OLD SECOND BANCORP INC
Form 10-Q
August 13, 2014
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I

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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 No

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 No

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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: As of August 8, 2014, the Registrant had outstanding 29,442,508 shares of common stock, $1.00 par value per share.

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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) June 30, 2014	December 31, 2013
Assets		
Cash and due from banks	$ 73,646	$ 33,210
Interest bearing deposits with financial institutions	19,412	14,450
Cash and cash equivalents	93,058	47,660
Securities available-for-sale, at fair value	329,814	372,191
Securities held-to-maturity, at amortized cost	264,683	256,571
Federal Home Loan Bank and Federal Reserve Bank stock	10,292	10,292
Loans held-for-sale	4,559	3,822
Loans	1,132,747	1,101,256
Less: allowance for loan losses	23,856	27,281
Net loans	1,108,891	1,073,975
Premises and equipment, net	45,242	46,005
Other real estate owned	39,232	41,537
Mortgage servicing rights, net	5,501	5,807
Core deposit, net	154	1,177
Bank-owned life insurance (BOLI)	56,134	55,410
Deferred tax assets, net	71,778	75,303
Other assets	17,526	14,284
Total assets	$ 2,046,864	$ 2,004,034
Liabilities		
Deposits:		
Noninterest bearing demand	$ 393,964	$ 373,389
Interest bearing:		
Savings, NOW, and money market	853,654	836,300
Time	453,206	472,439
Total deposits	1,700,824	1,682,128
Securities sold under repurchase agreements	38,133	22,560
Other short-term borrowings	-	5,000
Junior subordinated debentures	58,378	58,378

Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
Other liabilities	11,411	42,776
Total liabilities	1,854,246	1,856,342
Stockholders’ Equity		
Preferred stock	47,331	72,942
Common stock	34,365	18,830
Additional paid-in capital	115,183	66,212
Retained earnings	96,927	92,549
Accumulated other comprehensive loss	(5,339)	(7,038)
Treasury stock	(95,849)	(95,803)
Total stockholders’ equity	192,618	147,692
Total liabilities and stockholders’ equity	$ 2,046,864	$ 2,004,034

	June 30, 2014		December 31, 2013	
	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	47,331	34,364,734	73,000	18,829,734
Shares outstanding	47,331	29,442,508	73,000	13,917,108
Treasury shares	-	4,922,226	-	4,912,626

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 June 30,		(unaudited) Six Months Ended June 30,	
	2014	2013	2014	2013
Interest and dividend income				
Loans, including fees	$ 13,046	$ 13,912	$ 25,984	$ 28,826
Loans held-for-sale	29	45	54	86
Securities:				
Taxable	3,352	2,698	6,854	4,996
Tax exempt	118	174	266	293
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	78	76	154	152
Interest bearing deposits with financial institutions	20	27	35	69
Total interest and dividend income	16,643	16,932	33,347	34,422
Interest expense				
Savings, NOW, and money market deposits	188	221	387	449
Time deposits	1,210	1,800	2,531	3,653
Other short-term borrowings	3	-	5	20
Junior subordinated debentures	1,388	1,314	2,775	2,601
Subordinated debt	198	205	394	401
Notes payable and other borrowings	4	4	8	8
Total interest expense	2,991	3,544	6,100	7,132
Net interest and dividend income	13,652	13,388	27,247	27,290
Loan loss reserve release	(1,000)	(1,800)	(2,000)	(4,300)
Net interest and dividend income after provision for loan losses	14,652	15,188	29,247	31,590
Noninterest income				
Trust income	1,677	1,681	3,136	3,172
Service charges on deposits	1,796	1,799	3,516	3,475
Secondary mortgage fees	155	267	267	497
Mortgage servicing gain, net of changes in fair value	64	743	17	987
Net gain on sales of mortgage loans	1,038	1,811	1,700	3,787
Securities gains, net	295	745	226	2,198
Increase in cash surrender value of bank-owned life insurance	366	372	724	779
Death benefit realized on bank-owned life insurance	-	375	-	375
Debit card interchange income	930	900	1,760	1,692
Other income	1,160	1,147	2,456	2,885
Total noninterest income	7,481	9,840	13,802	19,847
Noninterest expense				
Salaries and employee benefits	9,183	9,177	18,284	18,209

Occupancy expense, net	1,185	1,242	2,666	2,521
Furniture and equipment expense	984	1,104	1,967	2,248
FDIC insurance	627	1,024	906	2,059
General bank insurance	343	491	832	1,340
Amortization of core deposit	511	525	1,023	1,050
Advertising expense	459	328	762	494
Debit card interchange expense	412	362	790	706
Legal fees	409	486	666	809
Other real estate expense, net	1,650	3,302	2,658	6,399
Other expense	3,289	3,510	6,014	6,654
Total noninterest expense	19,052	21,551	36,568	42,489
Income before income taxes	3,081	3,477	6,481	8,948
Provision for income taxes	1,060	-	2,258	-
Net income	$ 2,021	$ 3,477	$ 4,223	$ 8,948
Preferred stock dividends and accretion of discount	1,348	1,305	2,920	2,594
Dividends waived upon preferred stock redemption	(5,433)	-	(5,433)	-
Gain on preferred stock redemption	(1,348)	-	(1,348)	-
Net income available to common stockholders	$ 7,454	$ 2,172	$ 8,084	$ 6,354
Basic earnings per share	$ 0.26	$ 0.15	$ 0.38	$ 0.45
Diluted earnings per share	0.26	0.15	0.38	0.45

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)

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2014	2013	2014	2013
Net Income	$ 2,021	$ 3,477	$ 4,223	$ 8,948
Unrealized holding gains (losses) on available-for-sale securities arising during the period	3,710	(13,334)	2,621	(13,369)
Related tax (expense) benefit	(1,527)	5,491	(1,079)	5,508
Holding gains (losses) after tax on available-for-sale securities	2,183	(7,843)	1,542	(7,861)
Less: Reclassification adjustment for the net gains realized during the period				
Net realized gains	295	745	226	2,198
Income tax expense on net realized gains	(121)	(306)	(93)	(902)
Net realized gains after tax	174	439	133	1,296
Other comprehensive income (loss) on available-for-sale securities	2,009	(8,282)	1,409	(9,157)
Accretion of net unrealized holding losses on held-to-maturity transferred from available-for-sale securities	247	-	494	-
Related tax expense	(102)	-	(204)	-
Other comprehensive income on held-to-maturity securities	145	-	290	-
Total other comprehensive income (loss)	2,154	(8,282)	1,699	(9,157)
Total comprehensive income (loss)	$ 4,175	$ (4,805)	$ 5,922	$ (209)

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) Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities		
Net income	$ 4,223	$ 8,948
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of leasehold improvement	1,272	1,473
Change in fair value of mortgage servicing rights	630	(239)
Loan loss reserve release	(2,000)	(4,300)
Gain on recapture of restricted stock	-	(612)
Provision for deferred tax expense	2,335	-
Originations of loans held-for-sale	(52,057)	(112,161)
Proceeds from sales of loans held-for-sale	52,784	119,697
Net gain on sales of mortgage loans	(1,700)	(3,787)
Change in current income taxes payable	(78)	(266)
Increase in cash surrender value of bank-owned life insurance	(724)	(779)
Death claim on bank owned life insurance	-	396
Change in accrued interest receivable and other assets	(4,399)	1,427
Change in accrued interest payable and other liabilities	(21,066)	2,653
Net discount (accretion)/premium amortization on securities	(950)	162
Securities gains, net	(226)	(2,198)
Amortization of core deposit	1,023	1,050
Stock based compensation	82	67
Net gain on sale of other real estate owned	(409)	(567)
Provision for other real estate owned losses	1,261	4,576
Net gain on disposal of fixed assets	-	(5)
Net cash (used in) provided by operating activities	(19,999)	15,535
Cash flows from investing activities		
Proceeds from maturities and calls including pay down of securities available-for-sale	14,606	34,892
Proceeds from sales of securities available-for-sale	163,107	424,822
Purchases of securities available-for-sale	(132,073)	(472,967)
Proceeds from maturities and calls including pay down of securities held-to-maturity	3,902	-
Purchases of securities held-to-maturity	(11,212)	-
Proceeds from sales of Federal Home Loan Bank stock	-	910
Net change in loans	(42,259)	31,582
Improvements in other real estate owned	(131)	(50)
Proceeds from sales of other real estate owned	10,927	20,032

Proceeds from disposition of fixed assets	-	6
Net purchases of premises and equipment	(509)	(1,265)
Net cash provided by investing activities	6,358	37,962
Cash flows from financing activities		
Net change in deposits	18,696	(26,596)
Net change in securities sold under repurchase agreements	15,573	12,635
Net change in other short-term borrowings	(5,000)	(100,000)
Redemption of preferred stock	(24,321)	-
Proceeds from issuance of common stock	64,395	-
Dividends paid	(10,258)	-
Purchase of treasury stock	(46)	(185)
Net cash provided by (used in) financing activities	59,039	(114,146)
Net change in cash and cash equivalents	45,398	(60,649)
Cash and cash equivalents at beginning of period	47,660	128,507
Cash and cash equivalents at end of period	$ 93,058	$ 67,858

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows - Continued

(In thousands)

	(Unaudited) Six Months Ended June 30,	
Supplemental cash flow information	2014	2013
Income taxes paid (received)	$ -	$ 266
Interest paid for deposits	3,027	4,165
Interest paid for borrowings	20,150	438
Non-cash transfer of loans to other real estate owned	9,343	11,181
Non-cash transfer of loans to securities available-for-sale	-	5,329
Change in dividends accrued and declared but not paid	(9,123)	511
Accretion on preferred stock discount	58	527
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 Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2012	$ 18,729	$ 71,869	$ 66,189	$ 12,048	$ (1,327)	$ (94,956)	$ 72,552
Net income				8,948			8,948
Other comprehensive loss, net of tax					(9,157)		(9,157)
Change in restricted stock	51		(51)				-
Recapture of restricted stock			(43)			(569)	(612)
Stock based compensation			67				67
Purchase of treasury stock						(185)	(185)
Preferred stock accretion and declared dividends		527		(1,038)			(511)
Balance, June 30, 2013	$ 18,780	$ 72,396	$ 66,162	$ 19,958	$ (10,484)	$ (95,710)	$ 71,102
Balance, December 31, 2013	$ 18,830	$ 72,942	$ 66,212	$ 92,549	$ (7,038)	$ (95,803)	$ 147,692
Net income				4,223			4,223
Other comprehensive income, net of tax					1,699		1,699
	10		(10)				-

Change in restricted stock							
Tax effect from vesting of restricted stock			29				29
Stock based compensation			82				82
Purchase of treasury stock						(46)	(46)
Redemption of preferred stock		(25,669)		1,348			(24,321)
Common stock offering	15,525		48,870				64,395
Preferred stock accretion and declared dividends		58		(1,193)			(1,135)
Balance, June 30, 2014	$ 34,365	$ 47,331	$ 115,183	$ 96,927	$ (5,339)	$ (95,849)	$ 192,618

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 consolidated financial statements are consistent with those used in the preparation of the annual financial information. The interim consolidated 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 June 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. These interim consolidated financial statements are unaudited and 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, 2013. Unless otherwise indicated, amounts in the tables contained in the notes to the consolidated financial statements 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 United States generally accepted accounting principles ("GAAP") 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 consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements. Future changes in information may affect these estimates, assumptions, and judgments, which, in turn, may affect amounts reported in the consolidated 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, 2013. 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 consolidated financial statements and how those values are determined.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11 "Income Taxes (Topic 740) — Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU 2013-11 amended existing guidance related to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. These amendments provide that an unrecognized tax benefit, or a portion thereof, be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. These amendments are effective for interim and annual reporting periods beginning after December 15, 2013, and are incorporated in the financial statements contained in this report. The effect of adopting this standard does not have a material effect on the Company's operating results or financial condition.

In January 2014, the FASB issued ASU No. 2014-04 Receivables — Troubled Debt Restructurings by Creditors (Subtopic 310-40) — "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." ASU 2014-04 is intended to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. ASU 2014-04 requires a creditor to reclassify a collateralized consumer mortgage loan to real estate property upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. ASU 2014-04 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments in the ASU are effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The adoption of this standard is not expected to have a material effect to the Company's operating results or financial condition.

In May 2014, the FASB issued ASU No. 2014-09 "Revenue from Contracts with Customers (Topic 606)." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. Early application is not permitted. The Company is assessing the impact of ASU 2014-09 on its accounting and disclosures.

In June 2014, FASB issued Accounting Standards Update (ASU) No. 2014-12 "Compensation - Stock Compensation (Topic 718) - Accounting for Share Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented and to all new or modified awards thereafter. Early adoption is permitted. The adoption of this standard is not expected to have a material effect to the Company’s operating results or financial condition.

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 and composition of the portfolio reflects liquidity needs, loan demand and interest income objectives.

Portfolio size and composition will be adjusted from time to time. While a significant portion of the portfolio consists 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. Securities available-for-sale are carried at fair value. Unrealized gains and losses, net of tax, on securities available-for-sale are reported as a separate component of equity. This balance sheet component changes as interest rates and market conditions change. Unrealized gains and losses are not included in the calculation of regulatory capital.

Securities held-to-maturity are carried at amortized cost and the discount or premium created in the 2013 transfer from available-for-sale securities or at the time of purchase thereafter is accreted or amortized to the maturity or expected payoff date but not an earlier call. In accordance with GAAP, the Company has the positive intent and ability to hold the securities to maturity. The Company has followed and will follow GAAP on all securities holdings.

Nonmarketable equity investments include Federal Home Loan Bank of Chicago ("FHLBC") stock and Federal Reserve Bank of Chicago ("Reserve Bank") stock. FHLBC stock was recorded at $5.5 million at June 30, 2014, and December 31, 2013. Reserve Bank stock was recorded at $4.8 million at June 30, 2014, and December 31, 2013. Our FHLBC stock is necessary to maintain access to FHLBC advances.

The following table summarizes the amortized cost and fair value of the securities portfolio at June 30, 2014 and December 31, 2013 and the corresponding amounts of gross unrealized gains and losses (in thousands):

June 30, 2014:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasury	$ 1,539	$ -	$ (1)	$ 1,538
U.S. government agencies	1,724	-	(71)	1,653
States and political subdivisions	15,666	388	(301)	15,753
Corporate bonds	31,598	82	(330)	31,350
Collateralized mortgage obligations	34,992	61	(1,970)	33,083
Asset-backed securities	245,994	2,581	(2,138)	246,437
Total Securities Available-for-Sale	$ 331,513	$ 3,112	$ (4,811)	$ 329,814
Securities Held-to-Maturity				
U.S. government agency mortgage-backed	$ 37,306	$ 1,421	$ -	$ 38,727
Collateralized mortgage obligations	227,377	2,618	(952)	229,043
Total Securities Held-to-Maturity	$ 264,683	$ 4,039	$ (952)	$ 267,770

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December 31, 2013:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasury	$ 1,549	$ -	$ (5)	$ 1,544
U.S. government agencies	1,738	-	(66)	1,672
States and political subdivisions	16,382	629	(217)	16,794
Corporate bonds	15,733	17	(648)	15,102
Collateralized mortgage obligations	66,766	256	(3,146)	63,876
Asset-backed securities	274,118	2,168	(3,083)	273,203
Total Securities Available-for-Sale	$ 376,286	$ 3,070	$ (7,165)	$ 372,191
Securities Held-to-Maturity				
U.S. government agency mortgage-backed	$ 35,268	$ 45	$ (73)	$ 35,240
Collateralized mortgage obligations	221,303	643	(2,858)	219,088
Total Securities Held-to-Maturity	$ 256,571	$ 688	$ (2,931)	$ 254,328

The fair value, amortized cost and weighted average yield of debt securities at June 30, 2014, by contractual maturity, were as follows in the table below. Securities not due at a single maturity date, primarily mortgage-backed securities (“MBS”) and asset-backed securities are shown separately.

Securities Available-for-Sale	Amortized Cost	Weighted Average Yield	Fair Value
Due in one year or less	$ 709	3.51%	$ 726
Due after one year through five years	5,817	2.87%	6,081
Due after five years through ten years	37,361	2.49%	37,057
Due after ten years	6,640	3.47%	6,430
	50,527	2.68%	50,294
Collateralized mortgage obligations	34,992	2.47%	33,083
Asset-back securities	245,994	1.20%	246,437
	$ 331,513	1.56%	$ 329,814
Securities Held-to-Maturity			
Mortgage-backed and collateralized mortgage obligations	$ 264,683	3.08%	$ 267,770

Securities with unrealized losses at June 30, 2014, and December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows (in thousands except for number of securities):

30, 2014	Less than 12 months in an unrealized loss position			Greater than 12 months in an unrealized loss position			Total		
ities able-for-Sale	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value
Treasury	1	$ 1	$ 1,538	-	$ -	$ -	1	$ 1	1,5
government ies	-	-	-	1	71	1,653	1	71	1,6
s and political visions	2	281	3,214	3	20	3,055	5	301	6,2
orate bonds	5	256	15,982	1	74	1,928	6	330	17,
teralized gage ations	-	-	-	3	1,970	26,288	3	1,970	26,
-backed ities	12	1,512	106,222	1	626	26,081	13	2,138	132
	20	$ 2,050	$ 126,956	9	$ 2,761	$ 59,005	29	$ 4,811	$ 185
ities to-Maturity teralized gage ations	13	952	107,145	-	-	-	13	952	107
	13	$ 952	$ 107,145	-	$ -	$ -	13	$ 952	$ 107

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ember 31,	Less than 12 months in an unrealized loss position			Greater than 12 months in an unrealized loss position			Total		
rities lable-for-Sale	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Valu
Treasury	1	$ 5	$ 1,544	-	$ -	$ -	1	$ 5	$ 1,54
government cies	-	-	-	1	66	1,672	1	66	1,67
s and political ivisions	6	217	4,625	-	-	-	6	217	4,62
orate bonds	4	429	10,493	2	219	2,796	6	648	13,2
ateralized gage gations	5	3,146	54,021	-	-	-	5	3,146	54,0
t-backed rities	11	2,836	99,466	2	247	6,368	13	3,083	105,
	27	$ 6,633	$ 170,149	5	$ 532	$ 10,836	32	$ 7,165	$ 180,
rities -to-Maturity									
government cy gage-backed	6	73	19,134	-	-	-	6	73	19,1
ateralized gage gations	19	2,858	156,632	-	-	-	19	2,858	156,
	25	$ 2,931	$ 175,766	-	$ -	$ -	25	$ 2,931	$ 175,

Recognition of other-than-temporary impairment was not necessary in the six months ended June 30, 2014, or the year ended December 31, 2013. The changes in fair value related primarily to interest rate fluctuations. Our review of other-than-temporary impairment confirmed no credit quality deterioration.

Note 3 – Loans

Major classifications of loans were as follows:

	June 30, 2014	December 31, 2013
Commercial	$ 106,752	$ 94,736
Real estate - commercial	599,796	560,233
Real estate - construction	32,265	29,351
Real estate - residential	368,592	390,201
Consumer	3,064	2,760
Overdraft	381	628
Lease financing receivables	8,722	10,069
Other	12,700	12,793
	1,132,272	1,100,771
Net deferred loan costs	475	485
	$ 1,132,747	$ 1,101,256

It is the policy of the Company to review each prospective credit in order to determine if 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 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 88.3% and 89.0% of the portfolio at June 30, 2014, and December 31, 2013, respectively.

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

June 30, 2014	30-59 Days Past	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	$ -	$ -	$ 35	$ 35	$ 115,418	$ 21	$ 115,474	$ 35
Real estate - commercial								
Owner occupied general purpose	708	-	-	708	126,728	2,911	130,347	-
Owner occupied special purpose	-	246	-	246	165,709	3,530	169,485	-
Non-owner occupied general purpose	462	-	-	462	149,077	6,397	155,936	-
Non-owner occupied special purpose	-	-	-	-	87,810	540	88,350	-
Retail properties	-	-	-	-	36,616	3,012	39,628	-
Farm	-	-	-	-	16,050	-	16,050	-
Real estate - construction								
Homebuilder	-	-	-	-	3,408	-	3,408	-
Land	-	-	-	-	2,210	209	2,419	-
Commercial speculative	-	-	-	-	17,150	-	17,150	-
All other	-	-	-	-	8,690	598	9,288	-
Real estate - residential								
Investor	886	73	144	1,103	127,840	3,788	132,731	144
Owner occupied	35	618	-	653	110,230	5,293	116,176	-
	452	13	-	465	117,021	2,199	119,685	-

Revolving and junior liens								
Consumer	-	-	-	-	3,064	-	3,064	-
All other1	-	-	-	-	13,556	-	13,556	-
	$ 2,543	$ 950	$ 179	$ 3,672	$ 1,100,577	$ 28,498	$ 1,132,747	$ 179

December 31, 2013	30-59 Days Past	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	$ -	$ -	$ -	$ -	$ 104,778	$ 27	$ 104,805	$ -
Real estate - commercial								
Owner occupied general purpose	290	526	-	816	117,938	3,180	121,934	-
Owner occupied special purpose	511	-	-	511	164,277	7,671	172,459	-
Non-owner occupied general purpose	218	-	-	218	132,331	5,708	138,257	-
Non-owner occupied special purpose	-	-	-	-	73,325	661	73,986	-
Retail properties	-	-	-	-	34,034	3,144	37,178	-
Farm	-	-	-	-	16,419	-	16,419	-
Real estate - construction								
Homebuilder	-	-	-	-	3,515	168	3,683	-
Land	-	-	-	-	4,436	209	4,645	-
Commercial speculative	-	-	-	-	11,235	1,913	13,148	-
All other	32	-	-	32	7,404	439	7,875	-

Real estate - residential								
Investor	581	171	-	752	140,926	6,615	148,293	-
Owner occupied	4,414	308	87	4,809	106,184	5,967	116,960	87
Revolving and junior liens	650	76	-	726	121,013	3,209	124,948	-
Consumer	5	-	-	5	2,755	-	2,760	-
All other1	-	-	-	-	13,906	-	13,906	-
	$ 6,701	$ 1,081	$ 87	$ 7,869	$ 1,054,476	$ 38,911	$ 1,101,256	$ 87

1. The “All other” class includes overdrafts and net deferred costs.

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. This analysis includes loans with outstanding balances or commitments greater than $50,000 and excludes homogeneous loans such as home equity lines 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:

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

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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.

Credit Quality Indicators by class of loans were as follows:

June 30, 2014	Pass	Special Mention	Substandard 1	Doubtful	Total
Commercial	$ 106,100	$ 9,062	$ 312	$ -	$ 115,474
Real estate - commercial					
Owner occupied general purpose	121,431	5,632	3,284	-	130,347
Owner occupied special purpose	162,233	3,270	3,982	-	169,485
Non-owner occupied general purpose	145,381	1,739	8,816	-	155,936
Non-owner occupied special purpose	78,080	9,730	540	-	88,350
Retail Properties	35,221	1,395	3,012	-	39,628
Farm	16,050	-	-	-	16,050
Real estate - construction					
Homebuilder	3,408	-	-	-	3,408
Land	2,210	-	209	-	2,419
Commercial speculative	13,627	-	3,523	-	17,150
All other	8,690	-	598	-	9,288
Real estate - residential					
Investor	127,109	310	5,312	-	132,731
Owner occupied	110,335	-	5,841	-	116,176
Revolving and junior liens	116,199	389	3,097	-	119,685
Consumer	3,063	-	1	-	3,064
All other	13,556	-	-	-	13,556
Total	$ 1,062,693	$ 31,527	$ 38,527	$ -	$ 1,132,747

December 31, 2013	Pass	Special Mention	Substandard 1	Doubtful	Total

Commercial	$ 96,371	$ 7,953	$ 481	$ -	$ 104,805
Real estate - commercial					
Owner occupied general purpose	105,683	9,048	7,203	-	121,934
Owner occupied special purpose	162,586	1,968	7,905	-	172,459
Non-owner occupied general purpose	122,844	1,826	13,587	-	138,257
Non-owner occupied special purpose	59,674	9,840	4,472	-	73,986
Retail Properties	30,059	2,989	4,130	-	37,178
Farm	16,419	-	-	-	16,419
Real estate - construction					
Homebuilder	1,745	1,770	168	-	3,683
Land	4,436	-	209	-	4,645
Commercial speculative	7,674	3,561	1,913	-	13,148
All other	7,109	32	734	-	7,875
Real estate - residential					
Investor	135,136	3,407	9,750	-	148,293
Owner occupied	109,261	-	7,699	-	116,960
Revolving and junior liens	120,589	388	3,971	-	124,948
Consumer	2,759	-	1	-	2,760
All other	13,906	-	-	-	13,906
Total	$ 996,251	$ 42,782	$ 62,223	$ -	$ 1,101,256

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 June 30, 2014			Six Months Ended June 30, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	$ 21	$ 29	$ -	$ 24	$ -
Commercial real estate					
Owner occupied general purpose	2,511	3,025	-	2,527	2
Owner occupied special purpose	2,930	3,966	-	3,151	-
Non-owner occupied general purpose	6,500	7,138	-	5,964	30
Non-owner occupied special purpose	540	829	-	600	-
Retail properties	3,012	3,679	-	3,078	-
Farm	-	-	-	-	-
Construction					
Homebuilder	1,791	1,791	-	1,904	47
Land	209	311	-	209	-
Commercial speculative	-	-	-	369	-
All other	309	349	-	156	-
Residential					
Investor	2,605	3,651	-	4,294	1
Owner occupied	9,788	11,131	-	9,483	88
Revolving and junior liens	1,929	2,743	-	1,851	3
Consumer	-	-		-	-
Total impaired loans with no recorded allowance	32,145	38,642	-	33,610	171
With an allowance recorded					
Commercial	-	-	-	-	-
Commercial real estate					
Owner occupied general purpose	487	522	207	609	-
Owner occupied special purpose	600	679	182	2,450	-
Non-owner occupied general purpose	551	838	414	745	-
Non-owner occupied special purpose	-	-	-	-	-
Retail properties	-	-	-	-	-
Farm	-	-	-	-	-
Construction					
Homebuilder	-	-	-	84	-
Land	-	-	-	-	-
Commercial speculative	-	-	-	587	-
All other	289	318	135	363	-
Residential					
Investor	1,236	1,594	230	960	-
Owner occupied	492	596	105	1,028	7

Revolving and junior liens	329	359	167	914	-
Consumer	-	-	-	-	-
Total impaired loans with a recorded allowance	3,984	4,906	1,440	7,740	7
Total impaired loans	$ 36,129	$ 43,548	$ 1,440	$ 41,350	$ 178

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Impaired loans by class of loans were as follows:

	As of December 31, 2013			Six Months Ended June 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	$ 27	$ 34	$ -	$ 124	$ -
Commercial real estate					
Owner occupied general purpose	2,543	3,006	-	3,681	2
Owner occupied special purpose	3,371	4,117	-	6,335	-
Non-owner occupied general purpose	5,428	6,709	-	12,215	104
Non-owner occupied special purpose	661	919	-	464	-
Retail properties	3,144	3,811	-	7,880	-
Farm	-	-	-	1,259	-
Construction					
Homebuilder	2,016	2,016	-	3,736	69
Land	209	308	-	127	-
Commercial speculative	738	742	-	2,739	-
All other	4	35	-	190	-
Residential					
Investor	5,984	8,338	-	7,948	5
Owner occupied	9,179	10,451	-	8,968	98
Revolving and junior liens	1,771	2,313	-	1,378	3
Consumer	-	-		11	-
Total impaired loans with no recorded allowance	35,075	42,799	-	57,055	281
With an allowance recorded					
Commercial	-	-	-	309	-
Commercial real estate					
Owner occupied general purpose	730	792	264	1,166	-
Owner occupied special purpose	4,300	4,702	759	2,811	-
Non-owner occupied general purpose	939	1,030	129	1,993	-
Non-owner occupied special purpose	-	-	-	492	-
Retail properties	-	-	-	1,685	-
Farm	-	-	-	-	-
Construction					
Homebuilder	168	604	76	97	-
Land	-	-	-	127	-
Commercial speculative	1,175	1,808	17	2,323	-
All other	436	468	262	487	-
Residential					
Investor	684	913	160	3,894	-
Owner occupied	1,565	1,831	170	4,960	12

Revolving and junior liens	1,498	1,848	558	2,284	-
Consumer	-	-	-	-	-
Total impaired loans with a recorded allowance	11,495	13,996	2,395	22,628	12
Total impaired loans	$ 46,570	$ 56,795	$ 2,395	$ 79,683	$ 293

Troubled debt restructurings ("TDRs") 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 participates 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 a TDR is determined by either 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 on 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.

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TDRs that were modified during the period are as follows:

	TDR Modifications Three months ending June 30, 2014			TDR Modifications Six months ending June 30, 2014		
	# of contracts	Pre-modification recorded investment	Post-modification recorded investment	# of contracts	Pre-modification recorded investment	Post-modification recorded investment
Troubled debt restructurings						
Real estate - commercial						
Other1	-	$ -	$ -	2	$ 1,320	$ 1,159
Real estate - residential						
Owner occupied						
HAMP2	-	-	-	1	102	75
Deferral3	1	107	107	2	344	231
	1	$ 107	$ 107	5	$ 1,766	$ 1,465

	TDR Modifications Three months ending June 30, 2013			TDR Modifications Six months ending June 30, 2013		
	# of contracts	Pre-modification recorded investment	Post-modification recorded investment	# of contracts	Pre-modification recorded investment	Post-modification recorded investment
Troubled debt restructurings						
Real estate - commercial						
Deferral3	1	$ 610	$ 472	1	$ 610	$ 472
Real estate - residential						
Owner occupied						
Deferral3	-	-	-	1	137	137
Revolving and junior liens						
Other1	1	30	29	1	30	29
	2	$ 640	$ 501	3	$ 777	$ 638

1 Other: Change of terms from bankruptcy court

2 HAMP: Home Affordable Modification Program

3 Deferral: Refers to the deferral of principal

TDRs are classified as being in default on a case-by-case basis when they fail to be in compliance with the modified terms. The following table presents TDRs 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 and six months ended June 30, 2014.

	TDR Default Activity Three months ending June 30, 2013		TDR Default Activity Six months ending June 30, 2013	
Troubled debt restructurings that Subsequently Defaulted	# of contracts	Pre-modification outstanding recorded investment	# of contracts	Pre-modification outstanding recorded investment
Real estate - residential				
Investor	-	$ -	1	$ 155
	-	$ -	1	$ 155

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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 and six months ended June 30, 2014, were as follows:

Allowance for loan losses:	Commercial	Real Estate Commercial 1	Real Estate Construction	Real Estate Residential	Consumer	Unallocated	Total
Three months ended June 30, 2014							
Beginning balance	$ 2,326	$ 14,066	$ 1,998	$ 2,268	$ 1,495	$ 3,323	$ 25,476
Charge-offs	3	760	105	978	139	-	1,985
Recoveries	35	87	467	689	87	-	1,365
(Release) provision	(367)	(165)	(606)	394	21	(277)	(1,000)
Ending balance	$ 1,991	$ 13,228	$ 1,754	$ 2,373	$ 1,464	$ 3,046	$ 23,856
Six months ended June 30, 2014							
Beginning balance	$ 2,250	$ 16,763	$ 1,980	$ 2,837	$ 1,439	$ 2,012	$ 27,281
Charge-offs	7	1,089	173	1,827	249	-	3,345
Recoveries	50	228	504	939	199	-	1,920
(Release) provision	(302)	(2,674)	(557)	424	75	1,034	(2,000)
Ending balance	$ 1,991	$ 13,228	$ 1,754	$ 2,373	$ 1,464	$ 3,046	$ 23,856
Ending balance: Individually evaluated for impairment	$ -	$ 803	$ 135	$ 502	$ -	$ -	$ 1,440
Ending balance: Collectively evaluated for impairment	$ 1,991	$ 12,425	$ 1,619	$ 1,871	$ 1,464	$ 3,046	$ 22,416

Financing receivables:							
Ending balance	$ 115,474	$ 599,796	$ 32,265	$ 368,592	$ 3,064	$ 13,556	$ 1,132,747
Ending balance: Individually evaluated for impairment	$ 21	$ 17,131	$ 2,598	$ 16,379	$ -	$ -	$ 36,129
Ending balance: Collectively evaluated for impairment	$ 115,453	$ 582,665	$ 29,667	$ 352,213	$ 3,064	$ 13,556	$ 1,096,618

1 As of June 30, 2014, this segment consisted of performing loans that included a higher risk pool of loans rated as substandard that totaled $3.2 million. The amount of general allocation that was estimated for that portion of these performing substandard rated loans was $78,000 at June 30, 2014.

Changes in the allowance for loan losses by segment of loans based on method of impairment for the three and six months ended June 30, 2013, were as follows:

Allowance for loan losses:	Commercial	Real Estate Commercial 1	Real Estate Construction	Real Estate Residential	Consumer	Unallocated	Total
Three Months Ended June 30, 2013							
Balance at beginning of period	$ 3,773	$ 19,265	$ 3,729	$ 3,971	$ 1,214	$ 6,682	$ 38,634
Charge-offs	25	1,018	894	1,014	134	-	3,085
Recoveries	25	505	480	179	104	-	1,293
(Release) provision	(441)	(655)	(625)	1,885	188	(2,152)	(1,800)
Ending balance	$ 3,332	$ 18,097	$ 2,690	$ 5,021	$ 1,372	$ 4,530	$ 35,042
Six Months Ended June 30, 2013							
Balance at beginning of	$ 4,517	$ 20,100	$ 3,837	$ 4,535	$ 1,178	$ 4,430	$ 38,597

year							
Charge-offs	279	1,526	898	1,599	306	-	4,608
Recoveries	44	3,229	1,250	583	247	-	5,353
(Release) provision	(950)	(3,706)	(1,499)	1,502	253	100	(4,300)
Ending balance	$ 3,332	$ 18,097	$ 2,690	$ 5,021	$ 1,372	$ 4,530	$ 35,042
Ending balance: Individually evaluated for impairment	$ 52	$ 1,649	$ 324	$ 3,011	$ -	$ -	$ 5,036
Ending balance: Collectively evaluated for impairment	$ 3,280	$ 16,448	$ 2,366	$ 2,010	$ 1,372	$ 4,530	$ 30,006
Financing receivables: Ending balance	$ 98,036	$ 563,061	$ 34,964	$ 386,504	$ 2,793	$ 17,345	$ 1,102,703
Ending balance: Individually evaluated for impairment	$ 104	$ 32,381	$ 8,073	$ 29,822	$ -	$ -	$ 70,380
Ending balance: Collectively evaluated for impairment	$ 97,932	$ 530,680	$ 26,891	$ 356,682	$ 2,793	$ 17,345	$ 1,032,323

1 As of June 30, 2013, this segment consisted of performing loans that included a higher risk pool of loans rated as substandard that totaled $11.1 million. The amount of general allocation that was estimated for that portion of these performing substandard rated loans was $2.9 million at June 30, 2013.

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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 June 30,		Six Months Ended June 30,	
Other real estate owned	2014	2013	2014	2013
Balance at beginning of period	$ 40,220	$ 65,663	$ 41,537	$ 72,423
Property additions	4,655	4,196	9,343	11,181
Development improvements	131	-	131	50
Less:				
Property disposals, net of gains/losses	4,949	7,804	10,518	19,465
Period valuation adjustments	825	2,590	1,261	4,724
Balance at end of period	$ 39,232	$ 59,465	$ 39,232	$ 59,465

Activity in the valuation allowance was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance at beginning of period	$ 19,484	$ 30,966	$ 22,284	$ 31,454
Provision for unrealized losses	825	2,589	1,261	4,576
Reductions taken on sales	(2,436)	(3,112)	(5,083)	(5,734)
Other adjustments	-	44	(589)	191
Balance at end of period	$ 17,873	$ 30,487	$ 17,873	$ 30,487

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Gain on sales, net	$ (23)	$ (386)	$ (409)	$ (567)

Provision for unrealized losses	825	2,589	1,261	4,576
Operating expenses	1,011	1,356	2,248	3,055
Less:				
Lease revenue	163	257	442	665
	$ 1,650	$ 3,302	$ 2,658	$ 6,399

Note 6 – Deposits

Major classifications of deposits were as follows:

	June 30, 2014	December 31, 2013
Noninterest bearing demand	$ 393,964	$ 373,389
Savings	238,167	228,589
NOW accounts	310,721	297,852
Money market accounts	304,766	309,859
Certificates of deposit of less than $100,000	274,971	288,345
Certificates of deposit of $100,000 or more	178,235	184,094
	$ 1,700,824	$ 1,682,128

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Note 7 – Borrowings

The following table is a summary of borrowings as of June 30, 2014, and December 31, 2013. Junior subordinated debentures are discussed in detail in Note 8:

	June 30, 2014		December 31, 2013	
Securities sold under repurchase agreements	$	38,133	$	22,560
FHLBC advances		-		5,000
Junior subordinated debentures		58,378		58,378
Subordinated debt		45,000		45,000
Notes payable and other borrowings		500		500
	$	142,011	$	131,438

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 and are governed by sweep repurchase agreements. All sweep repurchase agreements are treated as financings secured by U.S. government agencies and collateralized mortgage-backed securities and had a carrying amount of $38.1 million at June 30, 2014, and $22.6 million at December 31, 2013. The fair value of the pledged collateral was $44.1 million and $39.2 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014, there was one customer with secured balances exceeding 10% of stockholders' equity.

The Company's borrowings at the FHLBC require the Bank to be a member and invest in the stock of the FHLBC and total borrowings are generally limited to the lower of 35% of total assets or 60% of the book value of certain mortgage loans and the fair value of investment securities. As of June 30, 2014, there were no advances. The Bank has FHLBC stock valued at $5.5 million, collateralized securities with a fair value of $82.6 million and loans with a principal balance of $54.1 million, which carry a combined collateral value of $115.8 million. The Company has excess collateral of $114.5 million available to secure borrowings.

One of the Company's most significant borrowing relationships continued to be the $45.5 million credit facility with a correspondent bank. That credit began in January 2008 and was originally composed of a $30.5 million senior debt facility, which included $500,000 in term debt, and $45.0 million of subordinated debt. The subordinated debt and the term debt portion of the senior debt facility mature on March 31, 2018. The interest rate on the senior debt facility resets quarterly and at the Company's option, is based on, either the lender's prime rate or three-month LIBOR plus 90 basis points. The interest rate on 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 senior line of credit when it matured. The Company terminated the senior line of credit. The Company had $500,000 in principal outstanding in term debt and $45.0 million in principal outstanding in subordinated debt at June 30, 2014, and December 31, 2013. The term debt is secured by all of the outstanding capital stock of the Bank. Pursuant to the Written Agreement (the "Written

Agreement") the Company entered into with the Reserve Bank, the Company was required to receive the Reserve Bank's approval prior to making any interest payments on the subordinated debt. In January 2014, the Reserve Bank notified the Company that the Written Agreement was terminated.

The agreement governing the credit facility contains usual and customary provisions regarding acceleration of the senior debt upon the occurrence of an event of default by the Company. The term debt agreement also contains certain customary representations and warranties and financial and negative covenants. At June 30, 2014, the Company was out of compliance with one of the financial covenants contained within the credit agreement. Prior to 2013, the Company had been out of compliance with two of the financial covenants. The agreement provides that noncompliance is an event of default and 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 of 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 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, and because the subordinated debt is treated as Tier 2 capital, the agreement does not provide the lender with any additional rights of acceleration or other remedies 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 were sold in July 2003. 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 after June 30, 2008. When not in deferral, 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 Old Second Capital Trust I 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.

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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. 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 deferred regularly scheduled dividends on the trust preferred securities. On April 21, 2014, the Company paid all outstanding interest, which totaled $19.7 million, on the trust preferred securities to the trustees for payment to holders as of the next record date set forth in the indentures and terminated the deferral period. Both of the debentures issued by the Company are disclosed on the Consolidated Balance Sheet as junior subordinated debentures and the related interest expense for each issuance is included in the Consolidated Statements of Income.

Note 9 – Equity Compensation Plans

There are stock-based awards outstanding under the Company's 2008 Equity Incentive Plan (the "2008 Plan") and the Company's 2014 Equity Incentive Plan (the "2014 Plan," and together with the 2008 Plan, the "Plans"). The 2014 Plan was approved at the 2014 annual meeting of stockholders. Following approval of the 2014 Plan, no further awards will be granted under the 2008 Plan or any other Company equity compensation plan. A maximum of 375,000 shares may be issued under the 2014 Plan. The Plan authorizes the granting of qualified stock options, non-qualified stock options, restricted stock, restricted stock units, and stock appreciation rights. Awards may be granted to selected directors and officers or employees under the 2014 Plan at the discretion of the Compensation Committee of the Company's Board of Directors. As of June 30, 2014, 210,500 shares remained available for issuance under the 2014 Plan.

Total compensation cost that has been charged for the plans was $82,000 in the first half of 2014 and $67,000 in the first half of 2013.

There were no stock options granted in the second quarter of 2014 or 2013. All stock options are granted for a term of ten years. There were no stock options exercised during the second quarter of 2014 or 2013. There is no unrecognized compensation cost related to unvested stock options as all stock options of the Company's common stock have vested.

A summary of stock option activity in the Plans for the six months ending June 30, 2014, is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Beginning outstanding	325,500	$ 29.56		
Canceled	-	-		
Ending outstanding	325,500	$ 29.56	2.0	$ -
Exercisable at end of period	325,500	$ 29.56	2.0	$ -

Generally, restricted stock and restricted stock units granted under the Plans vest three years from the grant date, but the Compensation Committee of the Company's Board of Directors has discretionary authority to change some terms including the amount of time until the vest date.

Awards under the 2008 Plan will become fully vested upon a merger or change in control of the Company. Under the 2014 Plan, upon a change in control of the Company, (i) stock options and stock appreciation rights generally will become fully vested, (ii) restricted stock awards and restricted stock units generally will become fully vested if the 2014 Plan is not an obligation of the successor entity following the change in control or the 2014 Plan is an obligation of the successor entity following the change in control or the 2014 Plan is an obligation of the successor entity following the change in control and the participant incurs an involuntary termination, and (iii) performance-based awards generally will vest based upon the level of achievement of the applicable performance measures through the change in control.

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The company granted restricted stock under its equity compensation plans beginning in 2005 and it began granting restricted stock units in February 2009. Restricted stock awards under the Plans generally entitle holders to voting and dividend rights upon grant and are subject to forfeiture until certain restrictions have lapsed including employment for a specific period. Restricted stock units under the Plans are also subject to forfeiture until certain restrictions have lapsed including employment for a specific period, and generally entitle holders to receive dividend equivalents during the restricted period but do not entitle holders to voting rights until the restricted period ends and shares are transferred in connection with the units.

There were 184,500 restricted awards issued under the Plans during the second quarter of 2014 and 184,500 restricted awards issue during the six months ending June 30, 2014. There were no restricted awards issued during the second quarter of 2013 and 155,500 restricted awards issued for the six months ending June 30, 2013. Compensation expense is recognized over the vesting period of the restricted award based on the market value of the award at issue date.

A summary of changes in the Company’s unvested restricted awards for the six months ending June 30, 2014, is as follows:

	June 30, 2014	
	Restricted Stock Shares and Units	Weighted Average Grant Date Fair Value
Unvested at January 1	185,500	$ 2.95
Granted	184,500	4.82
Vested	(25,000)	2.06
Forfeited	(20,000)	1.74
Unvested at June 30	325,000	$ 4.15

Total unrecognized compensation cost of restricted awards was $1.1 million as of June 30, 2014, which is expected to be recognized over a weighted-average period of 2.71 years. Total unrecognized compensation cost of restricted awards was $462,000 as of June 30, 2013, which was expected to be recognized over a weighted-average period of 2.66 years.

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Note 10 –Earnings Per Share

The earnings per share – both basic and diluted – are included below as of June 30 (in thousands except for share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic earnings per share:				
Weighted-average common shares outstanding	28,181,519	13,882,910	21,090,665	13,978,979
Weighted-average common shares less stock based awards	28,181,519			