OLD SECOND BANCORP INC
Form 10-Q
May 15, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2013
OR
o **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	**36-3143493**
(State or other jurisdiction of incorporation or organization)	(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)

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 x No o

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 x No o

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 o Accelerated filer o Non-accelerated filero (do not check if a smaller reporting company) Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of May 13, 2013, the Registrant had outstanding 13,882,910 shares of common stock, $1.00 par value per share.

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OLD SECOND BANCORP, INC.

Form 10-Q Quarterly Report

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

	(Unaudited) March 31, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 17,202	$ 44,221
Interest bearing deposits with financial institutions	63,915	84,286
Cash and cash equivalents	81,117	128,507
Securities available-for-sale	575,746	579,886
Federal Home Loan Bank and Federal Reserve Bank stock	11,202	11,202
Loans held-for-sale	6,381	9,571
Loans	1,113,302	1,150,050
Less: allowance for loan losses	38,634	38,597
Net loans	1,074,668	1,111,453
Premises and equipment, net	47,356	47,002
Other real estate owned	65,663	72,423
Mortgage servicing rights, net	4,469	4,116
Core deposit, net	2,751	3,276
Bank-owned life insurance (BOLI)	54,610	54,203
Other assets	30,081	24,160
Total assets	$ 1,954,044	$ 2,045,799
Liabilities		
Deposits:		
Noninterest bearing demand	$ 351,328	$ 379,451
Interest bearing:		
Savings, NOW, and money market	865,863	826,976
Time	501,065	510,792
Total deposits	1,718,256	1,717,219
Securities sold under repurchase agreements	20,802	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	35,254	34,275
Total liabilities	1,878,190	1,973,247
Stockholders Equity		
Preferred stock	72,130	71,869
Common stock	18,780	18,729

Additional paid-in capital	66,109	66,189
Retained earnings	16,747	12,048
Accumulated other comprehensive loss	(2,202)	(1,327)
Treasury stock	(95,710)	(94,956)
Total stockholders equity	75,854	72,552
Total liabilities and stockholders equity	$ 1,954,044	$ 2,045,799

	March 31, 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.

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except share data)

	(Unaudited) Three Months Ended March 31, 2013	2012
Interest and dividend income		
Loans, including fees	$ 14,914	$ 17,666
Loans held-for-sale	41	84
Securities:		
Taxable	2,298	1,498
Tax-exempt	119	103
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	76	74
Interest bearing deposits with financial institutions	42	25
Total interest and dividend income	17,490	19,450
Interest expense		
Savings, NOW, and money market deposits	228	300
Time deposits	1,853	2,605
Securities sold under repurchase agreements	1	-
Other short-term borrowings	19	3
Junior subordinated debentures	1,287	1,197
Subordinated debt	196	237
Notes payable and other borrowings	4	4
Total interest expense	3,588	4,346
Net interest and dividend income	13,902	15,104
Provision for loan losses	(2,500)	6,084
Net interest and dividend income after provision for loan losses	16,402	9,020
Noninterest income		
Trust income	1,491	1,651
Service charges on deposits	1,677	1,831
Secondary mortgage fees	230	296
Mortgage servicing income	244	187
Net gain on sales of mortgage loans	1,976	2,647
Securities gains, net	1,453	101
Increase in cash surrender value of bank-owned life insurance	407	495
Debit card interchange income	792	760
Lease revenue from other real estate owned	408	1,179
Net gain on sale of other real estate owned	181	23
Other income	1,737	1,294
Total noninterest income	10,596	10,464
Noninterest expense		
Salaries and employee benefits	9,032	9,049
Occupancy expense, net	1,279	1,235
Furniture and equipment expense	1,144	1,155
FDIC insurance	1,035	1,000
General bank insurance	849	846
Amortization of core deposit asset	525	195
Advertising expense	166	318
Debit card interchange expense	344	342

Legal fees		323		685
Other real estate expense		3,686		4,654
Other expense		3,144		2,973
Total noninterest expense		21,527		22,452
Income (loss) before income taxes		5,471		(2,968)
Income tax expense		-		-
Net income (loss)		5,471		(2,968)
Preferred stock dividends and accretion of discount		1,289		1,223
Net income (loss) available to common shareholders	$	4,182	$	(4,191)
Share and per share information:				
Ending number of shares		13,882,910		14,084,328
Average number of shares		14,076,114		14,043,545
Diluted average number of shares		14,157,523		14,196,143
Basic income (loss) per share	$	0.30	$	(0.30)
Diluted income (loss) per share		0.30		(0.30)
Dividends paid per share		-		-

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(In thousands, except share data)

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
Net Income (loss)	$	5,471	$	(2,968)
Total unrealized holding (losses) gains on available-for-sale securities arising during the period		(35)		1,004
Related tax benefit (expense)		17		(413)
Holding (losses) income after tax		(18)		591
Less: Reclassification adjustment for the net gains realized during the period				
Net realized gains		1,453		101
Income tax expense on net realized gains		(596)		(41)
Net realized gains after tax		857		60
Total other comprehensive (loss) income		(875)		531
Comprehensive income (loss)	$	4,596	$	(2,437)

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited) Three Months Ended March 31, 2013	2012
Cash flows from operating activities		
Net income (loss)	$ 5,471	$ (2,968)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization of leasehold improvement	746	801
Change in market value on mortgage servicing rights	106	123
Provision for loan losses	(2,500)	6,084
Gain on recapture of restricted stock	(612)	-
Originations of loans held-for-sale	(53,138)	(64,140)
Proceeds from sales of loans held-for-sale	57,755	72,729
Net gain on sales of mortgage loans	(1,976)	(2,647)
Increase in cash surrender value of bank-owned life insurance	(407)	(495)
Change in accrued interest receivable and other assets	(5,215)	(4,635)
Change in accrued interest payable and other liabilities	634	3,420
Net premium amortization on securities	414	403
Securities gains, net	(1,453)	(101)
Amortization of core deposit intangible	525	195
Stock based compensation	14	87
Net gain on sale of other real estate owned	(181)	(23)
Provision for other real estate owned losses	1,987	2,500
Net gain on disposal of fixed assets	(5)	-
Net cash provided by operating activities	2,165	11,333
Cash flows from investing activities		
Proceeds from maturities and calls including pay down of securities available-for-sale	18,055	17,254
Proceeds from sales of securities available-for-sale	231,155	8,359
Purchases of securities available-for-sale	(240,190)	(76,819)
Proceeds from sales of Federal Home Loan Bank stock	-	1,467
Net change in loans	26,971	20,248
Improvements in other real estate owned	(50)	(318)
Proceeds from sales of other real estate owned	11,842	5,369
Proceeds from disposition of fixed assets	6	-
Net purchases of premises and equipment	(1,123)	(154)
Net cash provided by (used in) investing activities	46,666	(24,594)
Cash flows from financing activities		
Net change in deposits	1,037	23,089
Net change in securities sold under repurchase agreements	2,927	903
Net change in other short-term borrowings	(100,000)	15,000
Purchase of treasury stock	(185)	(63)
Net cash (used in) provided by financing activities	(96,221)	38,929
Net change in cash and cash equivalents	(47,390)	25,668
Cash and cash equivalents at beginning of period	128,507	50,949
Cash and cash equivalents at end of period	$ 81,117	$ 76,617

Supplemental cash flow information

Interest paid for deposits	$	2,124	$	3,394
Interest paid for borrowings		225		243
Non-cash transfer of loans to other real estate		6,985		15,918
Non-cash transfer of loans to securities available-for-sale		5,329		-
Accretion on preferred stock warrants		261		245
Fair value difference on recapture of restricted stock		43		-

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Changes in

Stockholders Equity

(In thousands, except share data)

	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				(2,968)			(2,968)
Change in net unrealized gain on securities available-for-sale net of $372 tax effect					531		531
Change in restricted stock	101		(101)				-
Stock based compensation			87				87
Purchase of treasury stock						(63)	(63)
Preferred stock accretion and declared dividends		245		(1,223)			(978)
Balance, March 31, 2012	$ 18,729	$ 71,108	$ 65,985	$ 12,916	$ (3,171)	$ (94,956)	$ 70,611
Balance, December 31, 2012	$ 18,729	$ 71,869	$ 66,189	$ 12,048	$ (1,327)	$ (94,956)	$ 72,552
Net income				5,471			5,471
Change in net unrealized loss on securities available-for-sale, net of $613 tax effect					(875)		(875)
Change in restricted stock	51		(51)				-
Recapture of restricted stock			(43)			(569)	(612)
Stock based compensation			14				14
Purchase of treasury stock						(185)	(185)
Preferred stock accretion and declared dividends		261		(772)			(511)
Balance, March 31, 2013	$ 18,780	$ 72,130	$ 66,109	$ 16,747	$ (2,202)	$ (95,710)	$ 75,854

See accompanying notes to consolidated financial statements.

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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 March 31, 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 accounting principles generally accepted in the United States 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 financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the 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 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 United States generally accepted accounting practices (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 is reflected in the consolidated statement of comprehensive income (loss).

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 the Bank, portions of the portfolio will also serve as income producing assets. The size of the portfolio will reflect liquidity needs, loan demand and interest income objectives.

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Portfolio size and composition may be adjusted from time to time. While a significant portion of the portfolio will always consist of readily marketable securities to address liquidity, other parts of the portfolio may reflect funds invested pending future loan demand or to maximize interest income without undue interest rate risk.

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 management 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 will change as interest rates and market conditions change. Unrealized gains and losses are not included in the calculation of regulatory capital.

Non-marketable 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 $6.4 million at March 31, 2013, and December 31, 2012. FRB stock was recorded at $4.8 million at March 31, 2013, and December 31, 2012. Our FHLB stock is necessary to maintain our program of access to FHLB advances.

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2013:				
U.S. Treasury	$ 1,500	$ 2	$ -	$ 1,502
U.S. government agencies	69,189	129	(53)	69,265
U.S. government agency mortgage-backed	76,500	804	(952)	76,352
States and political subdivisions	25,876	1,139	-	27,015
Corporate Bonds	38,090	650	(161)	38,579
Collateralized mortgage obligations	131,181	964	(476)	131,669
Asset-backed securities	219,234	2,174	(671)	220,737
Collateralized debt obligations	17,919	-	(7,292)	10,627
	$ 579,489	$ 5,862	$ (9,605)	$ 575,746
December 31, 2012:				
U.S. Treasury	$ 1,500	$ 7	$ -	$ 1,507
U.S. government agencies	49,848	122	(120)	49,850
U.S. government agency mortgage-backed	127,716	1,605	(583)	128,738
States and political subdivisions	14,639	1,216	-	15,855
Corporate Bonds	36,355	586	(55)	36,886
Collateralized mortgage obligations	168,795	1,895	(1,090)	169,600
Asset-backed securities	165,347	2,468	(322)	167,493
Collateralized debt obligations	17,941	-	(7,984)	9,957
	$ 582,141	$ 7,899	$ (10,154)	$ 579,886

The fair value, amortized cost and weighted average yield of debt securities at March 31, 2013, by contractual maturity, were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, collateralized debt obligations and equity securities are shown separately.

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	Amortized Cost	Weighted Average Yield	Fair Value
Due in one year or less	$ 10,976	1.61%	$ 10,984
Due after one year through five years	25,685	1.97%	26,456
Due after five years through ten years	37,930	3.03%	38,730
Due after ten years	60,064	2.93%	60,191
	134,655	2.67%	136,361
Mortgage-backed securities	207,681	2.02%	208,021
Asset-back securites	219,234	1.55%	220,737
Collateralized debt obligations	17,919	1.64%	10,627
	$ 579,489	1.98%	$ 575,746

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

March 31, 2013	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
U.S. government agencies	3	$ 53	$ 12,225	-	$ -	$ -	3	$ 53	12,225
U.S. government agency mortgage-backed	9	952	49,575	-	-	-	9	952	49,575
Corporate bonds	5	141	13,657	1	20	1,032	6	161	14,689
Collateralized mortgage obligations	7	476	57,201	-	-	-	7	476	57,201
Asset-backed securities	7	671	47,281	-	-	-	7	671	47,281
Collateralized debt obligations	-	-	-	2	7,292	10,627	2	7,292	10,627
	31	$ 2,293	$ 179,939	3	$ 7,312	$ 11,659	34	$ 9,605	$ 191,598

December 31, 2012	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
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	35	$ 10,154	$ 167,513

Recognition of other-than-temporary impairment was not necessary in the three months ended March 31, 2013, or the year ended December 31, 2012. The changes in fair values related primarily to interest rate fluctuations and were generally not related to credit quality deterioration, although the amount of deferrals and defaults in the pooled collateralized debt obligations (CDO) decreased in the period from December 31, 2012 to March 31, 2013.

Continued uncertainty in the financial markets in the periods presented has resulted in sharply reduced liquidity for certain investments, particularly the CDO securities. In the case of the CDO securities fair value measurement, management included a risk premium adjustment as of March 31, 2013, to reflect an estimated yield that a market participant would demand because of uncertainty in cash flows, based on incomplete and sporadic levels of market activity. Accordingly, management continues to designate these securities as Level 3 securities as described in Note 12 of this quarterly report as of March 31, 2013. Management does not have the intent to sell the above securities and it is more likely than not the Company will not sell the securities before recovery of its cost basis.

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Below is additional information as it relates to the CDOs, Trapeza 2007-13A, which is secured by a pool of trust preferred securities issued by trusts sponsored by multiple financial institutions.

	Amortized Cost	Fair Value	Gross Unrealized Loss	S&P Credit Rating1	Number of Banks in Issuance	Issuance Deferrals & Defaults Amount	Issuance Deferrals & Defaults Collateral%	Issuance Excess Subordination Amount	Issuance Excess Subordination Collateral%
March 31, 2013									
Class A1	$ 8,981	$ 6,055	$ (2,926)	BB+	63	$ 207,000	27.6%	$ 194,387	25.9%
Class A2A	8,938	4,572	(4,366)	B+	63	207,000	27.6%	97,387	13.0%
	$ 17,919	$ 10,627	$ (7,292)						
December 31, 2012									
Class A1	$ 9,038	$ 5,768	$ (3,270)	BB+	63	$ 208,000	27.7%	$ 190,982	25.5%
Class A2A	8,903	4,189	(4,714)	B+	63	208,000	27.7%	93,982	12.5%
	$ 17,941	$ 9,957	$ (7,984)						

1 Moody s credit rating for class A1 and A2A were Baa2 and Ba2, respectively, as of March 31, 2013, and December 31, 2012. The Fitch ratings for class A1 and A2A were BBB and B, respectively, as of March 31, 2013, and December 31, 2012.

Note 3 Loans

Major classifications of loans were as follows:

	March 31, 2013	December 31, 2012
Commercial	$ 84,332	$ 86,941
Real estate - commercial	566,349	579,687
Real estate - construction	40,698	42,167
Real estate - residential	394,599	414,543
Consumer	2,908	3,101
Overdraft	584	994
Lease financing receivables	8,574	6,060
Other	15,022	16,451
	1,113,066	1,149,944
Net deferred loan cost (fees)	236	106
	$ 1,113,302	$ 1,150,050

It is the policy of the Company to review each prospective credit in order to determine an adequate level of security or collateral was obtained prior to making a loan. The type of collateral, when required, will vary from liquid assets to real estate. The Company s access to collateral, in the event of borrower default, is assured through adherence to state lending laws, the Company s lending standards and credit monitoring procedures. The Bank generally makes loans solely within its market area. There are no significant concentrations of loans where the customers ability to honor loan terms is dependent upon a single economic sector although the real estate related categories listed above represent 90.0% and 90.1% of the portfolio at March 31, 2013, and December 31, 2012, respectively. The Company remains committed to overseeing and managing its loan portfolio to reduce its real estate credit concentrations in accordance with the requirements of the Consent Order the Bank entered into with the Office of the Controller of the Currency (the OCC) on May 16, 2011 (the Consent Order). Regulatory and Capital matters including the Consent Order are discussed in more detail in Note 11 of the consolidated financial statements included in this report.

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Aged analysis of past due loans by class of loans were as follows:

March 31, 2013

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Nonaccrual	Total Loans	Recorded Investment 90 days or Greater Past Due and Accruing
Commercial	$ 58	$ -	$ -	$ 58	$ 92,638	$ 210	$ 92,906	$ -
Real estate - commercial								
Owner occupied general purpose	2,535	-	-	2,535	114,871	4,990	122,396	-
Owner occupied special purpose	-	-	-	-	145,443	10,457	155,900	-
Non-owner occupied general purpose	310	-	165	475	127,904	10,082	138,461	165
Non-owner occupied special purpose	-	-	-	-	75,649	1,470	77,119	-
Retail properties	-	-	-	-	38,351	8,846	47,197	-
Farm	-	52	-	52	22,807	2,417	25,276	-
Real estate - construction								
Homebuilder	-	-	-	-	5,827	168	5,995	-
Land	-	-	-	-	2,712	254	2,966	-
Commercial speculative	-	-	-	-	11,182	5,353	16,535	-
All other	47	-	-	47	14,549	606	15,202	-
Real estate - residential								
Investor	3,905	-	-	3,905	127,536	8,524	139,965	-
Owner occupied	3,359	-	-	3,359	109,617	7,916	120,892	-
Revolving and junior liens	508	87	112	707	129,432	3,603	133,742	112
Consumer	5	-	-	5	2,903	-	2,908	-
All other	-	-	-	-	15,842	-	15,842	-
	$ 10,727	$ 139	$ 277	$ 11,143	$ 1,037,263	$ 64,896	$ 1,113,302	$ 277

December 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Nonaccrual	Total Loans	Recorded Investment 90 days or Greater Past Due and Accruing
Commercial	$ 159	$ -	$ -	$ 159	$ 92,080	$ 762	$ 93,001	$ -
Real estate - commercial								
Owner occupied general purpose	1,580	50	-	1,630	119,994	5,487	127,111	-
Owner occupied special purpose	172	-	-	172	149,439	11,433	161,044	-
Non-owner occupied general purpose	-	1,046	-	1,046	128,817	13,436	143,299	-
Non-owner occupied special purpose	-	4,304	-	4,304	69,299	477	74,080	-
Retail properties	-	-	-	-	37,732	10,532	48,264	-
Farm	-	-	-	-	23,372	2,517	25,889	-
Real estate - construction								
Homebuilder	-	-	-	-	4,469	1,855	6,324	-
Land	-	-	-	-	2,747	254	3,001	-
Commercial speculative	-	-	-	-	10,755	6,587	17,342	-
All other	300	215	68	583	14,360	557	15,500	68

Real estate - residential								
Investor	276	164	-	440	140,141	9,910	150,491	-
Owner occupied	3,151	375	21	3,547	110,735	9,918	124,200	21
Revolving and junior liens	888	203	-	1,091	134,990	3,771	139,852	-
Consumer	3	-	-	3	3,075	23	3,101	-
All other	-	-	-	-	17,551	-	17,551	-
	$ 6,529	$ 6,357	$ 89	$ 12,975	$ 1,059,556	$ 77,519	$ 1,150,050	$ 89

The Bank had no commitments to any borrower whose loans were classified as impaired at March 31, 2013.

Credit Quality Indicators:

The Company categorizes loans into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, historical payment experience, and current economic trends. Each loan and loan relationship is examined. This analysis includes loans with outstanding loans or commitments greater than $50,000 and excludes homogeneous loans such as home equity line of credit and residential mortgages. Loans with a classified risk rating are reviewed quarterly regardless of size or loan type. The Company uses the following definitions for classified risk ratings:

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Special Mention. Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Credits that are not covered by the definitions above are pass credits, which are not considered to be adversely rated.

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Credit Quality Indicators by class of loans as were as follows:

March 31, 2013	Pass	Special Mention	Substandard 1	Doubtful	Total
Commercial	$ 80,608	$ 11,551	$ 747	$ -	$ 92,906
Real estate - commercial					
Owner occupied general purpose	100,321	11,250	10,825	-	122,396
Owner occupied special purpose	129,797	5,223	20,880	-	155,900
Non-owner occupied general purpose	107,492	14,152	16,817	-	138,461
Non-owner occupied special purpose	70,166	5,483	1,470	-	77,119
Retail Properties	34,098	1,649	11,450	-	47,197
Farm	21,349	1,510	2,417	-	25,276
Real estate - construction					
Homebuilder	1,331	2,135	2,529	-	5,995
Land	2,712	-	254	-	2,966
Commercial speculative	7,567	-	8,968	-	16,535
All other	14,077	220	905	-	15,202
Real estate - residential					
Investor	119,660	11,392	8,913	-	139,965
Owner occupied	109,105	1,324	10,463	-	120,892
Revolving and junior liens	127,820	200	5,722	-	133,742
Consumer	2,907	-	1	-	2,908
All other	15,842	-	-	-	15,842
Total	$ 944,852	$ 66,089	$ 102,361	$ -	$ 1,113,302

December 31, 2012	Pass	Special Mention	Substandard 1	Doubtful	Total
Commercial	$ 88,071	$ 3,867	$ 1,063	$ -	$ 93,001
Real estate - commercial					
Owner occupied general purpose	113,118	2,995	10,998	-	127,111
Owner occupied special purpose	134,152	9,036	17,856	-	161,044
Non-owner occupied general purpose	105,192	14,273	23,834	-	143,299
Non-owner occupied special purpose	68,682	3,911	1,487	-	74,080
Retail Properties	32,715	1,873	13,676	-	48,264
Farm	21,262	2,110	2,517	-	25,889
Real estate - construction					
Homebuilder	1,318	2,196	2,810	-	6,324
Land	2,747	-	254	-	3,001
Commercial speculative	7,122	-	10,220	-	17,342
All other	14,607	37	856	-	15,500
Real estate - residential					
Investor	123,876	14,608	12,007	-	150,491
Owner occupied	110,858	396	12,946	-	124,200
Revolving and junior liens	133,992	166	5,694	-	139,852
Consumer	3,075	-	26	-	3,101
All other	17,331	220	-	-	17,551
Total	$ 978,118	$ 55,688	$ 116,244	$ -	$ 1,150,050

1 The substandard credit quality indicator includes both potential problem loans that are currently performing and nonperforming loans

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Impaired loans by class of loan were as follows:

	As of March 31, 2013			Quarter Ended March 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	$ 142	$ 190	$ -	$ 169	$ -
Commercial real estate					
Owner occupied general purpose	4,193	4,631	-	4,333	1
Owner occupied special purpose	4,530	5,657	-	5,855	-
Non-owner occupied general purpose	11,237	12,697	-	12,797	44
Non-owner occupied special purpose	467	630	-	472	-
Retail properties	5,282	8,348	-	7,031	-
Farm	2,417	2,417	-	2,467	-
Construction					
Homebuilder	3,597	4,033	-	3,876	31
Land	-	-	-	127	-
Commercial speculative	1,988	97	-	2,126	-
All other	53	2,781	-	66	-
Residential					
Investor	7,707	9,839	-	6,437	-
Owner occupied	9,460	10,766	-	9,425	57
Revolving and junior liens	1,232	1,468	-	1,300	1
Consumer	-	-		11	-
Total impaired loans with no recorded allowance	52,305	63,554	-	56,492	134
With an allowance recorded					
Commercial	68	74	68	317	-
Commercial real estate					
Owner occupied general purpose	897	937	236	956	-
Owner occupied special purpose	5,927	8,264	735	5,090	-
Non-owner occupied general purpose	2,519	4,124	115	2,649	-
Non-owner occupied special purpose	1,003	1,003	101	501	-
Retail properties	3,564	7,133	813	2,658	-
Farm	-	-	-	-	-
Construction					
Homebuilder	-	-	-	13	-
Land	254	308	15	127	-
Commercial speculative	3,365	5,661	677	3,844	-
All other	553	776	347	516	-
Residential					
Investor	817	1,195	202	2,779	-
Owner occupied	3,945	4,648	765	4,927	6
Revolving and junior liens	2,432	2,536	964	2,448	-
Consumer	-	-	-	-	-
	25,344	36,659	5,038	26,825	6

Total impaired loans with a recorded allowance										
Total impaired loans	$	77,649	$	100,213	$	5,038	$	83,317	$	140

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Impaired loans by class of loans were as follows:

	As of December 31, 2012			Quarter Ended March 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	$ 196	$ 229	$ -	$ 511	$ -
Commercial real estate					
Owner occupied general purpose	4,473	5,021	-	4,540	-
Owner occupied special purpose	7,180	8,486	-	11,905	-
Non-owner occupied general purpose	14,356	17,381	-	9,980	45
Non-owner occupied special purpose	477	634	-	794	-
Retail properties	8,780	15,323	-	8,126	-
Farm	2,517	2,517	-	709	-
Construction					
Homebuilder	4,155	4,729	-	9,464	27
Land	254	308	-	1,305	-
Commercial speculative	2,265	3,451	-	7,783	-
All other	78	168	-	3,218	-
Residential					
Investor	5,168	6,979	-	3,417	2
Owner occupied	9,389	11,002	-	12,523	22
Revolving and junior liens	1,368	1,689	-	1,549	-
Consumer	23	23		-	-
Total impaired loans with no recorded allowance	60,679	77,940	-	75,824	96
With an allowance recorded					
Commercial	566	619	458	650	-
Commercial real estate					
Owner occupied general purpose	1,014	1,057	230	5,078	-
Owner occupied special purpose	4,253	6,200	712	4,171	-
Non-owner occupied general purpose	2,779	3,906	204	11,456	-
Non-owner occupied special purpose	-	-	-	429	-
Retail properties	1,752	1,812	1,102	5,656	-
Farm	-	-	-	592	-
Construction					
Homebuilder	26	75	3	1,916	-
Land	-	-	-	352	-
Commercial speculative	4,322	6,613	757	4,661	-
All other	479	649	353	241	-
Residential					
Investor	4,742	5,954	477	12,060	-
Owner occupied	5,909	6,923	1,089	6,803	1
Revolving and junior liens	2,464	2,625	874	1,288	-
Consumer	-	-	-	-	-
Total impaired loans with a recorded allowance	28,306	36,433	6,259	55,353	1

Total impaired loans	$ 88,985	$ 114,373	$ 6,259	$ 131,177	$ 97

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Troubled debt restructurings (TDR) are loans for which the contractual terms have been modified and both of these conditions exist: (1) there is a concession to the borrower and (2) the borrower is experiencing financial difficulties. Loans are restructured on a case-by-case basis during the loan collection process with modifications generally initiated at the request of the borrower. These modifications may include reduction in interest rates, extension of term, deferrals of principal, and other modifications. The Bank does participate in the U.S. Department of the Treasury s (the Treasury) Home Affordable Modification Program (HAMP) which gives qualifying homeowners an opportunity to refinance into more affordable monthly payments.

The specific allocation of the allowance for loan losses on TDRs is determined either by discounting the modified cash flows at the original effective rate of the loan before modification or is based on the underlying collateral value less costs to sell, if repayment of the loan is collateral-dependent. If the resulting amount is less than the recorded book value, the Bank either establishes a valuation allowance (i.e. specific reserve) as a component of the allowance for loan losses or charges off the impaired balance if it determines that such amount is a confirmed loss. This method is used consistently for all segments of the portfolio. The allowance for loan losses also includes an allowance based on a loss migration analysis for each loan category for loans that are not individually evaluated for specific impairment. All loans charged-off, including TDRs charged-off, are factored into this calculation by portfolio segment.

TDR s that were modified during the period are summarized as follows:

	TDR Modifications Three months ending 3/31/13		
	# of contracts	Pre-modification recorded investment	Post-modification recorded investment
Troubled debt restructurings			
Real estate - residential			
Owner occupied			
Deferral[1]	1	$ 137	$ 137
	$ 1	$ 137	$ 137

	TDR Modifications Three months ending 3/31/12		
	# of contracts	Pre-modification recorded investment	Post-modification recorded investment
Troubled debt restructurings			
Real estate - construction			
Commercial speculative			
Interest[2]	1	$ 430	$ 460
Real estate - residential			
Owner occupied			
Deferral	1	108	108
	$ 2	$ 538	$ 568

1 Deferral: Refers to the deferral of principal

2 Interest: Interest rate concession below normal market

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TDR s are classified as being in default on a case-by-case basis. The following table presents TDR s that defaulted during the periods shown and were restructured within the 12 month period prior to default. There was no TDR default activity for the three months ending March 31, 2012.

Troubled debt restructurings that Subsequently Defaulted

	TDR Default Activity Three Months ending 3/31/13			TDR Default Activity Three Months ending 3/31/12		
	# of contracts		Pre-modification outstanding recorded investment	# of contracts		Pre-modification outstanding recorded investment
Real estate - residential						
Investor	1	$	155	-	$	-
	1	$	155	-	$	-

Note 4 Allowance for Loan Losses

Changes in the allowance for loan losses by segment of loans based on method of impairment for the three months ended March 31, 2013, were as follows:

	Commercial	Real Estate Commercial1	Real Estate Construction	Real Estate Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 4,517	$ 20,100	$ 3,837	$ 4,535	$ 1,178	$ 4,430	$ 38,597
Charge-offs	254	508	4	585	172	-	1,523
Recoveries	19	2,724	770	404	143	-	4,060
Provision	(509)	(3,051)	(874)	(383)	65	2,252	(2,500)
Ending balance	$ 3,773	$ 19,265	$ 3,729	$ 3,971	$ 1,214	$ 6,682	$ 38,634
Ending balance: Individually evaluated for impairment	$ 68	$ 2,000	$ 1,039	$ 1,931	$ -	$ -	$ 5,038
Ending balance: Collectively evaluated for impairment	$ 3,705	$ 17,265	$ 2,690	$ 2,040	$ 1,214	$ 6,682	$ 33,596
Financing receivables:							
Ending balance	$ 92,906	$ 566,349	$ 40,698	$ 394,599	$ 2,908	$ 15,842	$ 1,113,302
Ending balance: Individually evaluated for impairment	$ 210	$ 42,036	$ 9,810	$ 25,593	$ -	$ -	$ 77,649
Ending balance: Collectively evaluated for impairment	$ 92,696	$ 524,313	$ 30,888	$ 369,006	$ 2,908	$ 15,842	$ 1,035,653

1 As of March 31, 2013, this segment consisted of performing loans that included a higher risk pool of loans rated as substandard that totaled $21.8 million. The amount of general allocation that was estimated for that portion of these performing substandard rated loans was $3.1 million at March 31, 2013.

The Company s allowance for loan loss is calculated in accordance with GAAP and relevant supervisory guidance. All management estimates were made in light of observable trends within loan portfolio segments, market conditions and established credit review administration practices.

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Changes in the allowance for loan losses by segment of loans based on method of impairment for the quarter ended March 31, 2012, were as follows:

	Commercial	Real Estate Commercial1	Real Estate Construction	Real Estate Residential	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 5,070	$ 30,770	$ 7,937	$ 6,335	$ 884	$ 1,001	$ 51,997
Charge-offs	10	8,280	1,402	2,291	139	-	12,122
Recoveries	6	189	1,169	165	122	-	1,651
Provision	262	5,959	(740)	584	52	(33)	6,084
Ending balance	$ 5,328	$ 28,638	$ 6,964	$ 4,793	$ 919	$ 968	$ 47,610
Ending balance: Individually evaluated for impairment	$ 389	$ 4,568	$ 1,908	$ 2,782	$ -	$ -	$ 9,647
Ending balance: Collectively evaluated for impairment	$ 4,939	$ 24,070	$ 5,056	$ 2,011	$ 919	$ 968	$ 37,963
Financing receivables:							
Ending balance	$ 105,147	$ 676,297	$ 60,285	$ 464,596	$ 3,544	$ 12,479	$ 1,322,348
Ending balance: Individually evaluated for impairment	$ 1,157	$ 61,580	$ 24,072	$ 36,919	$ -	$ -	$ 123,728
Ending balance: Collectively evaluated for impairment	$ 103,990	$ 614,717	$ 36,213	$ 427,677	$ 3,544	$ 12,479	$ 1,198,620

1 As of March 31, 2012, this segment consisted of performing loans that included a higher risk pool of loans rated as substandard that totaled $43.3 million. The amount of general allocation that was estimated for that portion of these performing substandard rated loans was $5.0 million at March 31, 2012.

Note 5 Other Real Estate Owned

Details related to the activity in the other real estate owned (OREO) portfolio, net of valuation reserve, for the periods presented are itemized in the following table:

	Three Months Ended March 31,	
	2013	2012
Balance at beginning of period	$ 72,423	$ 93,290
Property additions	6,985	15,918
Development improvements	50	318
Less:		
Property disposals	11,661	5,346
Period valuation adjustments	2,134	2,500
Balance at end of period	$ 65,663	$ 101,680

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Activity in the valuation allowance was as follows:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Balance at beginning of period	$ 31,454	$ 23,462
Provision for unrealized losses	1,987	2,500
Reductions taken on sales	(2,622)	(1,968)
Other adjustments	147	-
Balance at end of period	$ 30,966	$ 23,994

Expenses related to foreclosed assets, net of lease revenue includes:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Gain on sales, net	$ (181)	$ (23)
Provision for unrealized losses	1,987	2,500
Operating expenses	1,699	2,154
Less:		
Lease revenue	408	1,179
	$ 3,097	$ 3,452

Note 6 Deposits

Major classifications of deposits were as follows:

	March 31, 2013	December 31, 2012
Noninterest bearing demand	$ 351,328	$ 379,451
Savings	230,771	216,305
NOW accounts	303,385	286,860
Money market accounts	331,707	323,811
Certificates of deposit of less than $100,000	312,193	318,844
Certificates of deposit of $100,000 or more	188,872	191,948
	$ 1,718,256	$ 1,717,219

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Note 7 Borrowings

The following table is a summary of borrowings as of March 31, 2013, and December 31, 2012. Junior subordinated debentures are discussed in detail in Note 8:

	March 31, 2013	December 31, 2012
Securities sold under repurchase agreements	$ 20,802	$ 17,875
FHLB advances	-	100,000
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
	$ 124,680	$ 221,753

The Company enters into deposit sweep transactions where the transaction amounts are secured by pledged securities. These transactions consistently mature within 1 to 90 days from the transaction date. All sweep repurchase agreements are treated as financings secured by U. S. government agencies and collateralized mortgage-backed securities with a carrying amount of $31.7 and $26.0 million at March 31, 2013, and December 31, 2012, respectively.

The Company s borrowings at the FHLBC require the Bank to be a member and invest in the stock of the FHLBC and are generally limited to the lower of 35% of total assets or 60% of the book value of certain mortgage loans. At March 31, 2013, there were no advances on the FHLBC stock of $6.4 million and collateralized securities and loans valued at $109.4 million. As of December 31, 2012, there were advances totaling $100.0 million on FHLBC stock of $6.4 million and collateralized loan balances of $129.5 million. All $100.0 million was paid off during the month of January 2013. On January 30, 2013, an advance of $40.0 million was taken on FHLBC stock, which matured and was paid off on March 20, 2013. The Company has also established borrowing capacity at the FRB that was not used at either March 31, 2013, or December 31, 2012. The Company currently has $34.7 million of borrowing capacity at the FRB at the current secondary rate of 1.25%.

One of the Company s most significant borrowing relationships continued to be the $45.5 million credit facility with Bank of America. That credit facility was originally comprised of a $30.5 million senior debt facility, which included a $30.0 million revolving line now matured and $500,000 in term debt (together, the Senior Debt), as well as $45.0 million of subordinated debt (the Subordinated Debt). The Subordinated Debt and the term debt portion of the Senior Debt mature on March 31, 2018. The interest rate on the Senior Debt resets quarterly and at the Company s option, based on the Lender s prime rate or three-month LIBOR plus 90 basis points. The interest rate on term debt portion of the Subordinated Debt resets quarterly, and is equal to three-month LIBOR plus 150 basis points. The Company had no principal outstanding balance on the Bank of America senior line of credit when it matured but did have $500,000 in principal outstanding in term debt and $45.0 million in principal outstanding in Subordinated Debt at both December 31, 2012 and March 31, 2013. The term debt is secured by all of the outstanding capital stock of the Bank. The Company has made all required interest payments on the outstanding principal amounts on a timely basis.

The credit facility agreement contains usual and customary provisions regarding acceleration of the term debt portion of the Senior Debt upon the occurrence of an event of default by the Company under the agreement, as described therein. The agreement also contains certain customary representations and warranties as well as financial covenants. At March 31, 2013, the Company was out of compliance with one of the financial covenants. Previously, the Company was out of compliance with two of the financial covenants. The agreement provides that upon an event of default as the result of the Company s failure to comply with a financial covenant, the lender may (i) terminate all commitments to extend further credit, (ii) increase the interest rate on the revolving line and the term debt by 200 basis points, (iii) declare the Senior Debt immediately due and payable and (iv) exercise all of its rights and remedies

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at law, in equity and/or pursuant to any or all collateral documents, including foreclosing on the collateral. The total outstanding principal amount of the Senior Debt is the $500,000 in term debt with interest payable at the default rate mentioned above. Because the Subordinated Debt is treated as Tier 2 capital for regulatory capital purposes, the agreement does not provide the lender with any rights of acceleration or other remedies with regard to the Subordinated Debt upon an event of default caused by the Company s failure to comply with a financial covenant.

Note 8 Junior Subordinated Debentures

The Company completed the sale of $27.5 million of cumulative trust preferred securities by its unconsolidated subsidiary, Old Second Capital Trust I in June 2003. An additional $4.1 million of cumulative trust preferred securities was sold in July 2003. The costs associated with the issuance of the cumulative trust preferred securities are being amortized over 30 years. The trust preferred securities may remain outstanding for a 30-year term but, subject to regulatory approval, can be called in whole or in part by the Company. The stated call period commenced on June 30, 2008 and a call can be exercised by the Company from time to time hereafter. When not in deferral, cash distributions on the securities are payable quarterly at an annual rate of 7.80%. The Company issued a new $32.6 million subordinated debenture to the trust in return for the aggregate net proceeds of this trust preferred offering. The interest rate and payment frequency on the debenture are equivalent to the cash distribution basis on the trust preferred securities.

The Company issued an additional $25.0 million of cumulative trust preferred securities through a private placement completed by an additional unconsolidated subsidiary, Old Second Capital Trust II, in April 2007. Although nominal in amount, the costs associated with that issuance are being amortized over 30 years. These trust preferred securities also mature in 30 years, but subject to the aforementioned regulatory approval, can be called in whole or in part on a quarterly basis commencing June 15, 2017. The quarterly cash distributions on the securities are fixed at 6.77% through June 15, 2017 and float at 150 basis points over three-month LIBOR thereafter. The Company issued a new $25.8 million subordinated debenture to the Old Second Capital Trust II in return for the aggregate net proceeds of this trust preferred offering. The interest rate and payment frequency on the debenture are equivalent to the cash distribution basis on the trust preferred securities.

Under the terms of the subordinated debentures issued to each of Old Second Capital Trust I and II, the Company is allowed to defer payments of interest for 20 quarterly periods without default or penalty, but such amounts will continue to accrue. Also during the deferral period, the Company generally may not pay cash dividends on or repurchase its common stock or preferred stock, including the Series B Fixed Rate Cumulative Perpetual Preferred Stock (the Series B Preferred Stock) as discussed in Note 15. In August of 2010, the Company elected to defer regularly scheduled interest payments on the $58.4 million of junior subordinated debentures. Because of the deferral on the subordinated debentures, the trusts will defer regularly scheduled dividends on the trust preferred securities. Both of the debentures issued by the Company are recorded on the Consolidated Balance Sheets as junior subordinated debentures and the related interest expense for each issuance is included in the Consolidated Statements of Operations. The total accumulated unpaid interest on the junior subordinated debentures including compounded interest from July 1, 2010 on the deferred payments totals $13.0 million at March 31, 2013.

Note 9 - Long-Term Incentive Plan

The Long-Term Incentive Plan (the Incentive Plan) authorizes the issuance of up to 1,908,332 shares of the Company s common stock, including the granting of qualified stock options, non-qualified stock options, restricted stock, restricted stock units, and stock appreciation rights. Total shares issuable under the plan were 200,868 at March 31, 2013. Stock based awards may be granted to selected directors and officers or employees at the discretion of the board of directors. There were no stock options granted in the first quarter of 2013 or 2012. All stock options are granted for a term of ten years.

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Total compensation cost that has been charged for those plans was $14,000 in the first quarter of 2013 and $87,000 in the first quarter of 2012.

There were no stock options exercised during the first quarter of 2013 or 2012. There is no unrecognized compensation cost related to nonvested stock options as all stock options of the Company s common stock have vested as of March 31, 2012.

A summary of stock option activity in the Incentive Plan as of each quarter is as follows:

March 31, 2013	Shares		Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (years)		Aggregate Intrinsic Value
Beginning outstanding	409,500	$	28.75			
Canceled	-		-			
Ending outstanding	409,500	$	28.75	2.8	$	-
Exercisable at end of quarter	409,500	$	28.75	2.8	$	-

Generally, restricted stock and restricted stock units vest three years from the grant date, but the Company s Board of Directors have discretionary authority to change some terms including the amount of time until vest date. Awards under the Incentive Plan become fully vested upon a merger or change in control of the Company.

Under the Incentive Plan, restricted stock was granted beginning in 2005 and the grant of restricted units began in February 2009. Both of these restricted awards have voting and dividend rights and are subject to forfeiture until certain restrictions have lapsed including employment for a specific period. Further, in first quarter 2013 after completion on Treasury s auction of the Old Second Bancorp Series B Preferred Stock at a discount, 45,000 unvested restricted stock shares previously awarded were recaptured in addition to 133,943 restricted stock shares that were fully vested. These recaptures provided an income statement benefit of $612,000 included in other noninterest income. There were no restricted awards issued during the first quarter of 2013 and 60,000 restricted awards were issued during the first quarter of 2012. Compensation expense is recognized over the vesting period of the restricted award based on the market value of the award at issue date.

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A summary of changes in the Company s nonvested restricted awards from December 31, 2012 is as follows:

	March 31, 2013		
	Restricted Stock Shares and Units		Weighted Average Grant Date Fair Value
Nonvested at January 1	327,920	$	2.21
Granted	-		-
Vested	(191,920)		2.63
Forfeited	(11,000)		2.47
Recaptured after Series B auction	(45,000)		1.25
Nonvested at March 31	80,000	$	1.73

Total unrecognized compensation cost of restricted awards is $31,000 as of March 31, 2013, and is expected to be recognized over a weighted-average period of 0.81 years. Total unrecognized compensation cost of restricted awards was $294,000 as of March 31, 2012, which was expected to be recognized over a weighted-average period of 1.29 years.

Note 10 Earnings (Loss) Per Share

Earnings (loss) per share is included below as of March 31 (in thousands except for share data):

	Three Months Ended March 31,			
		2013		2012
Basic earnings (loss) per share:				
Weighted-average common shares outstanding		14,076,114		14,043,545
Weighted-average common shares less stock based awards		13,947,454		13,855,339
Weighted-average common shares stock based awards		210,069		340,804
Net earnings (loss)	$	5,471	$	(2,968)
Dividend and accretion on preferred shares		1,289		1,223
Net earnings (loss) available to common stockholders		4,182		(4,191)
Undistributed earnings (loss)		4,182		(4,191)
Basic earnings (loss) per share common undistributed earnings (loss)		0.30		(0.30)
Basic earnings (loss) per share of common stock	$	0.30	$	(0.30)
Diluted earnings (loss) per share:				
Weighted-average common shares outstanding		14,076,114		14,043,545
Dilutive effect of nonvested restricted awards		81,409		152,598
Diluted average common shares outstanding		14,157,523		14,196,143
Net earnings (loss) available to common stockholders	$	4,182	$	(4,191)
Diluted earnings (loss) per share	$	0.30	$	(0.30)

Number of antidilutive options excluded from the diluted earnings per share calculation	1,224,839	1,313,839

The above loss per share calculation did not include 815,339 common stock warrants that were outstanding as of March 31, 2013, and March 31, 2012 because they were anti-dilutive.

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Note 11 - Regulatory & Capital Matters

On May 16, 2011, the Bank, the wholly-owned banking subsidiary of the Company, entered into Consent Order with the OCC. Pursuant to the Consent Order, the Bank has agreed to take certain actions and operate in compliance with the Consent Order s provisions during its terms.

Under the terms of the Consent Order, the Bank is required to, among other things: (i) adopt and adhere to a three-year written strategic plan that establishes objectives for the Bank s overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in nonperforming assets and its product development; (ii) adopt and maintain a capital plan; (iii) by September 30, 2011, achieve and thereafter maintain a total risk-based capital ratio of at least 11.25% and a Tier 1 capital ratio of at least 8.75%; (iv) seek approval of the OCC prior to paying any dividends on its capital stock; (v) develop a program to reduce the Bank s credit risk; (vi) obtain or update appraisals on certain loans secured by real estate; (vii) implement processes to ensure that real estate valuations conform to applicable standards; (viii) take certain actions related to credit and collateral exceptions; (ix) reaffirm the Bank s liquidity risk management program; and (x) appoint a compliance committee of the Bank s Board of Directors to help ensure the Bank s compliance with the Consent Order. The Bank is also required to submit certain reports to the OCC with respect to the foregoing requirements.

Both capital ratio objectives in the OCC agreement have been exceeded since June 30, 2011. At March 31, 2013, the Bank s Tier 1 leverage ratio was 9.94%, up 27 basis points from December 31, 2012, and 119 basis points above the objective the Bank had agreed with the OCC to maintain of 8.75%. The Bank s total capital ratio was 15.79%, up 93 basis points from December 31, 2012, and 454 basis points above the objective of 11.25%.

On July 22, 2011, the Company entered into a Written Agreement with the FRB (the Written Agreement). Pursuant to the Written Agreement, the Company has agreed to take certain actions and operate in compliance with the Written Agreement s provisions during its term.

Under the terms of the Written Agreement, the Company is required to, among other things: (i) serve as a source of strength to the Bank, including ensuring that the Bank complies with the Consent Order ; (ii) refrain from declaring or paying any dividend, or taking dividends or other payments representing a reduction in the Bank s capital, each without the prior written consent of the FRB and the Director of the Division of Banking Supervision and Regulation of the Board of Governors of the Federal Reserve System (the Director); (iii) refrain, along with its nonbank subsidiaries, from making any distributions on subordinated debentures or trust preferred securities without the prior written consent of the FRB and the Director; (iv) refrain, along with its nonbank subsidiaries, from incurring, increasing or guaranteeing any debt, and from purchasing or redeeming any shares of its capital stock, each without the prior written consent of the FRB; (v) provide the FRB with a written plan to maintain sufficient capital at the Company on a consolidated basis; (vi) provide the FRB with a projection of the Company s planned sources and uses of cash; (vii) comply with certain regulatory notice provisions pertaining to the appointment of any new director or senior executive officer, or the changing of responsibilities of any senior executive officer; and (viii) comply with certain regulatory restrictions on indemnification and severance payments. The Company is also required to submit certain reports to the FRB with respect to the foregoing requirements.

Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve Capital guidelines. The general bank and holding company capital adequacy guidelines are described in the accompanying table, as are the capital ratios of the Company and the Bank, as of March 31, 2013, and December 31, 2012. These ratios are calculated on a consistent basis with the ratios disclosed in the most recent filings with the regulatory agencies.

At March 31, 2013, the Company, on a consolidated basis, exceeded the minimum thresholds to be considered adequately capitalized under regulatory defined capital ratios. The Company and the

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Bank are subject to regulatory capital requirements administered by federal banking agencies. Generally, if adequately capitalized, regulatory approval is not required to accept brokered deposits, however, the Bank is limited in the amount of brokered deposits that it can hold pursuant to the Consent Order.

Capital levels and industry defined regulatory minimum required levels:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized [1]	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2013						
Total capital to risk weighted assets						
Consolidated	$ 193,639	14.33%	$ 108,103	8.00%	N/A	N/A
Old Second Bank	212,983	15.79	107,908	8.00	134,885	10.00
Tier 1 capital to risk weighted assets						
Consolidated	100,877	7.46	54,090	4.00	N/A	N/A
Old Second Bank	195,854	14.52	53,954	4.00	80,931	6.00
Tier 1 capital to average assets						
Consolidated	100,877	5.11	78,964	4.00	N/A	N/A
Old Second Bank	195,854	9.94	78,814	4.00	98,518	5.00
December 31, 2012						
Total capital to risk weighted assets						
Consolidated	$ 189,465	13.62%	$ 111,286	8.00%	N/A	N/A
Old Second Bank	206,496	14.86	111,169	8.00	138,961	10.00
Tier 1 capital to risk weighted assets						
Consolidated	94,816	6.81	55,692	4.00	N/A	N/A
Old Second Bank	188,873	13.59	55,592	4.00	83,388	6.00
Tier 1 capital to average assets						
Consolidated	94,816	4.85	78,199	4.00	N/A	N/A
Old Second Bank	188,873	9.67	78,127	4.00	97,659	5.00

[1] The Bank exceeded the general minimum regulatory requirements to be considered well capitalized and is in full compliance with heightened capital ratios, that it has agreed to maintain with the OCC, contained within the Consent Order.

The Company s credit facility with Bank of America includes $45.0 million in subordinated debt. That debt obligation continues to qualify as Tier 2 regulatory capital. In addition, the trust preferred securities continue to qualify as Tier 1 regulatory capital, and the Company treats the maximum amount of this security type allowable under regulatory guidelines as Tier 1 capital. As of March 31, 2013, trust preferred proceeds of $26.0 million qualified as Tier 1 regulatory capital and $30.6 million qualified as Tier 2 regulatory capital. As of December 31, 2012, trust preferred proceeds of $24.6 million qualified as Tier 1 regulatory capital and $32.0 million qualified as Tier 2 regulatory capital.

Dividend Restrictions and Deferrals

In addition to the above requirements, banking regulations and capital guidelines generally limit the amount of dividends that may be paid by a Bank without prior regulatory approval. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year s profits, combined with the retained profit of the previous two years, subject to the capital requirements described above. As a result of the December 31, 2012, operating loss, funds were not available for the payment of dividends by the Bank to the Company and this restriction continued at March 31, 2013.

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As discussed in Note 8, as of March 31, 2013, the Company had $58.4 million of junior subordinated debentures held by two statutory business trusts that it controls. The Company has the right to defer interest payments on the debentures for a period of up to 20 consecutive quarters, and elected to begin such a deferral in August 2010. However, all deferred interest must be paid before the Company may pay dividends on its capital stock. Therefore, the Company will not be able to pay dividends on its common stock until all deferred interest on these debentures has been paid in full. The total amount of such deferred and unpaid interest as of March 31, 2013, was $13.0 million.

Furthermore, as with the debentures discussed above, the Company is prohibited from paying dividends on its common stock unless it has fully paid all accrued dividends on the Series B Preferred Stock. In August 2010, it also began to defer the payment of dividends on such preferred stock. Therefore, in addition to paying all the accrued and unpaid distributions on the debentures set forth above, the Company must also fully pay all accrued and unpaid dividends on the Series B Preferred Stock before it may reinstate the payment of dividends on the common stock. The total amount of deferred Series B Preferred Stock dividends as of March 31, 2013, was $10.2 million. Agreements with the OCC and the FRB contain restrictions on dividend payments.

Further detail on the subordinated debentures, the Series B Preferred Stock and the deferral of interest and dividends thereon is described in Notes 8 and 15.

During the fourth quarter 2012, the U.S. Treasury (Treasury) announced the continuation of individual auctions of the preferred stock that was issued through the Troubled Asset Relief Program and Capital Purchase Program (the CPP). At this time, the Company was informed that the Series B Stock would be auctioned. Auctions were held and transactions were settled in first quarter 2013 reflecting Treasury s efforts to conclude the CPP. The auctions were successful for Treasury as all of the Series B Stock held by Treasury was sold to third parties, including certain of our directors. At December 31, 2012, Old Second Bancorp carried $71.9 million of Series B Stock in Total Stockholders Equity. At March 31, 2013, the Company carried $72.1 million of Series B Stock.

As a result of the completed auctions, the Company s Board elected to stop accruing the dividend on the Series B Stock. Previously, the Company had declared and accrued the dividend on the Series B Stock quarterly throughout the deferral period. Given the discount reflected in the results of the auction, the Board believes that the Company will likely be able to repurchase the Series B Stock in the future at a price less than the face amount of the Series B Stock plus accrued and unpaid dividends. Therefore, under GAAP, the Company did not fully accrue the dividend on the Series B Stock in the first quarter and does not anticipate accruing for it through the second quarter. The Company will continue to evaluate whether declaring dividends on the Series B Stock is appropriate in future periods. Pursuant to the terms of the Series B Stock, the dividends paid on the Series B Stock will increase from 5% to 9% in 2014.

Note 12 Fair Value Option and Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy established by the Company also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that may be used to measure fair value are:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

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Level 3: Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Transfers between levels are deemed to have occurred at the end of the reporting period. For the quarters ended March 31, 2013, and 2012 there were no significant transfers between levels.

Securities available-for-sale are valued primarily by a third party pricing agent and both the market and income valuation approaches are implemented. The Company uses the following methods and significant assumptions to estimate fair value:

- Government-sponsored agency debt securities are primarily priced using available market information through processes such as benchmark curves, market valuations of like securities, sector groupings and matrix pricing.

- Other government-sponsored agency securities, mortgage-backed securities and some of the actively traded real estate mortgage investment conduits and collateralized mortgage obligations are primarily priced using available market information including benchmark yields, prepayment speeds, spreads, volatility of similar securities and trade date.

- Other inactive government-sponsored agency securities are primarily priced using consensus pricing and dealer quotes.

- State and political subdivisions are largely grouped by characteristics (i.e., geographical data and source of revenue in trade dissemination systems). Because some securities are not traded daily and due to other grouping limitations, active market quotes are often obtained using benchmarking for like securities and could be valued with Level 3 measurements.

- CDOs are collateralized by trust preferred security issuances of other financial institutions. CDOs are valued utilizing a discounted cash flow analysis. To reflect an appropriate fair value measurement, management included a risk premium adjustment to provide an estimate of the amount that a market participant would demand because of uncertainty in cash flows in the discounted cash flow analysis. Changes in unobservable inputs such as future cash flows, prepayment speeds and market rates which may result in a significantly higher or lower fair value measurement. Due to the significant amount of unobservable inputs for the security and limited market activity, these securities are considered Level 3 valuations.

- Asset-backed securities are priced using a single expected cash flow stream model using trades, covers, bids, offers and price for similar bonds as well as prepayment and default projections based on historical statistics of the underlying collateral and current market data.

- Residential mortgage loans eligible for sale in the secondary market are carried at fair market value. The fair value of loans held for sale is determined using quoted secondary market prices.

- Lending related commitments to fund certain residential mortgage loans (interest rate locks) to be sold in the secondary market and forward commitments for the future delivery of mortgage loans to third party investors as well as forward commitments for future delivery of mortgage-backed securities are considered derivatives. Fair values are estimated based on observable changes in mortgage interest rates including mortgage-backed securities prices from the date of the commitment and do not typically involve significant judgments by management.

- The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income to derive the resultant value. The Company is able to compare the valuation model inputs, such as the discount rate, prepayment speeds, weighted average delinquency and foreclosure/bankruptcy rates to widely available published industry data for reasonableness.

- Interest rate swap positions, both assets and liabilities, are based on a valuation pricing models using an income approach based upon readily observable market parameters such as interest rate yield curves.

- Both the credit valuation reserve on current interest rate swap positions and on receivables related to unwound customer interest rate swap positions was determined based upon management s estimate of the amount of credit risk exposure, including available collateral protection and/or by

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utilizing an estimate related to a probability of default as indicated in the Bank credit policy. Such adjustments would result in a Level 3 classification.

- The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

- Nonrecurring adjustments to certain commercial and residential real estate properties classified as OREO are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis:

The tables below present the balance of assets and liabilities at March 31, 2013, and December 31, 2012, respectively, which are measured by the Company at fair value on a recurring basis:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities available-for-sale				
U.S. Treasury	$ 1,502	$ -	$ -	$ 1,502
U.S. government agencies	-	69,265	-	69,265
U.S. government agency mortgage-backed	-	76,352	-	76,352
States and political subdivisions	-	26,883	132	27,015
Corporate Bonds	-	38,579	-	38,579
Collateralized mortgage obligations	-	131,669	-	131,669
Asset-backed securities				