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

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

For the quarterly period ended September 30, 2006

o **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	**35-1539838**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Main Street **Evansville, Indiana**	**47708**
(Address of principal executive offices)	(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 þ No o

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 þ Accelerated filer o Non-accelerated filer o

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

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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OLD NATIONAL BANCORP
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

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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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENT OF INCOME (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	**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

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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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars and shares in thousands)	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity	Comprehensive 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**	**1,344**	**1,344**
					(413)	**(413)**	**(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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OLD NATIONAL BANCORP
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		

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.

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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 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