

OLD NATIONAL BANCORP /IN/

Form 10-Q/A

April 04, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM 10-Q/A
(Amendment No. 1)**

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

For the quarterly period ended March 31, 2005

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

For the transition period from _____ to _____

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

INDIANA

(State or other jurisdiction of
incorporation or organization)

35-1539838

(I.R.S. Employer
Identification No.)

1 Main Street

Evansville, Indiana

(Address of principal executive offices)

47708

(Zip Code)

(812) 464-1294

(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, and (2) has been subject to the filing requirements for at least the past 90 days. Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock. The Registrant has one class of common stock (no par value) with 68,321,000 shares outstanding at April 30, 2005.

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EXPLANATORY NOTE

We are filing this Quarterly Report on Form 10-Q/A (the Amended Report) to correct errors related to Old National Bancorp s derivative accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. See Note 2 to the consolidated financial statements for further explanation.

For the reason discussed above, we are filing this Amended Report in order to amend Part 1. Item 1. Financial Statements, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 3. Quantitative and Qualitative Disclosures about Market Risk, Item 4. Controls and Procedures and Part II, Item 6. certifications in Exhibits 31.1, 31.2, 32.1 and 32.2.

In order to preserve the nature and character of the disclosures set forth in the Original Report, except as expressly noted above, this report speaks as of the date of the filing of the Original Report, May 10, 2005, and we have not updated the disclosures in this report to speak as of the later date. All information contained in this Amended Report is subject to updating and supplementing as provided in our reports filed with the SEC subsequent to the date of the Original Report.

Table of Contents**OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEET**

(dollars and shares in thousands) (unaudited)	2005 (restated)	March 31, 2004 (restated)	December 31, 2004 (restated)
Assets			
Cash and due from banks	\$ 159,516	\$ 176,022	\$ 204,678
Money market investments	39,854	15,733	12,320
Total cash and cash equivalents	199,370	191,755	216,998
Investment securities available-for-sale, at fair value			
U.S. Treasury	33,247	13,117	66,837
U.S. Government-sponsored agencies	637,601	552,228	632,473
Mortgage-backed securities	1,248,491	1,298,932	1,267,320
States and political subdivisions	583,051	664,264	597,631
Other securities	215,526	91,077	221,154
Investment securities available-for-sale	2,717,916	2,619,618	2,785,415
Investment securities held-to-maturity, at amortized cost (fair value \$165,198, \$205,812 and \$176,166 respectively)	170,194	204,406	177,794
Federal Home Loan Bank stock, at cost	49,556	49,502	49,542
Residential loans held for sale	31,685	17,895	22,484
Loans:			
Commercial	1,522,497	1,614,516	1,550,640
Commercial real estate	1,639,968	1,830,532	1,653,122
Residential real estate	558,219	939,156	555,423
Consumer credit, net of unearned income	1,219,655	1,175,450	1,205,657
Total loans	4,940,339	5,559,654	4,964,842
Allowance for loan losses	(86,307)	(100,645)	(85,749)
Net loans	4,854,032	5,459,009	4,879,093
Premises and equipment, net	209,655	194,262	212,787
Goodwill	100,965	129,251	129,947
Other intangible assets	16,526	41,113	38,868
Mortgage servicing rights	15,129	12,319	15,829
Assets held for sale	57,241		
Accrued interest receivable and other assets	370,778	348,159	369,547
Total assets	\$ 8,793,047	\$ 9,267,289	\$ 8,898,304
Liabilities			
Deposits:			
Noninterest-bearing demand	\$ 850,571	\$ 794,502	\$ 851,218
Interest-bearing:			

NOW	1,826,861	1,587,353	1,920,501
Savings	495,430	467,575	480,392
Money market	619,975	593,222	573,334
Time	2,577,084	2,941,668	2,593,264
Total deposits	6,369,921	6,384,320	6,418,709
Short-term borrowings	493,312	471,403	347,353
Other borrowings	1,152,263	1,521,340	1,306,953
Liabilities held for sale	11,238		
Accrued expenses and other liabilities	98,724	141,315	121,197
Total liabilities	8,125,458	8,518,378	8,194,212
Shareholders Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, \$1 stated value, 150,000 shares authorized, 68,717, 66,449 and 69,287 shares issued and outstanding, respectively	68,717	66,449	69,287
Capital surplus	614,741	578,650	630,461
Retained earnings	1,585	68,038	
Accumulated other comprehensive income (loss), net of tax	(17,454)	35,774	4,344
Total shareholders equity	667,589	748,911	704,092
Total liabilities and shareholders equity	\$ 8,793,047	\$ 9,267,289	\$ 8,898,304

The accompanying notes to consolidated financial statements are an integral part of this statement.

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CONSOLIDATED STATEMENT OF INCOME**

	Three Months Ended March 31,	
	2005	2004
	(restated)	(restated)
(dollars in thousands, except per share data) (unaudited)		
Interest Income		
Loans including fees:		
Taxable	\$ 68,580	\$ 74,382
Nontaxable	4,062	4,367
Investment securities, available-for-sale:		
Taxable	21,538	19,893
Nontaxable	6,673	7,362
Investment securities, held-to-maturity, taxable	1,786	2,097
Money market investments	129	8
Total interest income	102,768	108,109
Interest Expense		
Deposits	30,849	32,269
Short-term borrowings	2,017	990
Other borrowings	14,705	14,772
Total interest expense	47,571	48,031
Net interest income	55,197	60,078
Provision for loan losses	5,100	7,500
Net interest income after provision for loan losses	50,097	52,578
Noninterest Income		
Wealth management fees	4,875	4,922
Service charges on deposit accounts	11,098	10,765
ATM and debit card fees	2,361	1,965
Mortgage banking revenue	1,377	(320)
Insurance premiums and commissions	9,051	9,207
Investment product fees	2,583	3,185
Bank-owned life insurance	1,754	2,053
Net securities gains (losses)	(520)	1,985
Gain (loss) on derivatives	(2,872)	9,289
Other income	3,272	3,718
Total noninterest income	32,979	46,769
Noninterest Expense		
Salaries and employee benefits	39,038	44,225
Occupancy	5,031	4,580

Equipment	3,512	3,441
Marketing	1,912	2,286
Outside processing	5,116	4,931
Communication and transportation	2,521	2,866
Professional fees	2,114	3,011
Loan expense	899	1,467
Supplies	875	1,000
Other real estate owned expense	278	1,656
Other expense	4,781	4,385
Total noninterest expense	66,077	73,848
Income before income taxes and discontinued operations	16,999	25,499
Income tax expense	1,443	4,249
Income from continuing operations	15,556	21,250
Income (loss) from discontinued operations, net of tax expense (benefit) of \$(68) and \$610, respectively	(984)	919
Net income	\$ 14,572	\$ 22,169
Basic net income per share from continuing operations	\$ 0.22	\$ 0.31
Basic net income (loss) per share from discontinued operations	(0.01)	0.01
Basic net income per share	0.21	0.32
Diluted net income per share from continuing operations	\$ 0.22	\$ 0.31
Diluted net income (loss) per share from discontinued operations	(0.01)	0.01
Diluted net income per share	0.21	0.32
Dividends per common share	\$ 0.19	\$ 0.18

The accompanying notes to consolidated financial statements are an integral part of this statement.

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY**

(dollars and shares in thousands) (unaudited)	Common Stock		Capital	Retained	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
	Shares	Amount	Surplus	Earnings		
Balance, December 31, 2003 as previously reported	66,575	\$66,575	\$581,224	\$ 53,107	\$ 14,583	\$ 715,489
Restatement adjustment				5,391		5,391
Balance, December 31, 2003 as restated	66,575	\$66,575	\$581,224	\$ 58,498	\$ 14,583	\$ 720,880
Net income (restated)				22,169		22,169
Unrealized net securities gains, net of \$15,922 tax					21,929	21,929
Reclassification adjustment for gains included in net income, net of \$(835) tax					(1,150)	(1,150)
Net unrealized derivative gains on cash flow hedges, net of \$235 tax					365	365
Reclassification adjustment on cash flow hedges, net of \$31 tax					47	47
Cash dividends				(12,629)		(12,629)
Stock repurchased	(468)	(468)	(9,613)			(10,081)
Stock reissued under stock option and stock purchase plans	342	342	7,039			7,381
Balance, March 31, 2004	66,449	\$66,449	\$578,650	\$ 68,038	\$ 35,774	\$ 748,911
Balance, December 31, 2004 as previously reported	69,287	\$69,287	\$629,577	\$	\$ 4,344	\$ 703,208
Restatement adjustment			884			884
Balance, December 31, 2004 as restated	69,287	\$69,287	\$630,461	\$	\$ 4,344	\$ 704,092
Net income (restated)				14,572		14,572
Unrealized net securities losses, net of \$(16,026) tax					(23,799)	(23,799)
Reclassification adjustment for securities losses included in net income, net of \$209 tax					311	311
					1,756	1,756

Net unrealized derivative gains on cash flow hedges, net of \$1,135 tax						
Reclassification adjustment on cash flow hedges, net of \$(42) tax					(66)	(66)
Cash dividends				(12,987)		(12,987)
Stock repurchased	(850)	(850)	(17,542)			(18,392)
Stock issued under stock option, restricted stock and stock purchase plans	280	280	1,822			2,102
Balance, March 31, 2005	68,717	\$68,717	\$614,741	\$ 1,585	(\$17,454)	\$ 667,589

The accompanying notes to consolidated financial statements are an integral part of this statement.

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CONSOLIDATED STATEMENT OF CASH FLOWS**

	Three Months Ended March 31,	
	2005	2004
(dollars in thousands) (unaudited)	(restated)	(restated)
Cash Flows From Operating Activities		
Net income	\$ 14,572	\$ 22,169
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	3,872	3,229
Amortization of other intangible assets and goodwill impairment	3,561	799
Net premium amortization on investment securities	905	1,565
Amortization of unearned stock compensation	492	
Provision for loan losses	5,100	7,500
Net securities (gains) losses	520	(1,985)
(Gain) loss on derivatives	2,872	(9,289)
Net gains on sales and write-downs of loans and other assets	(1,167)	(1,362)
Residential real estate loans originated for sale	(78,115)	(83,911)
Proceeds from sale of residential real estate loans	69,299	82,857
(Increase) decrease in accrued interest and other assets	(20,156)	19,394
Increase in accrued expenses and other liabilities	6,805	13,407
Total adjustments	(6,012)	32,204
Net cash flows provided by operating activities	8,560	54,373
Cash Flows From Investing Activities		
Purchases of investment securities available-for-sale	(80,753)	(388,541)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	73,798	254,910
Proceeds from sales of investment securities available-for-sale	33,881	207,394
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	7,418	6,242
Net principal collected from customers	19,961	6,992
Proceeds from sale of premises and equipment and other assets	924	806
Purchase of premises and equipment	(1,716)	(16,261)
Net cash flows provided by investing activities	53,513	71,542
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Noninterest-bearing demand deposits	(647)	(28,644)
Savings, NOW and money market deposits	(31,961)	(13,599)
Time deposits	(16,180)	(68,276)
Short-term borrowings	145,959	56,815
Payments for maturities on other borrowings	(147,103)	(156,559)

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Proceeds from issuance of other borrowings		54,543
Cash dividends paid	(12,987)	(12,629)
Common stock repurchased	(18,392)	(10,081)
Common stock issued under stock option, restricted stock and stock purchase plans	1,610	7,381
Net cash flows used in financing activities	(79,701)	(171,049)
Net decrease in cash and cash equivalents	(17,628)	(45,134)
Cash and cash equivalents at beginning of period	216,998	236,889
Cash and cash equivalents at end of period	\$ 199,370	\$ 191,755

Total interest paid	\$ 41,916	\$ 42,051
Total taxes paid	\$ 400	\$

The accompanying notes to consolidated financial statements are an integral part of this statement.

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**OLD NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2005 presentation. Such reclassifications had no effect on net income. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of March 31, 2005 and 2004, and December 31, 2004, and the results of its operations for the three months ended March 31, 2005 and 2004. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with the 2004 annual financial statements which were restated within Old National s Annual Report on Form 10-K for the year ended December 31, 2005.

NOTE 2 RESTATEMENT

The previously issued consolidated financial statements for the three months ended March 31, 2005 and 2004 have been restated. The restatement is correcting errors related to the Old National s derivative accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

Old National has entered into interest rate swap agreements relating to certain of its brokered certificates of deposit and junior subordinated debt that were accounted for as fair value hedges under SFAS No. 133. Old National previously elected the short-cut method of documenting the effectiveness of the swaps as hedges, which allowed Old National to assume no ineffectiveness in these transactions. Old National recently concluded that these swaps did not qualify for the short-cut method in prior periods. Based upon re-examination of the original documentation supporting the designation of these swap transactions as hedges, the Company concluded, in retrospect, that the hedging relationships involving brokered certificates of deposit did not qualify for the short-cut method in prior periods because the related swap did not have a fair value of zero at inception (a requirement under SFAS No. 133 to qualify for the short-cut method). Additionally, the Company determined that the hedging relationships involving junior subordinated debt did not qualify for the short-cut method in prior periods because of an interest deferral feature that permits interest payments to be deferred for up to 20 consecutive quarterly periods without creating an event of default or acceleration. Hedge accounting under SFAS No. 133 for these swap transactions is not allowed retrospectively because the hedge documentation required for the long-haul method was not in place at the inception of the hedge. Eliminating the application of fair value hedge accounting reverses the basis adjustments that were made to the brokered certificates of deposit and junior subordinated debt that originally offset the changes in fair value of the related derivatives. The changes in fair value of the derivatives are now reflected in noninterest income along with the swap net settlements that had been previously reported in interest expense.

Table of Contents**CONSOLIDATED BALANCE SHEETS:**

(dollars in thousands)	As of March 31, 2005	
	As Previously Reported	As Restated
Total assets	\$ 8,793,047	\$ 8,793,047
Interest bearing deposits	5,511,092	5,519,350
Other borrowings	1,155,595	1,152,263
Accrued expenses and other liabilities	100,650	98,724
Total liabilities	8,122,458	8,125,458
Capital surplus	613,857	614,741
Retained earnings	5,469	1,585
Total shareholders' equity	670,589	667,589
Total liabilities and shareholders' equity	\$ 8,793,047	\$ 8,793,047

CONSOLIDATED STATEMENTS OF INCOME:

(dollars in thousands)	For the Three Months Ended March 31,			
	2005		2004	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Interest on deposits	\$ 29,010	\$ 30,849	\$ 29,365	\$ 32,269
Interest on other borrowings	13,103	14,705	12,655	14,772
Total interest expense	44,130	47,571	43,010	48,031
Net interest income	58,638	55,197	65,099	60,078
Net interest income after provision for loan losses	53,538	50,097	57,599	52,578
Gain (loss) on derivatives		(2,872)		9,289
Total noninterest income	36,005	32,979	37,660	46,769
Income before income taxes and discontinued operations	23,187	16,999	21,257	25,499
Income tax expense	3,747	1,443	2,667	4,249
Income from continuing operations	19,440	15,556	18,590	21,250
Income (loss) from discontinued operations	(984)	(984)	919	919
Net income	\$ 18,456	\$ 14,572	\$ 19,509	\$ 22,169
Per common share:				
Basic	\$ 0.27	\$ 0.21	\$ 0.28	\$ 0.32
Diluted	0.27	0.21	0.28	0.32

Certain reclassifications were made to previously reported balances in order to be consistent with current presentation. Also affected by the restatements were Notes 1, 3, 5, 10, 12, 13, 14 and 17 to the consolidated financial statements.

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NOTE 3 IMPACT OF ACCOUNTING CHANGES

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, that requires companies to expense the value of employee stock options and simi