item 1.</u>	<u>Legal Proceedings</u>	58
<u>Item 1.A.</u>	<u>Risk Factors</u>	58
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	58
<u>Item 4.</u>	<u>Mine Safety Disclosure</u>	58
<u>Item 5.</u>	<u>Other Information</u>	58
<u>Item 6.</u>	<u>Exhibits</u>	58
	<u>Signatures</u>	60

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, 2013	December 31, 2012
<b>Assets</b>		
Cash and due from banks	\$ 12,264	\$ 44,221
Interest bearing deposits with financial institutions	55,594	84,286
Cash and cash equivalents	67,858	128,507
Securities available-for-sale	584,937	579,886
Federal Home Loan Bank and Federal Reserve Bank stock	10,292	11,202
Loans held-for-sale	4,498	9,571
Loans	1,102,703	1,150,050
Less: allowance for loan losses	35,042	38,597
Net loans	1,067,661	1,111,453
Premises and equipment, net	46,793	47,002
Other real estate owned	59,465	72,423
Mortgage servicing rights, net	5,301	4,116
Core deposit, net	2,226	3,276
Bank-owned life insurance (BOLI)	54,586	54,203
Other assets	29,317	24,160
Total assets	\$ 1,932,934	\$ 2,045,799
<b>Liabilities</b>		
Deposits:		
Noninterest bearing demand	\$ 366,406	\$ 379,451
Interest bearing:		
Savings, NOW, and money market	827,952	826,976
Time	496,265	510,792
Total deposits	1,690,623	1,717,219
Securities sold under repurchase agreements	30,510	17,875
Other short-term borrowings	-	100,000
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
Other liabilities	36,821	34,275
Total liabilities	1,861,832	1,973,247
<b>Stockholders Equity</b>		
Preferred stock	72,396	71,869
Common stock	18,780	18,729

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Additional paid-in capital	66,162	66,189
Retained earnings	19,958	12,048
Accumulated other comprehensive loss	(10,484)	(1,327)
Treasury stock	(95,710)	(94,956)
Total stockholders' equity	71,102	72,552
Total liabilities and stockholders' equity	\$ 1,932,934	\$ 2,045,799

	June 30, 2013		December 31, 2012	
	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	18,779,734	73,000	18,729,134
Shares outstanding	73,000	13,882,910	73,000	14,084,328
Treasury shares	-	4,896,824	-	4,644,806

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) Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Interest and Dividend Income</b>				
Loans, including fees	\$ 13,912	\$ 17,617	\$ 28,826	\$ 35,283
Loans held-for-sale	45	49	86	133
Securities:				
Taxable	2,698	1,856	4,996	3,354
Tax exempt	174	102	293	205
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	76	77	152	151
Interest bearing deposits with financial institutions	27	35	69	60
Total interest and dividend income	16,932	19,736	34,422	39,186
<b>Interest Expense</b>				
Savings, NOW, and money market deposits	221	254	449	554
Time deposits	1,800	2,342	3,653	4,947
Securities sold under repurchase agreements	-	1	1	1
Other short-term borrowings	-	1	19	4
Junior subordinated debentures	1,314	1,220	2,601	2,417
Subordinated debt	205	224	401	461
Notes payable and other borrowings	4	4	8	8
Total interest expense	3,544	4,046	7,132	8,392
Net interest and dividend income	13,388	15,690	27,290	30,794
(Release) provision for loan losses	(1,800)	200	(4,300)	6,284
Net interest and dividend income after (release) provision for loan losses	15,188	15,490	31,590	24,510
<b>Noninterest Income</b>				
Trust income	1,681	1,463	3,172	3,114
Service charges on deposits	1,799	1,893	3,475	3,724
Secondary mortgage fees	267	311	497	607
Mortgage servicing income (loss), net of changes in fair value	743	(397)	987	(210)
Net gain on sales of mortgage loans	1,811	2,358	3,787	5,005
Securities gains, net	745	692	2,198	793
Increase in cash surrender value of bank-owned life insurance	372	326	779	821
Death benefit realized on bank owned life insurance	375	-	375	-
Debit card interchange income	900	1,113	1,692	1,873
Lease revenue from other real estate owned	257	911	665	2,090
Net gain on sale of other real estate owned	386	355	567	378
Other income	1,147	1,371	2,885	2,665
Total noninterest income	10,483	10,396	21,079	20,860
<b>Noninterest Expense</b>				
Salaries and employee benefits	9,177	8,823	18,209	17,872
Occupancy expense, net	1,242	1,207	2,521	2,442
Furniture and equipment expense	1,104	1,183	2,248	2,338
FDIC insurance	1,024	1,029	2,059	2,029
General bank insurance	491	841	1,340	1,687
Amortization of core deposit and other intangible asset	525	250	1,050	445
Advertising expense	328	264	494	582
Debit card interchange expense	362	453	706	795
Legal fees	486	770	809	1,455
Other real estate expense	3,945	6,788	7,631	11,442
Other expense	3,510	3,026	6,654	5,999
Total noninterest expense	22,194	24,634	43,721	47,086
Income (loss) before income taxes	3,477	1,252	8,948	(1,716)

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Income taxes expense	-	-	-	-
<b>Net income (loss)</b>	3,477	1,252	8,948	(1,716)
Preferred stock dividends and accretion of discount	1,305	1,238	2,594	2,461
<b>Net income (loss) available to common stockholders</b>	\$ 2,172	\$ 14	\$ 6,354	\$ (4,177)
Basic earnings (loss) per share	\$ 0.15	\$ 0.00	\$ 0.45	\$ (0.29)
Diluted earnings (loss) per share	0.15	0.00	0.45	(0.29)

See accompanying notes to consolidated financial statements.

Table of Contents**Old Second Bancorp, Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income (Loss)***(In thousands)*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net Income (loss)	\$ 3,477	\$ 1,252	\$ 8,948	\$ (1,716)
Total unrealized holding (losses) gains on available-for-sale securities arising during the period	(13,334)	(657)	(13,369)	347
Related tax benefit (expense)	5,491	272	5,508	(141)
Holding (losses) income after tax	(7,843)	(385)	(7,861)	206
Less: Reclassification adjustment for the net gains realized during the period				
Net realized gains	745	692	2,198	793
Income tax expense on net realized gains	(306)	(283)	(902)	(324)
Net realized gains after tax	439	409	1,296	469
Total other comprehensive loss	(8,282)	(794)	(9,157)	(263)
Comprehensive (loss) income	\$ (4,805)	\$ 458	\$ (209)	\$ (1,979)

See accompanying notes to consolidated financial statements.



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

(In thousands)

	(Unaudited) Six Months Ended June 30,	
	2013	2012
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 8,948	\$ (1,716)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of leasehold improvement	1,473	1,580
Change in market value on mortgage servicing rights	(239)	835
Provision for loan losses	(4,300)	6,284
Gain on recapture of restricted stock	(612)	-
Originations of loans held-for-sale	(112,161)	(129,803)
Proceeds from sales of loans held-for-sale	119,697	140,323
Net gain on sales of mortgage loans	(3,787)	(5,005)
Change in current income taxes payable	(266)	815
Increase in cash surrender value of bank-owned life insurance	(779)	(821)
Death claim on bank owned life insurance	396	-
Change in accrued interest receivable and other assets	1,427	(5,567)
Change in accrued interest payable and other liabilities	2,653	3,204
Net premium amortization on securities	162	553
Securities gains, net	(2,198)	(793)
Amortization of core deposit intangible	1,050	445
Stock based compensation	67	153
Net gain on sale of other real estate owned	(567)	(378)
Provision for other real estate owned losses	4,576	7,796
Net gain on disposal of fixed assets	(5)	-
Net cash provided by operating activities	15,535	17,905
<b>Cash flows from investing activities</b>		
Proceeds from maturities and calls including pay down of securities available-for-sale	34,892	126,358
Proceeds from sales of securities available-for-sale	424,822	8,359
Purchases of securities available-for-sale	(472,967)	(226,254)
Proceeds from sales of Federal Home Loan Bank stock	910	1,873
Net change in loans	31,582	93,506
Improvements in other real estate owned	(50)	(515)
Proceeds from sales of other real estate owned	20,032	16,066
Proceed from disposition of fixed assets	6	-
Net purchases of premises and equipment	(1,265)	(299)
Net cash provided by investing activities	37,962	19,094
<b>Cash flows from financing activities</b>		
Net change in deposits	(26,596)	29,243
Net change in securities sold under repurchase agreements	12,635	12,901
Net change in other short-term borrowings	(100,000)	-
Purchase of treasury stock	(185)	(63)
Net cash (used in) provided by financing activities	(114,146)	42,081
Net change in cash and cash equivalents	(60,649)	79,080
Cash and cash equivalents at beginning of period	128,507	50,949
Cash and cash equivalents at end of period	\$ 67,858	\$ 130,029

**Supplemental cash flow information**

Income taxes paid (received)	\$	266	\$	(815)
Interest paid for deposits		4,165		6,029
Interest paid for borrowings		438		473
Noncash transfer of loans to other real estate		11,181		19,350
Noncash transfer of loans to securities available-for-sale		5,329		-
Change in dividends declared not paid		511		1,966
Accretion on preferred stock warrants		527		495
Fair value difference on recapture of restricted stock		43		-

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)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity
Balance, December 31, 2011	\$ 18,628	\$ 70,863	\$ 65,999	\$ 17,107	\$ (3,702)	\$ (94,893)	\$ 74,002
Net loss				(1,716)			(1,716)
Change in net unrealized loss on securities available-for-sale net of \$183 tax effect					(263)		(263)
Change in restricted stock	101		(101)				-
Stock based compensation			153				153
Purchase of treasury stock						(63)	(63)
Preferred stock accretion and declared dividends		495		(2,461)			(1,966)
Balance, June 30, 2012	\$ 18,729	\$ 71,358	\$ 66,051	\$ 12,930	\$ (3,965)	\$ (94,956)	\$ 70,147
Balance, December 31, 2012	\$ 18,729	\$ 71,869	\$ 66,189	\$ 12,048	\$ (1,327)	\$ (94,956)	\$ 72,552
Net income				8,948			8,948
Change in net unrealized loss on securities available-for-sale, net of \$6,410 tax effect					(9,157)		(9,157)
Change in restricted stock	51		(51)				-
Recapture of restricted stock			(43)			(569)	(612)
Stock based compensation			67				67
Purchase of treasury stock						(185)	(185)
Preferred stock accretion and declared dividends		527		(1,038)			(511)
Balance, June 30, 2013	\$ 18,780	\$ 72,396	\$ 66,162	\$ 19,958	\$ (10,484)	\$ (95,710)	\$ 71,102

See accompanying notes to consolidated financial statements.

Table of Contents

**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, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. 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, 2012. 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 United States generally accepted accounting practices (GAAP) 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 consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated 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, 2012. 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 consolidated financial statements and how those values are determined.

**Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02 *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. The impact of ASU 2013-02 on the Company's consolidated financial statements was reflected in the consolidated statement of comprehensive income (loss) in the Company's Form 10-Q for the quarter ended March 31, 2013.

**Note 2 Securities**

**Investment Portfolio Management**

Our investment portfolio serves the liquidity and income needs of the Company. While the portfolio serves as an important component of the overall liquidity management at Old Second National Bank (the Bank), portions of the portfolio will also serve as income producing assets. The size of the portfolio reflects liquidity needs, loan demand and interest income objectives. The Company views the June 30, 2013, securities portfolio (\$602.8 million amortized cost and \$584.9 million fair value) as a substantial source of liquidity that will allow for loan growth without having to raise deposits. Consistent with the comments above, management views the portion of the portfolio not carried in an unrealized loss position and the Bank's ability to borrow a substantial amount with securities as collateral affords the Bank a comfortable liquidity position. Portfolio size and composition may be adjusted from time to time.

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### Table of Contents

Investments are comprised of debt securities and non-marketable equity investments. All debt securities are classified as available-for-sale and may be sold under our management and asset/liability strategies. Securities available-for-sale are carried at fair value. Unrealized gains and losses on securities available-for-sale are reported as a separate component of equity. This balance sheet component changes as interest rates and market conditions change. Unrealized gains and losses are not included in the calculation of regulatory capital.

Nonmarketable equity investments include Federal Home Loan Bank of Chicago ( FHLBC ) stock, Federal Reserve Bank of Chicago ( FRB ) stock and various other equity securities. FHLBC stock was recorded at a value of \$5.5 million at June 30, 2013, and \$6.4 million at December 31, 2012. FRB stock was recorded at \$4.8 million at June 30, 2013, and December 31, 2012. Our FHLB stock is necessary to maintain access to FHLB advances.

The following table summarizes the amortized cost and fair value of the available-for-sale securities at June 30, 2013 and December 31, 2012 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2013:</b>				
U.S. Treasury	\$ 1,559	\$ -	\$ (12)	\$ 1,547
U.S. government agencies	6,784	-	(58)	6,726
U.S. government agency mortgage-backed States and political subdivisions	55,764	259	(3,609)	52,414
Corporate bonds	19,370	870	(121)	20,119
Collateralized mortgage obligations	34,812	410	(793)	34,429
Asset-backed securities	173,145	7	(4,647)	168,505
Collateralized debt obligations	294,179	1,938	(5,264)	290,853
	17,146	-	(6,802)	10,344
	<b>\$ 602,759</b>	<b>\$ 3,484</b>	<b>\$ (21,306)</b>	<b>\$ 584,937</b>
<b>December 31, 2012:</b>				
U.S. Treasury	\$ 1,500	\$ 7	\$ -	\$ 1,507
U.S. government agencies	49,848	122	(120)	49,850
U.S. government agency mortgage-backed States and political subdivisions	127,716	1,605	(583)	128,738
Corporate bonds	14,639	1,216	-	15,855
Collateralized mortgage obligations	36,355	586	(55)	36,886
Asset-backed securities	168,795	1,895	(1,090)	169,600
Collateralized debt obligations	165,347	2,468	(322)	167,493
	17,941	-	(7,984)	9,957
	<b>\$ 582,141</b>	<b>\$ 7,899</b>	<b>\$ (10,154)</b>	<b>\$ 579,886</b>

The fair value, amortized cost and weighted average yield of debt securities at June 30, 2013, by contractual maturity, were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities asset-backed securities, and collateralized debt obligations are shown separately:

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Table of Contents

	Amortized Cost	Weighted Average Yield	Fair Value
Due in one year or less	\$ 477	4.45%	\$ 493
Due after one year through five years	16,566	2.21%	17,005
Due after five years through ten years	34,389	2.77%	34,049
Due after ten years	11,093	4.31%	11,274
	62,525	2.91%	62,821
Mortgage-backed securities	228,909	2.00%	220,919
Asset-back securities	294,179	1.41%	290,853
Collateralized debt obligations	17,146	2.18%	10,344
	\$ 602,759	1.81%	\$ 584,937

Securities with unrealized losses at June 30, 2013, and December 31, 2012, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows (in thousands except for number of securities):

	Less than 12 months in an unrealized loss position			Greater than 12 months in an unrealized loss position			Total		
	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value
<b>June 30, 2013</b>									
U.S. Treasury	1	\$ 12	\$ 1,547	-	\$ -	\$ -	1	\$ 12	1,547
U.S. government agencies	2	58	6,726	-	-	-	2	58	6,726
U.S. government agency mortgage-backed States and political subdivisions	9	3,609	43,699	-	-	-	9	3,609	43,699
Corporate bonds	6	121	4,720	-	-	-	6	121	4,720
Collateralized mortgage obligations	6	772	14,213	1	21	1,028	7	793	15,241
Asset-backed securities	15	4,647	123,601	-	-	-	15	4,647	123,601
Collateralized debt obligations	17	5,219	152,555	1	45	3,782	18	5,264	156,337
	-	-	-	2	6,802	10,344	2	6,802	10,344
	56	\$ 14,438	\$ 347,061	4	\$ 6,868	\$ 15,154	60	\$ 21,306	\$ 362,215
<b>December 31, 2012</b>									
U.S. government agencies	4	\$ 120	\$ 17,039	-	\$ -	\$ -	4	\$ 120	\$ 17,039
U.S. government agency mortgage-backed	12	583	53,184	-	-	-	12	583	53,184
Corporate bonds	4	55	9,724	-	-	-	4	55	9,724
Collateralized mortgage obligations	6	1,060	37,778	1	30	2,343	7	1,090	40,121
Asset-backed securities	6	322	37,488	-	-	-	6	322	37,488
Collateralized debt obligations	-	-	-	2	7,984	9,957	2	7,984	9,957
	32	\$ 2,140	\$ 155,213	3	\$ 8,014	\$ 12,300			