

OLD NATIONAL BANCORP /IN/

Form 10-Q

November 08, 2007

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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 September 30, 2007

**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 66,202,000 shares outstanding at October 31, 2007.

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CONSOLIDATED BALANCE SHEET**

(dollars and shares in thousands, except per share data)	September 30, 2007 (unaudited)	December 31, 2006	September 30, 2006 (unaudited)
Assets			
Cash and due from banks	\$ 192,921	\$ 210,303	\$ 176,632
Federal funds sold and resell agreements	179	283,524	78,800
Money market investments	4,074	4,078	7,525
Total cash and cash equivalents	197,174	497,905	262,957
Investment securities available-for-sale, at fair value			
U.S. Government-sponsored agencies	661,221	680,149	546,692
Mortgage-backed securities	960,462	1,020,178	1,060,914
States and political subdivisions	259,581	273,325	297,171
Other securities	205,096	201,511	184,844
Investment securities available-for-sale	2,086,360	2,175,163	2,089,621
Investment securities held-to-maturity, at amortized cost (fair value \$130,053, \$157,720 and \$138,691 respectively)	134,444	162,138	144,016
Federal Home Loan Bank stock, at cost	41,170	38,809	42,266
Residential loans held for sale	13,313	16,634	15,856
Loans:			
Commercial	1,692,521	1,629,885	1,598,071
Commercial real estate	1,308,287	1,386,367	1,406,883
Residential real estate	539,297	484,896	492,099
Consumer credit, net of unearned income	1,210,260	1,198,855	1,219,268
Total loans	4,750,365	4,700,003	4,716,321
Allowance for loan losses	(64,138)	(67,790)	(71,632)
Net loans	4,686,227	4,632,213	4,644,689
Premises and equipment, net	47,277	122,865	123,062
Accrued interest receivable	50,427	53,344	54,260
Goodwill	159,198	113,350	113,350
Other intangible assets	32,679	20,813	21,372
Company-owned life insurance	211,853	198,038	198,338
Assets held for sale	31,065		69,895
Other assets	141,298	118,243	140,206
Total assets	\$ 7,832,485	\$ 8,149,515	\$ 7,919,888
Liabilities			
Deposits:			
Noninterest-bearing demand	\$ 840,501	\$ 877,870	\$ 844,913
Interest-bearing:			

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NOW	1,427,485	1,449,202	1,328,923
Savings	653,448	437,702	411,412
Money market	690,391	925,296	868,794
Time	2,262,717	2,631,424	2,629,834
Total deposits	5,874,542	6,321,494	6,083,876
Short-term borrowings	527,033	312,911	301,535
Other borrowings	612,129	747,545	772,215
Accrued expenses and other liabilities	171,362	125,196	119,499
Total liabilities	7,185,066	7,507,146	7,277,125
Shareholders Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, \$1 stated value, 150,000 shares authorized, 66,200, 66,503 and 66,406 shares issued and outstanding, respectively	66,200	66,503	66,406
Capital surplus	562,959	565,106	564,691
Retained earnings	41,885	35,873	32,187
Accumulated other comprehensive loss, net of tax	(23,625)	(25,113)	(20,521)
Total shareholders equity	647,419	642,369	642,763
Total liabilities and shareholders equity	\$ 7,832,485	\$ 8,149,515	\$ 7,919,888

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

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CONSOLIDATED STATEMENT OF INCOME (unaudited)**

(dollars in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Interest Income				
Loans including fees:				
Taxable	\$ 82,561	\$ 80,578	\$ 245,055	\$ 234,627
Nontaxable	5,502	5,065	16,118	14,510
Investment securities, available-for-sale:				
Taxable	23,054	22,230	68,591	66,468
Nontaxable	3,005	4,349	9,141	15,195
Investment securities, held-to-maturity, taxable	1,611	1,618	5,140	5,107
Money market investments	215	161	6,133	1,404
Total interest income	115,948	114,001	350,178	337,311
Interest Expense				
Deposits	45,064	44,406	145,188	125,460
Short-term borrowings	5,447	4,953	13,011	12,878
Other borrowings	10,219	12,334	30,618	37,928
Total interest expense	60,730	61,693	188,817	176,266
Net interest income	55,218	52,308	161,361	161,045
Provision for loan losses			2,445	7,000
Net interest income after provision for loan losses	55,218	52,308	158,916	154,045
Noninterest Income				
Wealth management fees	4,554	4,710	14,267	14,859
Service charges on deposit accounts	11,496	10,596	32,965	31,188
ATM fees	3,771	3,043	10,487	8,906
Mortgage banking revenue	1,208	1,045	3,298	2,835
Insurance premiums and commissions	8,889	8,761	29,682	29,205
Investment product fees	2,675	2,041	8,285	6,323
Company-owned life insurance	2,419	2,284	7,184	6,766
Net securities gains (losses)	(472)	789	(3,163)	697
Gain (loss) on derivatives	170	(67)	(22)	1,953
Gain on branch divestiture				3,036
Gain on sale leaseback	774		947	
Other income	2,087	3,361	7,137	10,471
Total noninterest income	37,571	36,563	111,067	116,239
Noninterest Expense				
Salaries and employee benefits	39,638	36,789	122,534	115,817
Occupancy	5,898	5,059	17,787	15,171

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Equipment	2,683	3,052	8,580	9,676
Marketing	1,738	2,738	6,291	7,572
Data processing	4,656	4,404	14,537	13,520
Communication	2,337	2,151	7,069	6,850
Professional fees	1,740	1,845	5,548	5,681
Loan expense	1,541	1,454	4,585	4,338
Supplies	795	852	2,584	2,550
Loss on extinguishment of debt	66		1,300	
Impairment of long-lived assets		218	1,163	433
Other expense	4,403	4,310	14,984	13,441
Total noninterest expense	65,495	62,872	206,962	195,049
Income before income taxes	27,294	25,999	63,021	75,235
Income tax expense	4,730	4,985	10,116	13,365
Net income	\$ 22,564	\$ 21,014	\$ 52,905	\$ 61,870
Net income per common share				
Basic net income per share	\$ 0.35	\$ 0.32	\$ 0.81	\$ 0.93
Diluted net income per share	0.34	0.32	0.80	0.93
Weighted average number of common shares outstanding				
Basic	65,601	65,823	65,709	66,370
Diluted	65,658	65,853	65,766	66,395
Dividends per common share	\$ 0.22	\$ 0.21	\$ 0.66	\$ 0.63

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)**

(dollars and shares in thousands)	Common Stock		Capital	Retained	Accumulated Other Comprehensive Income	Total Shareholders Equity	Comprehensive Income
	Shares	Amount	Surplus	Earnings	(Loss)	Equity	Income
Balance, December 31, 2005	67,649	\$ 67,649	\$ 591,930	\$ 12,074	\$ (21,755)	\$ 649,898	
Net income				61,870		61,870	\$ 61,870
Unrealized net securities gains, net of \$1,482 tax					1,344	1,344	1,344
Reclassification adjustment for securities gains included in net income, net of \$(284) tax					(413)	(413)	(413)
Reclassification adjustment on cash flow hedges, net of \$196 tax					303	303	303
Adjustment to stock issued for prior acquisitions	(1)	(1)	(15)			(16)	
Cash dividends				(41,757)		(41,757)	
Stock repurchased	(1,447)	(1,447)	(28,012)			(29,459)	
Exercise of stock options, including tax benefits	36	36	655			691	
Stock based compensation expense			251			251	
Stock issued (forfeited) under restricted stock and stock compensation plans	169	169	(118)			51	
Balance, September 30, 2006	66,406	\$ 66,406	\$ 564,691	\$ 32,187	\$ (20,521)	\$ 642,763	\$ 63,104
Balance, December 31, 2006	66,503	\$ 66,503	\$ 565,106	\$ 35,873	\$ (25,113)	\$ 642,369	
Net income				52,905		52,905	\$ 52,905
Unrealized net securities losses, net of \$(1,115) tax					(1,957)	(1,957)	(1,957)
Reclassification adjustment for securities losses included in net income, net of \$1,271 tax					1,892	1,892	1,892
Reclassification adjustment on cash flow hedges, net of \$193 tax					299	299	299

Amortization of additional pension liability recognized under FAS 158, net of \$837 tax						1,254	1,254	1,254
Adjustment to initially apply FASB interpretation No. 48				(3,368)			(3,368)	
Adjustment for adoption of EITF No. 06-5				(118)			(118)	
Cash dividends				(43,407)			(43,407)	
Stock repurchased	(228)	(228)	(3,850)				(4,078)	
Exercise of stock options, including tax benefits	7	7	68				75	
Stock based compensation expense			949				949	
Stock issued (forfeited) under restricted stock and stock compensation plans	(82)	(82)	134				52	
Adjustment for St. Joseph Capital Corp. stock options			552				552	
Balance, September 30, 2007	66,200	\$ 66,200	\$ 562,959	\$ 41,885	\$ (23,625)	\$ 647,419	\$ 54,393	

Comprehensive income for the quarters ended September 30, 2007 and 2006 was \$36.3 million and \$45.3 million, respectively.

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

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CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)**

(dollars in thousands)	Nine Months Ended September 30,	
	2007	2006
Cash Flows From Operating Activities		
Net income	\$ 52,905	\$ 61,870
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	6,276	10,173
Amortization of other intangible assets and goodwill impairment	2,596	1,831
Net discount accretion on investment securities	(1,881)	(1,605)
Restricted stock expense (benefit)	728	(437)
Stock option expense	221	688
Provision for loan losses	2,445	7,000
Net securities (gains) losses	3,163	(697)
Gain on branch divestiture		(3,036)
Gain on sale leaseback	(947)	
(Gain) loss on derivatives	22	(1,953)
Net gains on sales and write-downs of loans and other assets	(1,021)	(1,453)