

SECOND BANCORP INC
Form 10-Q
November 14, 2003

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

**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: 0-15624

Second Bancorp Incorporated

(Exact Name of Registrant as Specified in Charter)

Ohio

*(State or Other Jurisdiction of
Incorporation or Organization)*

34-1547453

*(I.R.S. Employer
Identification No.)*

108 Main Avenue SW, Warren, Ohio 44481

(Address of Principal Executive Offices) (Zip Code)

330.841.0123

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). 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 October 31, 2003, the registrant had 9,471,371 outstanding shares of common stock.

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Item 1. Financial Statements (unaudited)

Second Bancorp Incorporated and Subsidiaries

Consolidated Balance Sheets

	September 30	December 31	September 30
(Dollars in thousands)	2003	2002	2002
<u>ASSETS</u>			
Cash and due from banks	\$57,305	\$60,822	\$40,815
Federal funds sold and temporary investments			
13,128 61,449 15,033			
Securities available-for-sale (at market value)			
602,893 523,669 535,174			
Loans			
1,301,618 1,167,791 1,153,581			
Less allowance for loan losses			
18,372 17,595 17,443			
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Net loans			
1,283,246 1,150,196 1,136,138			
Premises and equipment			
17,944 16,632 16,333			
Accrued interest receivable			
8,710 8,762 9,582			
Goodwill and intangible assets			
20,117 20,422 20,224			
Servicing assets			
19,827 12,403 10,961			
Other assets			
51,580 40,420 40,975			
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Total assets			
\$2,074,750 \$1,894,775 \$1,825,235			

LIABILITIES AND SHAREHOLDERS
EQUITY

Deposits:

Demand non-interest bearing			
\$165,242	\$179,714	\$153,341	
Demand interest bearing			
164,186	103,583	98,359	
Savings			
350,231	405,437	410,322	
Time deposits			
485,622	506,378	519,259	

Total deposits			
1,165,281	1,195,112	1,181,281	
Federal funds purchased and securities sold under agreements to repurchase			
238,047	138,796	166,532	
Note Payable			
7,750	7,000	3,000	
Other borrowed funds			
1,579	3,863	3,788	
Federal Home Loan Bank advances			
478,198	365,844	285,887	
Accrued expenses and other liabilities			
17,562	17,331	14,583	
Corporation-obligated mandatorily redeemable capital securities of subsidiary trust			
30,534	30,495	30,482	

Total liabilities			
1,938,951	1,758,441	1,685,553	
Shareholders equity:			

Common stock, no par value; 30,000,000 shares authorized; 11,108,823, 11,041,263 and 11,024,693 shares issued, respectively			
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42,815	41,763	40,994
Treasury stock; 1,638,032, 1,279,009 and		
1,147,849 shares, respectively		
(36,173)	(27,180)	(23,631)
Accumulated other comprehensive income		
457	6,656	8,894
Retained earnings		
128,700	115,095	113,425

Total shareholders' equity		
135,799	136,334	139,682

Total liabilities and shareholders' equity		
\$2,074,750	\$1,894,775	\$1,825,235

See notes to consolidated financial statements.

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Consolidated Statements of Income**

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2003	2002	2003	2002
(Dollars in thousands, except per share data)				
INTEREST INCOME				
Loans (including fees):				
Taxable				
\$18,950	\$19,598	\$56,369	\$60,034	
Exempt from federal income taxes				
212	227	629	703	
Securities:				
Taxable				
5,348	5,963	17,100	17,082	
Exempt from federal income taxes				
689	722	2,131	2,211	
Federal funds sold and other				
30	324	289	931	
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Total interest income				
25,229	26,834	76,518	80,961	
INTEREST EXPENSE				
Deposits				
5,118	7,526	16,460	22,629	
Federal funds purchased and securities sold under agreements to repurchase				
613	597	1,790	1,799	
Note Payable				
50	10	167	10	
Other borrowed funds				
2	10	8	28	
Federal Home Loan Bank advances				
4,895	4,003	14,203	11,781	
Corporation-obligated mandatorily redeemable capital securities of subsidiary trust				
734	734	2,200	2,200	
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Total interest expense
 11,412 12,880 34,828 38,447

Net interest income
 13,817 13,954 41,690 42,514
 Provision for loan losses
 1,096 1,573 6,124 3,809

Net interest income after provision for loan losses
 12,721 12,381 35,566 38,705

NON-INTEREST INCOME

Gain on sale of loans
 3,920 2,421 14,572 5,674
 Service charges on deposit accounts
 1,549 1,505 4,631 4,236
 Trust fees
 631 596 1,803 2,078
 Trading account losses
 0 0 0 (20)
 Security gains
 3,566 832 3,617 659
 Gain on sale of banking centers
 0 0 5,619 0
 Other operating income
 (2,609) 1,807 1,777 3,551

Total non-interest income

7,057 7,161 32,019 16,178

NON-INTEREST EXPENSE

Salaries and employee benefits

6,701 6,494 21,947 19,128

Net occupancy

1,180 1,119 3,504 3,381

Equipment

1,045 931 3,143 3,156

Professional services

707 563 2,612 1,491

Assessment on deposits and other taxes

501 384 1,281 1,043

Amortization of intangible assets

113 110 343 331

Merger costs

0 124 0 124

Other operating expenses

2,829 2,116 7,935 6,267

Total non-interest expense

13,076 11,841 40,765 34,921

Income before federal income taxes

6,702 7,701 26,820 19,962

Income tax expense

1,795 2,165 7,814 5,390

Net income
\$4,907 \$5,536 \$19,006 \$14,572

NET INCOME PER COMMON SHARE:

Basic
\$0.52 \$0.56 \$1.99 \$1.47
Diluted
\$0.51 \$0.55 \$1.97 \$1.45
Weighted average common shares outstanding:

Basic
9,475,345 9,876,844 9,526,545 9,929,276
Diluted
9,610,770 9,993,241 9,632,083 10,051,077

See notes to consolidated financial statements.

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**Second Bancorp Incorporated and Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income**

(Dollars in thousands)	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2003	2002	2003	2002
Net income	\$4,907	\$5,536	\$19,006	\$14,572
Other comprehensive income, net of tax:				
Change in other comprehensive income deferred compensation plan	0	(41)	0	(41)
Change in other comprehensive income Derivatives	320	0	320	0
Change in unrealized market value adjustment on securities available-for-sale	(7,505)	1,670	(6,519)	5,501
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Total other comprehensive (loss) income	(7,185)	1,629	(6,199)	5,460
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Comprehensive (loss) income	\$(2,278)	\$7,165	\$12,807	\$20,032
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See notes to consolidated financial statements.

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Consolidated Statements of Shareholders' Equity**

(Dollars in thousands, except per share data)	Common Stock	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, January 1, 2002	\$ 37,453	\$(16,798)	\$ 3,434	\$ 104,210	\$ 128,299
Net income					
14,572	14,572				
Change in other comprehensive income - deferred compensation plan, net of tax of \$(22)					
(41)	(41)				
Change in unrealized gain on securities of \$9,122, net of reclassification adjustment for gains included in net income of \$659 and net of tax of \$2,962					
5,501	5,501				
Cash dividends de					