

OLD NATIONAL BANCORP /IN/

Form 10-Q

November 08, 2006

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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, 2006

**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 66,406,000 shares outstanding at October 31, 2006.

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CONSOLIDATED BALANCE SHEET**

(dollars and shares in thousands, except per share data)	September 30, 2006 (unaudited)	December 31, 2005	September 30, 2005 (unaudited)
Assets			
Cash and due from banks	\$ 176,632	\$ 245,364	\$ 199,210
Federal funds sold	78,800	123,943	2,464
Money market investments	7,525	33,109	18,245
Total cash and cash equivalents	262,957	402,416	219,919
Investment securities available-for-sale, at fair value			
U.S. Government-sponsored agencies	546,692	509,744	435,130
Mortgage-backed securities	1,060,914	1,105,257	1,175,112
States and political subdivisions	297,171	488,369	485,165
Other securities	184,844	196,696	204,627
Investment securities available-for-sale	2,089,621	2,300,066	2,300,034
Investment securities held-to-maturity, at amortized cost (fair value \$138,691, \$161,252 and \$172,616 respectively)	144,016	166,799	176,021
Federal Home Loan Bank stock, at cost	42,266	49,608	49,589
Residential loans held for sale	15,856	43,804	49,523
Loans:			
Commercial	1,598,071	1,553,742	1,650,628
Commercial real estate	1,406,883	1,534,385	1,612,956
Residential real estate	492,099	543,903	547,703
Consumer credit, net of unearned income	1,219,268	1,261,797	1,297,660
Total loans	4,716,321	4,893,827	5,108,947
Allowance for loan losses	(71,632)	(78,847)	(81,356)
Net loans	4,644,689	4,814,980	5,027,591
Premises and equipment, net	123,062	199,878	211,951
Accrued interest receivable	54,260	55,658	57,169
Goodwill	113,350	113,275	113,275
Other intangible assets	21,372	23,060	23,694
Assets held for sale	69,895		
Other assets	338,544	322,478	306,525
Total assets	\$7,919,888	\$8,492,022	\$8,535,291
Liabilities			
Deposits:			
Noninterest-bearing demand	\$ 844,913	\$ 891,541	\$ 872,499
Interest-bearing:			
NOW	1,328,923	1,640,750	1,614,526

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Savings	411,412	480,358	483,928
Money market	868,794	869,039	809,568
Time	2,629,834	2,583,948	2,592,859
Total deposits	6,083,876	6,465,636	6,373,380
Short-term borrowings	301,535	302,765	350,999
Other borrowings	772,215	954,925	1,033,963
Accrued expenses and other liabilities	119,499	118,798	107,884
Total liabilities	7,277,125	7,842,124	7,866,226

Shareholders Equity

Preferred stock, 2,000 shares authorized, no shares issued or outstanding

Common stock, \$1 stated value, 150,000 shares authorized, 66,406, 67,649 and 68,010 shares issued and outstanding, respectively

	66,406	67,649	68,010
Capital surplus	564,691	591,930	600,294
Retained earnings	32,187	12,074	5,399
Accumulated other comprehensive loss, net of tax	(20,521)	(21,755)	(4,638)

Total shareholders equity	642,763	649,898	669,065
Total liabilities and shareholders equity	\$7,919,888	\$8,492,022	\$8,535,291

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

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CONSOLIDATED STATEMENT OF INCOME (unaudited)**

(dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Interest Income				
Loans including fees:				
Taxable	\$ 80,578	\$ 75,770	\$ 234,627	\$ 215,995
Nontaxable	5,065	4,476	14,510	12,846
Investment securities, available-for-sale:				
Taxable	22,230	19,753	66,468	61,850
Nontaxable	4,349	5,699	15,195	18,776
Investment securities, held-to-maturity, taxable	1,618	1,953	5,107	5,576
Money market investments	161	260	1,404	642
Total interest income	114,001	107,911	337,311	315,685
Interest Expense				
Deposits	44,406	35,848	125,460	99,944
Short-term borrowings	4,953	2,657	12,878	7,340
Other borrowings	12,334	13,740	37,928	42,857
Total interest expense	61,693	52,245	176,266	150,141
Net interest income	52,308	55,666	161,045	165,544
Provision for loan losses		6,000	7,000	17,100
Net interest income after provision for loan losses	52,308	49,666	154,045	148,444
Noninterest Income				
Wealth management fees	4,710	5,041	14,859	15,551
Service charges on deposit accounts	10,596	12,529	31,188	35,692
ATM fees	3,043	2,872	8,906	8,329
Mortgage banking revenue	1,045	1,756	2,835	4,400
Insurance premiums and commissions	8,761	8,466	29,205	26,611
Investment product fees	2,041	2,246	6,323	7,145
Bank-owned life insurance	2,161	1,922	6,397	5,417
Net securities gains	789	652	697	1,175
Gain (loss) on derivatives	(67)	(4,632)	1,953	645
Gain on branch divestiture			3,036	
Other income	3,484	3,608	10,840	9,271
Total noninterest income	36,563	34,460	116,239	114,236
Noninterest Expense				
Salaries and employee benefits	36,789	35,866	115,817	113,637
Occupancy	5,059	4,591	15,171	14,746

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Equipment	3,052	3,587	9,676	10,981
Marketing	2,738	1,912	7,572	6,050
Data processing	4,404	5,107	13,520	15,844
Communication	2,151	2,336	6,850	7,399
Professional fees	1,845	2,291	5,681	6,440
Loan expense	1,454	1,570	4,338	3,889
Supplies	852	908	2,550	2,854
Other expense	4,528	3,834	13,874	10,419
Total noninterest expense	62,872	62,002	195,049	192,259
Income before income taxes and discontinued operations	25,999	22,124	75,235	70,421
Income tax expense	4,985	3,248	13,365	11,292
Income from continuing operations	21,014	18,876	61,870	59,129
Loss from discontinued operations, net of tax expense of \$6,302 and \$6,603, respectively		(14,383)		(14,825)
Net income	\$ 21,014	\$ 4,493	\$ 61,870	\$ 44,304
Basic net income per share from continuing operations	\$ 0.32	\$ 0.28	\$ 0.93	\$ 0.87
Basic net loss per share from discontinued operations		(0.21)		(0.22)
Basic net income per share	0.32	0.07	0.93	0.65
Diluted net income per share from continuing operations	\$ 0.32	\$ 0.28	\$ 0.93	\$ 0.87
Diluted net loss per share from discontinued operations		(0.21)		(0.22)
Diluted net income per share	0.32	0.07	0.93	0.65
Dividends per common share	\$ 0.21	\$ 0.19	\$ 0.63	\$ 0.57

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 (unaudited)**

(dollars and shares in thousands)	Common Stock		Capital	Retained	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Total Comprehensive Income
	Shares	Amount	Surplus	Earnings		Equity	Income
Balance, December 31, 2004	69,287	\$ 69,287	\$ 630,461	\$	\$ 4,344	\$ 704,092	
Net income				44,304		44,304	\$ 44,304
Unrealized net securities losses, net of \$(5,882) tax					(8,761)	(8,761)	(8,761)
Reclassification adjustment for securities gains included in net income, net of \$(472) tax					(703)	(703)	(703)
Net unrealized derivative gains on cash flow hedges, net of \$331 tax					512	512	512
Reclassification adjustment on cash flow hedges, net of \$(19) tax					(30)	(30)	(30)
Stock issued for acquisition	971	971	17,569			18,540	
Cash dividends				(38,905)		(38,905)	
Stock repurchased	(2,571)	(2,571)	(52,284)			(54,855)	
Stock issued under stock option, restricted stock and stock purchase plans	323	323	4,548			4,871	
Balance, September 30, 2005	68,010	\$ 68,010	\$ 600,294	\$ 5,399	\$ (4,638)	\$ 669,065	\$ 35,322
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 (413)	1,344 (413)	1,344 (413)

Reclassification adjustment for securities gains included in net income, net of \$(284) tax							
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	(1,445)	(1,445)	(27,982)			(29,427)	
Stock issued under stock option, restricted stock and stock purchase plans	203	203	758			961	
Balance, September 30, 2006	66,406	\$ 66,406	\$ 564,691	\$ 32,187	\$ (20,521)	\$ 642,763	\$ 63,104

Comprehensive income for the three months ended September 30, 2006 and 2005 was \$45.3 million and \$0.3 million, respectively.

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

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CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)**

(dollars in thousands)	Nine Months Ended September 30,	
	2006	2005
Cash Flows From Operating Activities		
Net income	\$ 61,870	\$ 44,304
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	10,173	11,352
Amortization of other intangible assets and goodwill impairment	1,831	5,378
Net premium (discount) amortization on investment securities	(1,605)	2,449
Restricted stock expense (benefit)	(437)	2,228
Stock option expense	688	
Provision for loan losses	7,000	17,100
Net securities gains	(697)	(1,175)
Gain on branch divestiture	(3,036)	
Gain on derivatives	(1,953)	(645)
Net (gains) losses on sales and write-downs of loans and other assets	(1,453)	8,346
Residential real estate loans originated for sale	(186,012)	(300,309)
Proceeds from sale of residential real estate loans	216,436	257,921
Increase in accrued interest and other assets	(16,224)	(8,501)
Increase (decrease) in accrued expenses and other liabilities	(470)	10,456
Total adjustments	24,241	4,600
Net cash flows provided by operating activities	86,111	48,904
Cash Flows From Investing Activities		
Cash and cash equivalents of subsidiaries acquired, net		2,699
Purchases of investment securities available-for-sale	(471,047)	(417,964)
Purchases of investment securities held-to-maturity		(25,000)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	394,832	277,372
Proceeds from sales of investment securities available-for-sale	298,715	609,466
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	22,212	26,264
Proceeds from branch divestiture	10,511	
Proceeds from sale of loans	26,062	21,355
Net principal collected from (loans made to) customers	109,318	(170,490)
Proceeds from sale of premises and equipment and other assets	1,932	1,169
Purchase of premises and equipment	(7,882)	(11,296)
Proceeds from sale of other assets		40,805
Net cash flows provided by investing activities	384,653	354,380
Cash Flows From Financing Activities		

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Net increase (decrease) in deposits and short-term borrowings:		
Noninterest-bearing demand deposits	(46,026)	21,281
Savings, NOW and money market deposits	(366,334)	(66,205)
Time deposits	53,473	(405)
Short-term borrowings	(1,230)	3,646
Payments for maturities on other borrowings	(179,632)	(317,563)
Proceeds from issuance of other borrowings		50,000
Cash dividends paid	(41,757)	(38,905)
Common stock repurchased	(29,427)	(54,855)
Common stock issued under stock option, restricted stock and stock purchase plans	710	2,643
Net cash flows used in financing activities	(610,223)	(400,363)
Net increase (decrease) in cash and cash equivalents	(139,459)	2,921
Cash and cash equivalents at beginning of period	402,416	216,998
Cash and cash equivalents at end of period	\$ 262,957	\$ 219,919
Total interest paid	\$ 171,424	\$ 138,906
Total taxes paid	\$ 8,243	\$ 7,756

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

Table of Contents**OLD NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****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 2006 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 September 30, 2006 and 2005, and December 31, 2005, and the results of its operations for the three and nine months ended September 30, 2006 and 2005. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National's Annual Report for the year ended December 31, 2005.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

FASB Interpretation No. 48 In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of adopting FIN 48 on the consolidated financial statements.

SFAS No. 157 In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The new standard is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 157 on the consolidated financial statements.

SFAS No. 158 In September 2006, the FASB issued Statement No. 158 *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability, with any unrecognized prior service costs, transition obligations or actuarial gains/losses reported as component of other comprehensive in shareholders' equity. The new standard is effective for fiscal years ending after December 15, 2006.

Based on the Company's funded status of plan obligations disclosed in Note 14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, the estimated impact of adopting SFAS 158 would have been a reduction to December 31, 2005 comprehensive income of approximately \$9.6 million, with no impact to the Company's consolidated statements of income or cash flows. As the actual impact of adopting SFAS 158 will be dependent upon the fair value of plan assets and the amount of projected benefit obligations measured as of December 31, 2006, the above estimated amount may not be reflective of the actual impact of the adoption at December 31, 2006.

SAB 108 In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, companies might evaluate the materiality of financial statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance

sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement

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misstatements as material if they are material according to either the income statement or balance sheet approach. This statement is effective as of the end of the fiscal year ending after December 15, 2006. The Company is currently evaluating the impact of adopting SAB 108 on the consolidated financial statements.

NOTE 3 ACQUISITION

On May 1, 2005, Old National acquired J. W. F. Insurance Companies, an Indianapolis, Indiana-based insurance agency that did business as J.W. Flynn Company and J.W.F. Specialty Company, Inc., for \$19.0 million, including acquisition costs. Common shares of 970,912 were issued as part of the transaction with a stock value of \$18.5 million. Goodwill of \$12.0 million was recorded of which \$3.5 million is expected to be deductible for tax purposes. In addition, intangible assets totaling \$8.4 million related to customer business relationships were recorded and are being amortized over 12 to 22 years. These acquisitions are included in the other column of Note 19 Segment Information. In accordance with the purchase agreement, future contingent payments may be paid in relation to this acquisition. These payments, which are not expected to be material, would result in a change to the purchase price and goodwill when paid. On the date of acquisition, unaudited financial statements of the companies showed assets of \$5.0 million with year-to-date revenues of \$4.7 million and net loss of \$0.2 million.

NOTE 4