

OLD NATIONAL BANCORP /IN/

Form 10-Q

August 04, 2008

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2008**

**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, 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 Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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 66,189,000 shares outstanding at July 31, 2008.



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CONSOLIDATED BALANCE SHEET**

(dollars and shares in thousands, except per share data)	<b>June 30, 2008 (unaudited)</b>	<b>December 31, 2007</b>	<b>June 30, 2007 (unaudited)</b>
<b>Assets</b>			
Cash and due from banks	\$ 223,056	\$ 255,192	\$ 201,629
Federal funds sold and resell agreements	1,209		5,098
Money market investments	10,254	8,480	3,217
<b>Total cash and cash equivalents</b>	<b>234,519</b>	263,672	209,944
Investment securities available-for-sale, at fair value			
U.S. Government-sponsored entities and agencies	333,212	688,947	637,234
Mortgage-backed securities	1,006,606	940,967	996,812
States and political subdivisions	328,040	294,884	263,226
Other securities	206,682	215,843	193,329
<b>Investment securities available-for-sale</b>	<b>1,874,540</b>	2,140,641	2,090,601
Investment securities held-to-maturity, at amortized cost (fair value \$108,120, \$124,504 and \$136,516 respectively)	111,706	126,769	143,341
Federal Home Loan Bank stock, at cost	41,090	41,090	41,170
Residential loans held for sale, at fair value	16,620	13,000	19,599
Loans:			
Commercial	1,826,091	1,694,736	1,717,162
Commercial real estate	1,196,511	1,270,408	1,379,391
Residential real estate	516,010	533,448	545,275
Consumer credit, net of unearned income	1,188,130	1,187,764	1,211,694
<b>Total loans</b>	<b>4,726,742</b>	4,686,356	4,853,522
Allowance for loan losses	(62,087)	(56,463)	(67,487)
<b>Net loans</b>	<b>4,664,655</b>	4,629,893	4,786,035
Premises and equipment, net	44,274	48,652	44,772
Accrued interest receivable	45,937	50,277	50,408
Goodwill	159,198	159,198	159,198
Other intangible assets	29,512	31,778	33,586
Company-owned life insurance	219,667	214,486	210,518
Assets held for sale	2,996	3,969	76,305
Other assets	157,072	122,701	122,265
<b>Total assets</b>	<b>\$ 7,601,786</b>	\$ 7,846,126	\$ 7,987,742
<b>Liabilities</b>			
Deposits:			
Noninterest-bearing demand	\$ 858,585	\$ 855,449	\$ 861,411
Interest-bearing:			

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NOW	<b>1,322,684</b>	1,410,667	1,591,122
Savings	<b>900,569</b>	774,054	605,939
Money market	<b>483,154</b>	562,127	746,845
Time (including \$49,775, \$0 and \$0, respectively, at fair value)	<b>1,807,425</b>	2,061,086	2,407,311
<b>Total deposits</b>	<b>5,372,417</b>	5,663,383	6,212,628
Short-term borrowings	<b>575,280</b>	638,247	442,974
Other borrowings	<b>783,396</b>	656,722	591,489
Accrued expenses and other liabilities	<b>221,678</b>	234,893	115,069
<b>Total liabilities</b>	<b>6,952,771</b>	7,193,245	7,362,160
<b>Shareholders Equity</b>			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, \$1 stated value, 150,000 shares authorized, 66,206, 66,205 and 66,194 shares issued and outstanding, respectively			
	<b>66,206</b>	66,205	66,194
Capital surplus	<b>565,379</b>	563,675	562,940
Retained earnings	<b>57,824</b>	34,346	33,812
Accumulated other comprehensive loss, net of tax	<b>(40,394)</b>	(11,345)	(37,364)
<b>Total shareholders equity</b>	<b>649,015</b>	652,881	625,582
<b>Total liabilities and shareholders equity</b>	<b>\$ 7,601,786</b>	\$ 7,846,126	\$ 7,987,742

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

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CONSOLIDATED STATEMENT OF INCOME (unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars in thousands, except per share data)	2008	2007	2008	2007
<b>Interest Income</b>				
Loans including fees:				
Taxable	\$ 65,279	\$ 82,831	\$ 136,407	\$ 162,494
Nontaxable	5,638	5,364	11,099	10,616
Investment securities, available-for-sale:				
Taxable	21,498	22,415	44,060	45,537
Nontaxable	3,435	3,033	6,656	6,136
Investment securities, held-to-maturity, taxable	1,323	1,698	2,753	3,529
Money market investments	192	2,577	524	5,918
<b>Total interest income</b>	<b>97,365</b>	<b>117,918</b>	<b>201,499</b>	<b>234,230</b>
<b>Interest Expense</b>				
Deposits	22,097	49,803	51,833	100,124
Short-term borrowings	3,051	3,768	6,980	7,564
Other borrowings	10,873	10,006	21,552	20,399
<b>Total interest expense</b>	<b>36,021</b>	<b>63,577</b>	<b>80,365</b>	<b>128,087</b>
Net interest income	61,344	54,341	121,134	106,143
Provision for loan losses	5,700		27,605	2,445
<b>Net interest income after provision for loan losses</b>	<b>55,644</b>	<b>54,341</b>	<b>93,529</b>	<b>103,698</b>
<b>Noninterest Income</b>				
Wealth management fees	4,912	4,821	9,481	9,713
Service charges on deposit accounts	11,282	11,236	21,520	21,469
ATM fees	4,471	3,540	8,505	6,716
Mortgage banking revenue	1,371	1,134	2,604	2,090
Insurance premiums and commissions	9,304	10,154	21,373	20,793
Investment product fees	2,408	2,754	5,126	5,610
Company-owned life insurance	2,751	2,386	5,511	4,765
Net securities gains (losses)	2,061	(24)	6,580	(2,691)
Gain (loss) on derivatives	(357)	(206)	(973)	(192)
Gain on sale leaseback transactions	1,599	86	3,164	173
Other income	3,711	2,858	7,498	5,050
<b>Total noninterest income</b>	<b>43,513</b>	<b>38,739</b>	<b>90,389</b>	<b>73,496</b>
<b>Noninterest Expense</b>				
Salaries and employee benefits	43,178	41,548	85,506	82,896
Occupancy	9,550	5,529	19,195	11,889
Equipment	2,499	2,841	5,067	5,897

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Marketing	<b>2,651</b>	2,204	<b>4,695</b>	4,553
Data processing	<b>4,930</b>	4,827	<b>9,552</b>	9,881
Communication	<b>2,211</b>	2,349	<b>4,522</b>	4,732
Professional fees	<b>1,891</b>	1,852	<b>3,549</b>	3,808
Loan expense	<b>1,743</b>	1,857	<b>2,994</b>	3,044
Supplies	<b>750</b>	762	<b>1,634</b>	1,789
Loss on extinguishment of debt				1,234
Impairment of long-lived assets	<b>692</b>		<b>585</b>	1,163
Other expense	<b>4,739</b>	4,665	<b>8,471</b>	10,581
Total noninterest expense	<b>74,834</b>	68,434	<b>145,770</b>	141,467
Income before income taxes	<b>24,323</b>	24,646	<b>38,148</b>	35,727
Income tax expense (benefit)	<b>4,848</b>	5,095	<b>(667)</b>	5,386
Net income	<b>\$ 19,475</b>	\$ 19,551	<b>\$ 38,815</b>	\$ 30,341
Net income per common share				
Basic net income per share	<b>\$ 0.30</b>	\$ 0.30	<b>\$ 0.59</b>	\$ 0.46
Diluted net income per share	<b>0.30</b>	0.30	<b>0.59</b>	0.46
Weighted average number of common shares outstanding				
Basic	<b>65,640</b>	65,723	<b>65,631</b>	65,764
Diluted	<b>65,812</b>	65,804	<b>65,784</b>	65,836
Dividends per common share (1)	<b>\$ 0.23</b>	\$ 0.22	<b>\$ 0.23</b>	\$ 0.44

(1) A \$0.23 cash dividend was paid in the first quarter of 2008. However, the first quarter dividend was declared in December 2007 and is included in fourth quarter 2007 results.

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



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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)**

	Common Stock		Capital	Retained	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Comprehensive Income
	Shares	Amount	Surplus	Earnings	(Loss)	Equity	Income
(dollars and shares in thousands)							
<b>Balance, December 31, 2006</b>	66,503	\$ 66,503	\$ 565,106	\$ 35,873	\$ (25,113)	\$ 642,369	
Comprehensive income							
Net income				30,341		30,341	\$ 30,341
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					(13,718)	(13,718)	(13,718)
Reclassification adjustment on cash flows hedges, net of tax					213	213	213
Reclassification adjustment on defined benefit pension plans, net of tax					1,254	1,254	1,254
Total comprehensive income							\$ 18,090
Adjustment to apply FIN No. 48				(3,368)		(3,368)	
Adjustment to apply EITF No. 06-5				(118)		(118)	
Cash dividends				(28,916)		(28,916)	
Stock repurchased	(228)	(228)	(3,850)			(4,078)	
Stock based compensation expense			924			924	
Stock activity under incentive comp plans	(81)	(81)	208			127	
Stock options issued in acquisition			552			552	
<b>Balance, June 30, 2007</b>	66,194	\$ 66,194	\$ 562,940	\$ 33,812	\$ (37,364)	\$ 625,582	
<b>Balance, December 31, 2007</b>	<b>66,205</b>	<b>\$ 66,205</b>	<b>\$ 563,675</b>	<b>\$ 34,346</b>	<b>\$ (11,345)</b>	<b>\$ 652,881</b>	
Comprehensive income							
Net income				38,815		38,815	\$ 38,815
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					(26,692)	(26,692)	(26,692)
Reclassification adjustment on cash flows hedges, net of tax					87	87	87

Reclassification adjustment on defined benefit pension plans, net of tax					(2,444)	(2,444)	(2,444)
Total comprehensive income							\$ 9,766
Cash dividends				(15,337)		(15,337)	
Stock repurchased	(20)	(20)	(323)			(343)	
Stock based compensation expense			1,756			1,756	
Stock activity under incentive comp plans	21	21	271			292	
<b>Balance, June 30, 2008</b>	<b>66,206</b>	<b>\$ 66,206</b>	<b>\$ 565,379</b>	<b>\$ 57,824</b>	<b>\$ (40,394)</b>	<b>\$ 649,015</b>	

(1) See Note 5 to the consolidated financial statements.

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

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**OLD NATIONAL BANCORP  
CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)**

(dollars in thousands)	Six Months Ended	
	2008	2007
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 38,815	\$ 30,341