OLD SECOND BANCORP INC
Form 10-Q
August 06, 2010
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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 June 30, 2010

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

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). 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 August 6, 2010, the Registrant had outstanding 13,911,692 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) June 30, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 43,632	$ 36,842
Interest bearing deposits with financial institutions	84,997	24,500
Federal funds sold	1,267	1,543
Short-term securities available-for-sale		16,911
Cash and cash equivalents	129,896	79,796
Securities available-for-sale	216,934	229,330
Federal Home Loan Bank and Federal Reserve Bank stock	13,691	13,044
Loans held-for-sale	9,823	11,586
Loans	1,899,030	2,062,826
Less: allowance for loan losses	80,959	64,540
Net loans	1,818,071	1,998,286
Premises and equipment, net	56,505	58,406
Other real estate owned	47,128	40,200
Mortgage servicing rights, net	2,344	2,450
Core deposit and other intangible assets, net	6,089	6,654
Bank-owned life insurance (BOLI)	50,876	50,185
Deferred tax asset, net	65,106	48,955
Accrued interest and other assets	46,297	57,765
Total assets	$ 2,462,760	$ 2,596,657
Liabilities		
Deposits:		
Noninterest bearing demand	$ 327,599	$ 308,304
Interest bearing:		
Savings, NOW, and money market	991,125	993,551
Time	832,295	904,422
Total deposits	2,151,019	2,206,277
Securities sold under repurchase agreements	20,379	18,374
Other short-term borrowings	4,860	54,998
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
Accrued interest and other liabilities	19,098	15,922
Total liabilities	2,299,234	2,399,449

Stockholders Equity				
Preferred stock, ($1.00 par value; authorized 300,000 shares at June 30, 2010; series B, 5% cumulative perpetual, 73,000 shares issued and outstanding at June 30, 2010 and December 31,2009, $1,000.00 liquidation value)		69,473		69,039
Common stock, $1.00 par value; authorized 60,000,000 shares; issued 18,466,755 at June 30, 2010 and 18,373,296 at December 31, 2009; outstanding 13,911,692 at June 30, 2010 and 13,823,917 at December 31, 2009		18,467		18,373
Additional paid-in capital		64,547		64,431
Retained earnings		107,781		141,774
Accumulated other comprehensive loss		(1,898)		(1,605)
Treasury stock, at cost, 4,555,063 shares at June 30, 2010 and 4,549,379 at December 31, 2009		(94,844)		(94,804)
Total stockholders equity		163,526		197,208
Total liabilities and stockholders equity	$	2,462,760	$	2,596,657

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, 2010	(unaudited) Three Months Ended June 30, 2009	(unaudited) Year to Date June 30, 2010	(unaudited) Year to Date June 30, 2009
Interest and Dividend Income				
Loans, including fees	$ 25,138	$ 29,834	$ 51,770	$ 59,948
Loans held-for-sale	108	305	180	617
Securities:				
Taxable	1,215	2,173	2,453	5,969
Tax exempt	689	1,416	1,434	2,847
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	62	57	118	113
Federal funds sold	1	1	1	3
Interest bearing deposits with financial institutions	44	2	60	4
Total interest and dividend income	27,257	33,788	56,016	69,501
Interest Expense				
Savings, NOW, and money market deposits	1,200	1,546	2,585	3,392
Time deposits	4,750	9,062	9,847	18,763
Securities sold under repurchase agreements	13	17	23	115
Federal funds purchased		31		73
Other short-term borrowings		74	18	221
Junior subordinated debentures	1,072	1,072	2,144	2,144
Subordinated debt	203	309	398	799
Notes payable and other borrowings	4	3	5	114
Total interest expense	7,242	12,114	15,020	25,621
Net interest and dividend income	20,015	21,674	40,996	43,880
Provision for loan losses	44,623	47,500	63,843	56,925
Net interest and dividend expense after provision for loan losses	(24,608)	(25,826)	(22,847)	(13,045)
Noninterest Income				
Trust income	1,852	1,846	3,509	3,735
Service charges on deposits	2,286	2,173	4,304	4,285
Secondary mortgage fees	338	469	561	878
Mortgage servicing income, net of changes in fair value	(642)	134	(554)	271
Net gain on sales of mortgage loans	2,156	2,710	3,388	5,196
Securities gains, net	1,756	1,391	1,754	1,314
Increase in cash surrender value of bank owned life insurance	262	347	691	474
Debit card interchange income	724	635	1,387	1,211
Net interest rate swap gains and fees	163	(957)	353	(567)
Lease revenue from other real estate owned	442	9	960	18
Net gain on sale of other real estate owned	347	345	498	293
Other income	1,164	1,223	2,264	2,381
Total noninterest income	10,848	10,325	19,115	19,489
Noninterest Expense				
Salaries and employee benefits	8,918	9,676	17,943	20,561

Occupancy expense, net	1,237	1,645	2,762	3,160
Furniture and equipment expense	1,544	1,742	3,183	3,482
FDIC insurance	1,527	2,421	2,955	3,238
Amortization of core deposit and other intangible asset	283	291	565	583
Advertising expense	439	242	695	674
Impairment of goodwill		57,579		57,579
Legal fees	666	323	1,225	670
Other real estate expense	6,845	3,328	13,273	4,172
Other expense	4,020	3,606	7,627	8,011
Total noninterest expense	25,479	80,853	50,228	102,130
Loss before income taxes	(39,239)	(96,354)	(53,960)	(95,686)
Benefit for income taxes	(15,856)	(37,928)	(22,023)	(38,244)
Net loss	$ (23,383)	$ (58,426)	$ (31,937)	$ (57,442)
Preferred stock dividends and accretion	1,131	1,235	2,259	2,036
Net loss available to common stockholders	$ (24,514)	$ (59,661)	$ (34,196)	$ (59,478)
Basic loss per share	$ (1.74)	$ (4.29)	$ (2.43)	$ (4.29)
Diluted loss per share	(1.75)	(4.29)	(2.43)	(4.29)
Dividends declared per share	0.01	0.04	0.02	0.08

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, 2010	2009
Cash flows from operating activities		
Net loss	$ (31,937)	$ (57,442)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	2,320	2,491
Amortization of leasehold improvement	127	91
Amortization and recovery of mortgage servicing rights, net		(33)
Change in market value of mortgage servicing rights	913	
Provision for loan losses	63,843	56,925
Provision for deferred tax (benefit) expense	(15,972)	37,259
Originations of loans held-for-sale	(134,471)	(284,811)
Proceeds from sales of loans held-for-sale	138,900	289,376
Net gain on sales of mortgage loans	(3,388)	(5,196)
Change in current income taxes payable	9,250	(42,042)
Increase in cash surrender value of bank-owned life insurance	(691)	(474)
Change in accrued interest receivable and other assets	2,549	(26,706)
Change in accrued interest payable and other liabilities	3,242	(10,086)
Net premium amortization on securities	253	390
Securities gains, net	(1,754)	(1,314)
Impairment of goodwill		57,579
Amortization of core deposit and other intangible assets	565	583
Tax effect from vesting of restricted stock	(225)	
Stock based compensation	435	526
Net gain on sale of other real estate owned	(498)	(293)
Write-down of other real estate owned	10,739	3,429
Net cash provided by operating activities	44,200	20,252
Cash flows from investing activities		
Proceeds from maturities and pre-refunds including pay down of securities available-for-sale	52,580	100,743
Proceeds from sales of securities available-for-sale	75,578	202,040
Purchases of securities available-for-sale	(114,732)	(141,450)
Purchases of Federal Reserve Bank and Federal Home Loan Bank stock	(647)	
Net change in loans	88,923	28,757
Investment in other real estate owned	(10)	(1,933)
Proceeds from sales of other real estate owned	10,290	3,982
Net purchases of premises and equipment	(546)	(617)
Net cash provided by investing activities	111,436	191,522
Cash flows from financing activities		
Net change in deposits	(55,258)	(37,851)
Net change in securities sold under repurchase agreements	2,005	(19,544)
Net change in federal funds purchased		(28,900)
Net change in other short-term borrowings	(50,138)	(163,342)
Proceeds from the issuance of preferred stock		68,245
Proceeds from the issuance of common stock warrants		4,755

Proceeds from notes payable and other borrowings				2,240
Repayment of note payable				(19,790)
Proceeds from exercise of stock options				55
Tax benefit from dividend equivalent payment				6
Dividends paid		(2,105)		(3,963)
Purchase of treasury stock		(40)		
Net cash used in financing activities		(105,536)		(198,089)
Net change in cash and cash equivalents		50,100		13,685
Cash and cash equivalents at beginning of period		79,796		73,214
Cash and cash equivalents at end of period	$	129,896	$	86,899

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Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows - Continued

(In thousands)

	(Unaudited) Six Months Ended June 30, 2010	2009
Supplemental cash flow information		
Income taxes (received) paid	$ (15,076)	$ 2,330
Interest paid for deposits	13,065	22,753
Interest paid for borrowings	2,611	3,506
Non-cash transfer of loans to other real estate	27,449	5,563
Non-cash transfer of notes payable to other short-term borrowings		5,134
Change in dividends declared not paid	(454)	(1,190)
Non-cash transfer related to deferred taxes on goodwill		1,461

See accompanying notes to consolidated financial statements.

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, 2008	$ 18,304	$	$ 58,683	$ 213,031	$ (2,123)	$ (94,799)	$ 193,096
Comprehensive loss:							
Net loss				(57,442)			(57,442)
Change in net unrealized gain on securities available-for-sale net of $452 tax effect					793		793
Total comprehensive loss							(56,649)
Dividends Declared, $.08 per share				(1,111)			(1,111)
Change in restricted stock	63		(63)				
Stock options exercised	6		49				55
Tax effect of dividend equivalent payments			6				6
Stock based compensation			526				526
Preferred dividends declared (5% per preferred share)		374		(2,036)			(1,662)
Issuance of preferred stock		68,245					68,245

Issuance of stock warrants			4,755				4,755
Balance, June 30, 2009	$ 18,373	$ 68,619	$ 63,956	$ 152,442	$ (1,330)	$ (94,799)	$ 207,261
Balance, December 31, 2009	$ 18,373	$ 69,039	$ 64,431	$ 141,774	$ (1,605)	$ (94,804)	$ 197,208
Comprehensive loss:							
Net loss				(31,937)			(31,937)
Change in net unrealized loss on securities available-for-sale net of $178 tax effect					(293)		(293)
Total comprehensive loss							(32,230)
Dividends Declared, $.02 per share				(282)			(282)
Change in restricted stock	94		(94)				
Tax effect from vesting of restricted stock			(225)				(225)
Stock based compensation			435				435
Purchase of treasury stock						(40)	(40)
Preferred dividends declared (5% per preferred share)		434		(1,803)			(1,369)
Adoption of mark to market of mortgage servicing rights				29			29
Balance, June 30, 2010	$ 18,467	$ 69,473	$ 64,547	$ 107,781	$ (1,898)	$ (94,844)	$ 163,526

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 June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009. 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, 2009. 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.

As disclosed in Note 8 of the Company s annual report, the Company elected ASC 860-35 on January 1, 2010 to subsequently measure each class of mortgage servicing rights using the fair value measurement method. The initial impact of adoption of that election was an increase to beginning retained earnings of $29,000. Management believed that the fair value method of accounting would better allow management to mitigate interest rate risk. Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in net gain on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with net gain on sales of mortgage loans on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Additional disclosure related to fair value of mortgage servicing rights is found in Note 8. Prior to the January 1, 2010 change in method, residential mortgage loan servicing assets were initially measured at fair value, but were subsequently measured using the amortization method and were also evaluated for impairment. That amortization method required servicing rights to be

amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

In December 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-16 (formerly Statement No. 166), Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets . ASU 2009-16 amends the derecognition

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accounting and disclosure guidance. ASU 2009-16 eliminates the exemption from consolidation for qualified special purpose entities (QSPEs) and also requires a transferor to evaluate all existing QSPEs to determine whether they must be consolidated. ASU 2009-16 was effective as of the beginning of the first annual reporting period that begins after November 15, 2009. ASU 2009-16 did not have a material effect on the Company s 2010 results of operations, financial position, or disclosures.

In December 2009, the FASB issued ASU No. 2009-17 (formerly Statement No. 167), Consolidations (Topic 810) Improvements to Financial Reporting for Enterprises involved with Variable Interest Entities . ASU 2009-17 amends the consolidation guidance applicable to variable interest entities. The amendments to the consolidation guidance affect all entities, as well as QSPEs that are currently excluded from previous consolidation guidance. ASU 2009-17 was effective as of the beginning of the first annual reporting period that begins after November 15, 2009. ASU 2009-16 did not have a material effect on the Company s 2010 results of operations, financial position, or disclosures.

In February 2010, the FASB issued ASU No. 2010-09 Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements. ASU 2010-09 amends the subsequent events disclosure guidance. The amendments include a definition of an SEC filer, requires an SEC filer or conduit bond obligor to evaluate subsequent events through the date the financial statements are issued, and removes the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. ASU 2010-09 was effective upon issuance except for the use of the issued date for conduit debt obligors. The effect of ASU 2010-09 including the Company s related disclosure is found in Note 20 - Subsequent Events.

In January 2010, the FASB issued ASU No. 2010-06 Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends the fair value disclosure guidance. The amendments include new disclosures and changes to clarify existing disclosure requirements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The impact of ASU 2010-06 on the Company s disclosures is reflected in Note 16 - Fair Value Measurements.

In April 2010, the FASB issued ASU No. 2010-15 Financial Services Insurance (Topic 944) How Investments Held through Separate Accounts Affect an Insurer s Consolidation Analysis of Those Investments a consensus of the FASB Emerging Issues Task Force. ASU 2010-15 affects insurance entities that have separate accounts that meet the definition of a separate account in paragraph 944-80-25-2 when evaluating whether to consolidate an investment held through its separate account or through a combination of investments in its separate and general accounts. ASU 2010-15 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2010. The adoption of this standard is not expected to have a material effect on the Company s 2010 results of operations or financial position, or disclosures.

In April 2010, the FASB issued ASU No. 2010-18 Receivables (Topic 310) Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset a consensus of the FASB Emerging Issues Task Force. ASU 2010-18 provides guidance on account for acquired loans that have evidence of credit deterioration upon acquisition. It allows acquired assets with common risk characteristics to be accounted for in the aggregate as a pool. ASU 2010-18 is effective for modifications of loans accounted for within pools under Subtopic 310-30 in the first interim or annual reporting period ending on or after July 15, 2010. The adoption of this standard is not expected to have a material effect on the Company s 2010 results of operations or financial position, or disclosures.

In July 2010, FASB issued ASU No. 2010-20 Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses . The standard will require the Company to expand disclosures about the credit quality of our loans and the related reserves against them.

The extra

disclosures will include details on our past due loans, credit quality indicators, and modifications of loans. The Company will adopt the standard beginning with our December 31, 2010 financial statements.

Note 2 Business Combination

Old Second Acquisition, Inc., was formed as part of the November 5, 2007 Agreement and Plan of Merger between the Company, Old Second Acquisition, Inc., a wholly-owned subsidiary of the Company, and HeritageBanc, Inc. (Heritage), located in Chicago Heights. The parties consummated the merger on February 8, 2008, at which time Old Second Acquisition, Inc. was merged with and into Heritage with Heritage as the surviving corporation as a wholly-owned subsidiary of the Company. Additionally, the parties merged Heritage Bank, a wholly-owned subsidiary of Heritage, with and into Old Second National Bank, as the surviving bank (the Bank), and Heritage was subsequently dissolved, and is no longer an existing subsidiary. The purchase price was paid through a combination of $43.0 million in cash and approximately 1.6 million shares of the Company s common stock totaling $86.0 million, excluding transaction costs. The final accounting for the transaction generated $55.4 million in goodwill and $8.9 million in intangible assets subject to amortization.

The business combination was accounted for under the purchase method of accounting and the purchase price was allocated to the respective assets acquired and liabilities assumed based on their estimated fair values, net of applicable income tax effects. The excess cost over fair value of net assets acquired was recorded as goodwill. The Company decreased the goodwill attributable to the Heritage transaction by $1.4 million in the first quarter of 2009 along with an offsetting decrease to deferred tax liabilities. The Company subsequently recorded a goodwill impairment charge of $57.6 million in the second quarter of 2009, which primarily resulted from the goodwill that was attributable to Heritage. See Note 7 for additional information on the goodwill impairment charge.

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Note 3 Securities

Securities available-for-sale are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010:				
U.S. Treasury	$ 8,502	$ 16	$	$ 8,518
U.S. government agencies	75,510	422		75,932
U.S. government agency mortgage-backed	72,120	1,256		73,376
States and political subdivisions	31,095	1,121	(292)	31,924
Collateralized mortgage obligations	14,896	787		15,683
Collateralized debt obligations	17,861		(6,448)	11,413
Equity securities	99	3	(14)	88
	$ 220,083	$ 3,605	$ (6,754)	$ 216,934
December 31, 2009:				
U.S. Treasury	$ 1,499	$ 24	$	$ 1,523
U.S. government agencies	84,265	263	(76)	84,452
U.S. government agency mortgage-backed	41,175	1,669	(44)	42,800
States and political subdivisions	81,801	1,864	(327)	83,338
Collateralized mortgage obligations	22,246	910	(5)	23,151
Collateralized debt obligations	17,834		(6,951)	10,883
Equity securities	99	1	(6)	94
	$ 248,919	$ 4,731	$ (7,409)	$ 246,241

The fair value, amortized cost and weighted average yield of debt securities at June 30, 2010 by contractual maturity, were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, collateralized debt obligations, and collateralized debt obligations and equity securities are shown separately:

	Amortized Cost	Weighted Average Yield	Fair Value
Due in one year or less	$ 22,971	0.86%	$ 23,028
Due after one year through five years	37,992	2.22%	38,421
Due after five years through ten years	37,662	4.70%	38,013
Due after ten years	16,482	4.42%	16,912
	$ 115,107	3.08%	$ 116,374
Mortgage-backed and collateralized mortgage obligations	87,016	3.74%	89,059
Collateralized debt obligations	17,861	1.72%	11,413
Equity securities	99	0.08%	88
	$ 220,083	3.23%	$ 216,934

The fair value, amortized cost and weighted average yield of debt securities at December 31, 2009 by contractual maturity, were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, collateralized mortgage obligations, and asset-backed and equity securities are shown separately:

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	Amortized Cost	Weighted Average Yield	Fair Value
Due in one year or less	$ 40,801	0.68%	$ 40,915
Due after one year through five years	33,667	1.91%	34,090
Due after five years through ten years	51,594	4.09%	52,442
Due after ten years	41,503	4.52%	41,866
	$ 167,565	2.93%	$ 169,313
Mortgage-backed and collateralized mortgage obligations	63,421	5.13%	65,951
Collateralized debt obligations	17,834	1.60%	10,883
Equity securities	99	0.08%	94
	$ 248,919	3.39%	$ 246,241

At June 30, 2010 and December 31, 2009, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders equity.

Securities with unrealized losses at June 30, 2010 and December 31, 2009 aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 months in an unrealized loss position		Greater than 12 months in an unrealized loss position		Total	
June 30, 2010	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**
States and political subdivisions	$ 251	$ 4,385	$ 41	$ 573	$ 292	$ 4,958
Collateralized debt obligations			6,448	11,413	6,448	11,413
Equity securities			14	33	14	33
	$ 251	$ 4,385	$ 6,503	$ 12,019	$ 6,754	$ 16,404

	Less than 12 months in an unrealized loss position		Greater than 12 months in an unrealized loss position		Total	
December 31, 2009	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**
U.S. government agencies	$ 76	$ 26,308	$	$	$ 76	$ 26,308
U.S. government agency mortgage-backed	28	444	16	1,589	44	2,033
States and political subdivisions	170	7,907	157	3,160	327	11,067
Collateralized mortgage obligations	1	106	4	808	5	914
Collateralized debt obligations			6,951	10,883	6,951	10,883
Equity securities			6	41	6	41
	$ 275	$ 34,765	$ 7,134	$ 16,481	$ 7,409	$ 51,246

Recognition of other-than-temporary impairment was not necessary in the quarter ended June 30, 2010 or the year ended December 31, 2009. The changes in fair values related to interest rate fluctuations and other market factors and were generally not related to credit quality deterioration although the amount of deferrals and defaults in the pooled collateralized debt obligation increased from December 31, 2009. An increase in rates will generally cause a decrease in the fair value of individual securities while a decrease in rates typically results in an increase

in fair value. In addition to the impact of rate changes upon pricing, uncertainty in the financial markets in the periods presented has resulted in reduced liquidity for certain investments, particularly the collateralized debt obligations (CDO), which also impacted market pricing for the periods presented. In the case of the CDO fair value measurement, management included a risk premium adjustment as of June 30, 2010, to reflect an estimated amount that a market participant would demand because of uncertainty in cash flows. Management made that adjustment because the level of market activity for the CDO securities has continued to decrease and information on orderly transaction sales were not generally available. Accordingly, management designated this security as a level 3 security at June 30, 2009 as described in Note 16 of this quarterly report and continues with that designation as of June 30, 2010. Management did not have the intent to

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sell the above securities and it is more likely than not the Company will not have to sell the securities before recovery of its cost basis.

Below is additional information as it relates to the collateralized debt obligation, Trapeza 2007-13A, which is secured by a pool of trust preferred securities issued by trusts sponsored by multiple financial institutions. This collateralized debt obligation was rated AAA at the time of purchase by the Company.

	Amortized	Fair	Gross Unrealized	S&P Credit	Number of Banks in	Issuance Deferrals & Defaults		Issuance Excess Subordination	
	Cost	Value	Loss	Rating (1)	Issuance	Amount	Collateral %	Amount	Collateral %
June 30, 2010									
Class A1	$ 9,291	$ 5,908	$ (3,383)	BB+	63	$ 237,750	31.7%	$ 149,608	19.9%
Class A2A	8,570	5,505	(3,065)	BB-	63	237,750	31.7%	52,608	7.0%
	$ 17,861	$ 11,413	$ (6,448)						
December 31, 2009									
Class A1	$ 9,334	$ 5,473	$ (3,861)	BB+	63	$ 195,750	26.1%	$ 189,641	25.3%
Class A2A	8,500	5,410	(3,090)	BB-	63	195,750	26.1%	92,641	12.4%
	$ 17,834	$ 10,883	$ (6,951)						

(1) Moody s credit rating for class A1 and A2A were Baa2 and Ba2, respectively, as of June 30, 2010 and December 31, 2009. The Fitch ratings for class A1 and A2A were A and BB, respectively, as of June 30, 2010 and December 31, 2009

The model assumptions used to estimate fair value in the table above included estimated collateral default rates of 3.8%, 1.1%, and 0.6% in years 1, 2, and 3, respectively. Additionally, the estimated discount rates were Libor plus 5.25% for the A1 tranche and Libor plus 6.25% for the A2A tranche.

In addition to other equity securities, which are recorded at estimated fair value, the Bank owns the stock of the Federal Reserve Bank of Chicago (FRB) and the Federal Home Loan Bank of Chicago (FHLBC). Both of these entities require the Bank to invest in their non-marketable stock as a condition of membership. The value of the stock in each of those entities was recorded at cost in the amounts of $4.4 million and $9.3 million, respectively, at June 30, 2010, and at December 31, 2009. The FHLBC is a governmental sponsored entity that has been under a regulatory order for a prolonged period that generally requires approval prior to redeeming or paying dividends on their common stock. The Bank continues to utilize the various products and services of the FHLBC and management considers this stock to be a long-term investment. FHLBC members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLBC stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value.

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Note 4 Loans

Major classifications of loans were as follows:

	June 30, 2010	December 31, 2009
Commercial and industrial	$ 204,557	$ 207,170
Real estate - commercial	895,618	925,013
Real estate - construction	187,683	273,719
Real estate - residential	602,829	643,936
Installment	5,418	9,834
Overdraft	700	830
Lease financing receivables	3,269	3,703
	1,900,074	2,064,205
Net deferred loan fees and costs	(1,044)	(1,379)
	$ 1,899,030	$ 2,062,826

It is the policy of the Company to review each prospective credit in order to determine an adequate level of security or collateral to obtain 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 and the Company s lending standards and credit monitoring procedures. The Bank generally makes loans 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 88.8% and 89.3% of the portfolio at June 30, 2010 and December 31, 2009, respectively. The Company is committed to overseeing and managing its loan portfolio to avoid unnecessarily high credit concentrations in accordance with interagency regulatory guidance on risk management. Consistent with that commitment, management is updating its asset diversification plan and policy and anticipates that the percentage of real estate lending to the overall portfolio will decrease in the future as result of that process.

Note 5 Allowance for Loan Losses

Changes in the allowance for loan losses for the six months ending June 30 are summarized as follows:

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	2010	2009
Allowance at beginning of year	64,540	41,271
Charge-offs:		
Commercial and industrial	1,558	1,763
Real estate - commercial	14,426	701
Real estate - construction	23,344	19,402
Real estate - residential	10,338	1,781
Installment and other loans	233	233
Total charge-offs	49,899	23,880
Recoveries:		
Commercial and industrial	258	7
Real estate - commercial	27	
Real estate - construction	1,549	67
Real estate - residential	453	14
Installment and other loans	188	147
Total recoveries	2,475	235
Net charge-offs	47,424	23,645
Provision for loan losses	63,843	56,925
Allowance at end of quarter	$ 80,959	$ 74,551
Net charge-offs to average loans	2.39%	1.05%
Allowance at quarter end to average loans	4.09%	3.31%

Note 6: 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,	
	2010	2009	2010	2009
Other real estate owned				
Balance at beginning of period	$ 49,855	$ 18,951	$ 40,200	$ 15,212
Property additions	8,611	1,890	27,449	5,563
Development improvements		760	10	1,933
Less:				
Property Disposals	5,690	2,872	9,792	3,689
Period valuation adjustments	5,648	3,139	10,739	3,429
Balance at end of period	$ 47,128	$ 15,590	$ 47,128	$ 15,590

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Activity in the valuation allowance was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Balance at beginning of period	$ 9,576	$ 290	$ 5,668	$
Addition charged to expense	5,566	2,919	10,657	3,189
Write-downs taken on sales	(1,407)	(17)	(2,590)	(17)
Other adjustments	82	220	82	240
Balance at end of period	$ 13,817	$ 3,412	$ 13,817	$ 3,412

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Gain on sales, net	$ (347)	$ (345)	$ (498)	$ (293)
Provision for unrealized losses	5,566	2,919	10,657	3,189
Operating expenses	1,279	409	2,616	983
Less:				
Lease revenue	442	9	960	18
	$ 6,056	$ 2,974	$ 11,815	$ 3,861

Note 7 Goodwill and Intangibles

Goodwill and other intangible assets are reviewed for potential impairment on an annual basis or more often if events or circumstances indicate that they may be impaired. As such, goodwill was tested for impairment at the reporting unit level as of June 30, 2009 and a total impairment loss was recorded as a result of management s determination that the carrying amount of goodwill exceeded its implied fair value. The Company s market price per share had continued to be less than its stockholders common equity as the Company s stock continued to trade at a price below its book value. At the same time, earnings decreased as nonperforming assets, particularly loans and related charge-offs increased. Consistent with prior quarters, the Company considered these and other factors, including the items outlined in the process described below. The Company employed general industry practices in evaluating the impairment of its goodwill using a two-step process that begins with an estimation of the fair value of the reporting unit. The first step included a screen for potential impairment and the second step measured the amount of impairment. Significant management judgment was applied to the process including the development of cash flow projections, selection of appropriate discount rates, identification of relevant market comparables, the incorporation of general economic and market conditions as well as the selection of an appropriate control premium.

The first step of the June 30, 2009 analysis was to determine if there was a potential impairment. The Company used both an income and market approach as part of that analysis. The income approach was based on discounted cash flows, which were derived from internal forecasts and economic expectations for the Bank reporting unit. The key assumptions used to determine fair value under the income approach included the cash flow period, terminal values based on a terminal growth rate and the discount rate. The discount rates used in the income approach evaluated at June 30, 2009 ranged from 17.5% to 22.5% to attempt to incorporate discount rates a market participant might employ in its valuation of the Bank. The market approach calculated the change of control price a market participant could have been reasonably expected to pay for the Bank by adding a change of control premium. The results of the first step of the analysis indicated that the Bank s carrying value exceeded its fair value, which indicated that an impairment existed and required that the Company perform the second step of the analysis to

determine the amount of the impairment. The second step of the analysis involved a valuation of all of the assets of the Bank as if it had just been acquired and comparing the resultant goodwill with

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the actual carrying amount of goodwill. The results of the second step of the analysis determined that goodwill was fully impaired, which resulted in the pre-tax impairment charge of $57.6 million. This was a total impairment and no goodwill remained as a result of that impairment charge. The portion of the goodwill intangible asset charge that was attributable to Heritage was tax deductible and had an associated $22.0 million deferred tax asset, and although not anticipated, there can be no guarantee that a valuation allowance against this deferred tax asset will not be necessary in future periods.

Management also performed a periodic review of the core deposit and other intangible assets. Based upon these reviews, management determined there was no impairment of the core deposit and other intangible assets as of June 30, 2010. No assurance can be given that future impairment tests will not result in a charge to earnings.

The following table presents the changes in the carrying amount of goodwill and other intangibles during the first six months ended June 30, 2010, and the year ended December 31, 2009. (in thousands):

	June 30, 2010		December 31, 2009	
	Goodwill	**Core Deposit and Other Intangibles**	**Goodwill**	**Core Deposit and Other Intangibles**
Balance at beginning of period	$	$ 6,654	$ 59,040	$ 7,821
Amortization/ adjustments(1)		(565)	(1,461)	(1,167)
Impairment			(57,579)	
Balance at end of period	$	$ 6,089	$	$ 6,654

(1) The $1.46 million adjustment to goodwill was recorded in the first quarter of 2009.

The following table presents the estimated future amortization expense for core deposit and other intangibles as of June 30, 2010 (in thousands):

	Amount
2010	$ 565
2011	847
2012	780
2013	732
2014	679
Thereafter	2,486
Total	$ 6,089

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Note 8 Mortgage Servicing Rights

Changes in capitalized mortgage servicing rights as of June 30, summarized as follows:

		2010		2009
Balance at beginning of period	$	2,470	$	1,973
Fair value adjustment		9		
Additions		778		318
Mark to Market		(913)		
Amortization				(512)
Balance at end of period		2,344		1,779
Changes in the valuation allowance for servicing assets were as follows:				
Balance at beginning of period		(20)		(599)
Fair value adjustment		20		(254)
Recovery credited to expense				799
Balance at end of period				(54)
Net balance	$	2,344	$	1,725

As discussed in Note 1, the Company adopted ASC 860-50-35 using the fair value measurement method for all servicing rights as of January 1, 2010, and the initial impact of adoption was an increase to beginning retained earnings of $29,000. Management believed that the fair value method of accounting would better allow management to mitigate interest rate risk. Servicing rights are recognized separately when they are acquired through sales of loans. When mortgage loans are sold, servicing rights are initially recorded at fair value with the income statement effect recorded in net gain on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. Additional disclosure related to fair value of mortgage servicing rights is found in Note 16.

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with net gain on sales of mortgage loans on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses

Note 9 Deposits

Major classifications of deposits as of June 30, 2010 and December 31, 2009 were as follows:

		2010		2009
Noninterest bearing demand	$	327,599	$	308,304
Savings		196,070		178,257
NOW accounts		425,801		422,778

Money market accounts	369,254	392,516
Certificates of deposit of less than $100,000	499,581	551,106
Certificates of deposit of $100,000 or more	332,714	353,316
	$ 2,151,019	$ 2,206,277

Note 10 Borrowings

The following table is a summary of borrowings as of June 30, 2010 and December 31, 2009:

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	2010	2009
Securities sold under repurchase agreements	$ 20,379	$ 18,374
FHLB advances		50,019
Treasury tax and loan	4,860	4,979
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
	$ 129,117	$ 177,250

The Company enters into sales of securities under agreements to repurchase (repurchase agreements) which generally mature within 1 to 90 days from the transaction date. These repurchase agreements are treated as financings and they are secured by mortgage-backed securities with a carrying amount of $34.1 and $25.1 million at June 30, 2010 and December 31, 2009, respectively. The securities sold under agreements to repurchase consisted of U.S. government agencies during the two-year reporting period.

The Company s borrowings at the FHLBC requires the Bank to be a member and invest in the stock of the FHLBC and are generally limited to the lesser of 35% of total assets or 60% of the book value of certain mortgage loans. In addition, these notes were collateralized by FHLBC stock of $9.3 million and loans totaling $126.9 million at June 30, 2010. FHLBC stock of $9.3 million and loans totaling $203.7 million were pledged as of December 31, 2009. The Company has also established borrowing capacity at the FRB that was not used at either December 31, 2009 or June 30, 2010. The Company currently has $52.5 million of borrowing capacity available at the FRB.

The Bank is a Treasury Tax & Loan (TT&L) depository for the FRB, and as such, we accept TT&L deposits. The Company is allowed to hold these deposits for the FRB until they are called. The interest rate is the federal funds rate less 25 basis points. Securities with a face value greater than or equal to the amount borrowed are pledged as a condition of borrowing TT&L deposits. As of June 30, 2010 and December 31, 2009, the TT&L deposits were $4.9 million and $5.0 million, respectively.

One of the Company s most significant borrowing relationships continued to be the $45.5 million credit facility with LaSalle Bank National Association (now Bank of America and, the Lender). That credit facility began in January 2008 and was originally comprised of a $30.5 million senior debt facility, which included a $30.0 million revolving line that matured on March 31, 2010, and $500,000 in term debt as well as $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 is based on, at the Company s option, 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 proceeds of the $45.0 million of subordinated debt were used to finance the 2008 acquisition of Heritage, including transaction costs. 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, 2009 and June 30, 2010. 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 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 and financial and negative covenants. At June 30, 2010, the Company continued to be out of compliance with two of the financial covenants contained within the credit agreement. The agreement provides that upon an event of default as the result of the Company s failure to comply with a financial covenant and/or with the receipt of a Memorandum of Understanding from the Bank s primary regulator as was previously disclosed by the Company, the lender may (i) terminate all commitments to extend further credit, (ii)

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increase the interest rate on the revolving line of the term debt (together the Senior 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. 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. In November 2009, the lender provided notice to the Company that it was invoking the default rate, thereby increasing the rate on the term debt by 200 basis points retroactive to July 30, 2009. This action by the lender resulted in nominal additional interest expense as it only applies to the $500,000 of outstanding term debt. The Company and the Lender have periodically engaged in discussions regarding the potential resolution of the issues, which could include a range of results including, but not limited to, a renegotiation of the credit facility and/or a change in the covenants or other terms. The parties have not agreed to a mutually satisfactory resolution.

Note 11 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 can 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 can be exercised by the Company from time to time hereafter. Cash distributions on the securities are payable quarterly at an annual rate of 7.80%. The Company issued a new $31.6 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 commenced an offer to exchange a portion of the trust preferred securities of Old Second Capital Trust I for newly issues shares of common stock of the Company. On July 30, 2010 the Company extended the exchange offer expiration date from August 2, 2010 to August 23, 2010, unless the Company further extends the expiration date or earlier terminates the exchange offer.

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 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 proceeds from this trust preferred offering were used to finance the common stock tender offer in May 2007.

Both of the debentures issued by Old Second Bancorp, Inc. 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.

Note 12 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 (Incentive Stock Options), nonqualified stock options, restricted share rights (restricted stock and restricted stock units), and stock appreciation rights. Total shares issuable under the plan were 242,011 at June 30, 2010

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and 426,872 at December 31, 2009. Stock based awards may be granted to selected directors and officers or employees at the discretion of the board of directors. All stock options were granted for a term of ten years. Restricted share rights vest three years from the grant date. Awards under the Incentive Plan become fully vested upon a merger or change in control of the Company. Compensation expense is recognized over the vesting period of the options based on the fair value of the options at the grant date.

Total compensation cost that has been charged against income for those plans was $204,000 in the second quarter of 2010 and $435,000 in the first half of 2010. The total income tax benefit was $71,000 in the second quarter of 2010 and $152,000 in the first half of 2010. Total compensation cost that has been charged against income for those plans was $277,000 in the second quarter of 2009 and $526,000 in the first half of 2009. The total income tax benefit was $97,000 in the second quarter of 2009 and $184,000 in the first half of 2009.

There were no stock options exercised or granted during the second quarter of 2010 or 2009. Total unrecognized compensation cost related to nonvested stock options granted under the Incentive Plan was $91,000 as of June 30, 2010, and is expected to be recognized over a weighted-average period of 0.65 years. Total unrecognized compensation cost related to nonvested stock options granted under the Incentive Plan was $374,000 as of June 30, 2009, and was expected to be recognized over a weighted-average period of 1.17 years.

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Beginning outstanding at January 1, 2010	683,666	$ 24.29		
Granted				
Exercised				
Canceled				
Expired				
Ending outstanding at June 30, 2010	683,666	$ 24.29	4.24	$
Exercisable at end of period	646,168	$ 23.46	4.04	$
Beginning outstanding at January 1, 2009	722,132	$ 24.03		
Granted	16,500	7.49		
Exercised	(5,334)	10.13		
Canceled	(13,000)	29.12		
Expired				
Ending outstanding at June 30, 2009	720,298	$ 23.66	5.05	$
Exercisable at end of period	617,136	$ 23.46	4.49	$

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A summary of changes in the Company s nonvested options in the Incentive Plan is as follows:

	June 30, 2010		
	Shares		Weighted Average Grant Date Fair Value
Nonvested at January 1, 2010	43,498	$	4.83
Granted			
Vested	(6,000)		2.36
Nonvested at June 30, 2010	37,498	$	5.23

A summary of stock option activity as of June 30 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Intrinsic value of options exercised	$	$		