

SECOND BANCORP INC

Form 8-K

July 18, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: July 17, 2003

Second Bancorp Incorporated

(Exact name of registrant as specified in its charter)

Ohio	0-15624	34-1547453
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)
108 Main Avenue S.W., Warren, Ohio		44482-1311
(Address of principal executive offices)		(Zip Code)

Registrant's telephone number, including area code: 330-841-0123

Item 5. Other Events

On July 17, 2003, the Company issued the following press release:

**SECOND BANCORP REPORTS SECOND QUARTER EARNINGS
UP 25% OVER A YEAR AGO**

Warren, Ohio, July 17, 2003 SECOND BANCORP INCORPORATED (Nasdaq SECD , SECDP) reported consolidated net income for second quarter 2003 of \$5,438,000, a 25% increase over the \$4,353,000 reported for the same period last year. Year-to-date earnings were \$14,099,000, 56% above the \$9,036,000 reported for the first half of 2002. On a per share basis, diluted earnings for the just completed quarter were \$.57 or 33% above the \$.43 reported for the year-ago quarter. Earnings per share for the first two quarters of the year reached \$1.46, a 62% improvement over the \$.90 reported for the same period last year. Year-to-date 2003 earnings include a one time \$3.65 million (or \$.38 diluted per share) after-tax gain on the sale of two banking centers completed during the first quarter.

The Company's key ratios for the quarter and for the first half of 2003 were similarly improved over last year. Returns on average assets (ROA) for the quarter and year-to-date were 1.14% and 1.49% respectively compared to 1.01% and 1.06% a year ago. Returns on average equity (ROE) also strengthened to 15.62% for the quarter and 20.54% year-to-date compared to 13.12% and 13.75% respectively last year. The Company's efficiency ratio for the quarter was 56.10% and 51.48% for the first six months of the year compared to the 59.49% and 59.44% reported for the respective year-ago periods. Historically low interest rates continued to pressure Second Bancorp's net interest margin which was 3.19% for the quarter and 3.26% for the first half of 2003. The margin for the same periods last year was 3.69% and 3.70%.

Non-interest income for the quarter was \$10.70 million, 164% above the \$4.05 million reported last year. Leading that strong performance was \$6.31 million in gains on sale of loans reflecting secondary market activity in the Company's mortgage lending line of business, \$4.60 million more than was generated in second quarter 2002. Non-interest income was similarly improved

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for the year's first two quarters reaching \$24.96 million (including the above mentioned gain on sale of two banking centers) compared to \$9.02 million for the same period last year.

Non-interest expenses for the quarter were \$14.02 million, up from \$11.28 million a year ago. The quarter-over-quarter increase was led by salaries and benefits which grew \$1.32 million primarily reflecting higher pension costs, incentive compensation payouts and additions to staff associated with acquisition activity and growth in the Company's mortgage business.

President and Chief Executive Officer Rick L. Blossom stated "Strategic decisions made several years ago have allowed us to maintain earnings growth at an attractive rate despite persistent margin compression and a slow economy. Aggressive expansion of our mortgage lending business as interest rates fell and the sale of a large percentage of our loan production into the secondary market allowed us to claim a growing share of the booming home finance market without burdening our balance sheet with long-term, fixed-rate loans. As interest rates return to more normal levels and mortgage activity moderates, the profitability of our traditional lending businesses will benefit from expanding margins and, along with our ongoing migration into higher growth markets, will be a driver of future earnings.

Credit quality was stable during the second quarter. Period-end non-performing loans, however, remained at elevated levels generally reflecting economic conditions and the impact of two non-performing commercial credits aggregating \$7.2 million in outstandings. John L. Falatok, Senior Vice President and Chief Lending Officer of subsidiary Second National Bank indicated "The referenced credits, first identified and reserved during last year's third quarter, are substantially secured and covered by surety bonds issued by several well capitalized insurance companies. Collection of those loans has been delayed by pending litigation and bankruptcy proceedings but we continue to believe that additional charges to our loan loss reserve resulting from these loans will be minimal. Quarter-end non-accrual and 90-days past due but accruing loans were \$12.24 million and \$7.23 million respectively compared to \$6.29 million and \$6.01 for the same periods last year. Net loan charge-offs for the quarter were \$2.58 million compared to the \$1.38 million taken during second quarter 2002. Falatok further stated "The half million dollar increase in net charge-offs from first quarter levels was the result of the deterioration of a small group of seasoned commercial loans. We believe this quarter-over-quarter result is an anomaly and that net charge-offs levels will generally trend downward during foreseeable reporting periods. The Company's loan loss reserve at the end of the quarter was 1.50% of period-end loans, down slightly from the 1.54% reported a year earlier while non-performing loans as a percentage of total loans has largely stabilized over the last four quarters.

The Company also reported that its Board of Directors declared a nineteen cent (\$.19) per share common dividend payable July 31, 2003 to shareholders of record on July 15. That dividend is unchanged from the first quarter of the year and is 5.6% higher than the dividend paid for the second quarter last year.

This announcement contains forward-looking statements that involve risk and uncertainties, including changes in general economic and financial market conditions and the Company's ability to execute its business plans. Although management believes the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially.

Second Bancorp is a \$1.9 billion financial holding company providing a full range of commercial and consumer banking, wealth management, insurance and investment products and services to communities in an eight county area of Northeastern Ohio through subsidiaries Second National Bank and Stouffer-Herzog Insurance Agency, Inc. Additional information about Second Bancorp can be found on the Web at www.secondbancorp.com.

CONTACT: Christopher Stanitz, Executive Vice President, General Counsel and Secretary, at 330.841.0234 (phone), 330.841.0489 (fax), or estanitz@secondnationalbank.com.

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(Dollars in thousands, except per share data)

	June 2003	March 2003	Dec. 2002	Sept. 2002	June 2002
Earnings:					
Net interest income	\$ 13,790	\$ 14,083	\$ 13,946	\$ 13,954	\$ 14,403
Provision for loan losses	2,855	2,173	2,350	1,573	1,303
Non-interest income	10,700	14,211	7,314	6,329	4,053
Security gains (losses)	0	51	(67)	832	0
Trading account losses	0	0	0	0	0
Non-interest expense	14,016	13,673	14,575	11,841	11,283
Federal income taxes	2,181	3,838	840	2,165	1,517
Net income	\$ 5,438	\$ 8,661	\$ 3,428	\$ 5,536	\$ 4,353
Per share:					
Basic earnings	0.57	0.90	0.35	0.56	0.44
Diluted earnings	0.57	0.89	0.34	0.55	0.43
Common dividends	0.19	0.19	0.18	0.18	0.18
Book value	14.81	14.36	13.97	14.14	13.71
Tangible book value	12.40	11.95	11.75	11.99	11.85
Market value	25.80	22.15	26.50	26.73	27.30
Weighted average shares outstanding:					
Basic	9,468,639	9,621,709	9,835,995	9,876,844	9,958,928
Diluted	9,558,994	9,715,561	9,967,373	9,993,241	10,087,003
Period end balance sheet:					
Assets	\$ 1,926,233	\$ 1,909,027	\$ 1,894,775	\$ 1,825,235	\$ 1,719,744
Securities	556,434	539,309	523,669	535,174	448,736
Total loans	1,199,630	1,215,481	1,167,791	1,153,581	1,092,398
Allowance for loan losses	18,030	17,756	17,595	17,443	16,810
Deposits	1,172,816	1,121,866	1,195,112	1,181,281	1,146,451
Total shareholders equity	140,215	136,369	136,334	139,682	136,293
Tier I capital	140,335	137,595	138,000	139,983	141,011
Tier I ratio	10.8%	10.5%	10.8%	10.7%	11.9%
Total capital	156,613	154,010	153,925	156,401	155,799
Total capital ratio	12.0%	11.7%	12.1%	11.9%	13.2%
Total risk-adjusted assets	1,300,512	1,311,849	1,272,335	1,312,414	1,181,029
Tier I leverage ratio	7.6%	7.5%	7.7%	8.4%	8.4%
Average balance sheet:					
Assets	\$ 1,908,978	\$ 1,869,524	\$ 1,825,714	\$ 1,770,928	\$ 1,727,642
Earning assets	1,789,611	1,750,900	1,712,604	1,657,438	1,618,286
Loans	1,197,300	1,177,617	1,171,162	1,108,133	1,097,302
Deposits	1,159,719	1,135,681	1,180,609	1,173,188	1,153,065
Shareholders equity	139,269	135,254	137,229	136,494	132,734
Key ratios: (%)					
Return on average assets (ROA)	1.14	1.85	0.75	1.25	1.01
Return on average shareholders equity (ROE)	15.62	25.61	9.99	16.22	13.12

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Net interest margin	3.19	3.33	3.38	3.49	3.69
Net overhead	0.74	(0.12)	1.70	1.33	1.79
Efficiency ratio	56.10	47.48	66.94	56.94	59.49
Credit quality:					
Non-accrual loans	\$ 12,238	\$ 12,709	\$ 13,123	\$ 12,756	\$ 6,287
Restructured loans	340	374	378	259	197
90 day past due and accruing	7,231	6,623	5,692	6,995	6,011
<hr/>					
Non-performing loans	19,809	19,706	19,193	20,010	12,495
Other real estate owned	621	1,270	1,371	1,593	1,644
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Non-performing assets	\$ 20,430	\$ 20,976	\$ 20,564	\$ 21,603	\$ 14,139
<hr/>					
Charge-offs	\$ 2,721	\$ 2,213	\$ 2,558	\$ 1,116	\$ 1,625
Recoveries	139	201	360	176	248
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Net charge-offs	\$ 2,582	\$ 2,012	\$ 2,198	\$ 940	\$ 1,377
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Allowance for loan losses as a percent of period-end loans (%)	1.50	1.46	1.51	1.51	1.54
Net charge-offs (annualized) as a percent of average loans (%)	0.86	0.68	0.75	0.34	0.50
Non-performing loans as a percent of loans	1.65	1.62	1.64	1.73	1.14
Non-performing assets as a percent of assets	1.06	1.10	1.09	1.18	0.82

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(Dollars in thousands, except per share data)

	June 2003	March 2003	Dec. 2002	Sept. 2002	June 2002
Earnings:					
Net interest income	\$ 27,873	\$ 14,083	\$ 56,460	\$ 42,514	\$ 28,560
Provision for loan losses	5,028	2,173	6,159	3,809	2,236
Non-interest income	24,911	14,211	22,853	15,539	9,210
Security gains (losses)	51	51	592	659	(173)
Trading account losses	0	0	(20)	(20)	(20)
Non-interest expense	27,689	13,673	49,496	34,921	23,080
Federal income taxes	6,019	3,838	6,230	5,390	3,225
Net income	\$ 14,099	\$ 8,661	\$ 18,000	\$ 14,572	\$ 9,036
Per share:					
Basic earnings	1.48	0.90	1.82	1.47	0.91
Diluted earnings	1.46	0.89	1.79	1.45	0.90
Common dividends	0.38	0.19	0.72	0.54	0.36
Book value	14.81	14.36	13.97	14.14	13.71
Tangible book value	12.40	11.95	11.75	11.99	11.85
Market value	25.80	22.15	26.50	26.73	27.30
Weighted average shares outstanding:					
Basic	9,552,569	9,621,709	9,905,832	9,929,276	9,948,346
Diluted	9,645,041	9,715,561	10,040,001	10,051,077	10,071,366
Period end balance sheet:					
Assets	\$ 1,926,233	\$ 1,909,027	\$ 1,894,775	\$ 1,825,235	\$ 1,719,744
Securities	556,434	539,309	523,669	535,174	448,736
Total loans	1,199,630	1,215,481	1,167,791	1,153,581	1,092,398
Allowance for loan losses	18,030	17,756	17,595	17,443	16,810
Deposits	1,172,816	1,121,866	1,195,112	1,181,281	1,146,451
Total shareholders equity	140,215	136,369	136,334	139,682	136,293
Tier I capital	140,335	137,595	138,000	139,983	141,011
Tier I ratio	10.8%	10.5%	10.8%	10.7%	11.9%
Total capital	156,613	154,010	153,925	156,401	155,799
Total capital ratio	12.0%	11.7%	12.1%	11.9%	13.2%
Total risk-adjusted assets	1,300,512	1,311,849	1,272,335	1,312,414	1,181,029
Tier I leverage ratio	7.6%	7.5%	7.7%	8.4%	8.4%
Average balance sheet:					
Assets	\$ 1,889,360	\$ 1,869,524	\$ 1,754,156	\$ 1,730,190	\$ 1,709,483
Earning assets	1,770,363	1,750,900	1,642,907	1,619,420	1,600,096
Loans	1,187,513	1,177,617	1,121,777	1,105,135	1,103,611
Deposits	1,147,766	1,135,681	1,159,350	1,152,186	1,141,511
Shareholders equity	137,273	135,254	134,178	133,150	131,450
Key ratios: (%)					
Return on average assets (ROA)	1.49	1.85	1.03	1.12	1.06
	20.54	25.61	13.42	14.59	13.75

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Return on average shareholders' equity (ROE)					
Net interest margin	3.26	3.33	3.56	3.63	3.70
Net overhead	0.31	(0.12)	1.62	1.60	1.73
Efficiency ratio	51.48	47.48	60.81	58.57	59.44
Credit quality:					
Non-accrual loans	\$ 12,238	\$ 12,709	\$ 13,123	\$ 12,756	\$ 6,287
Restructured loans	340	374	378	259	197
90 day past due and accruing	7,231	6,623	5,692	6,995	6,011
<hr/>					
Non-performing loans	19,809	19,706	19,193	20,010	12,495
Other real estate owned	621	1,270	1,371	1,593	1,644
<hr/>					
Non-performing assets	\$ 20,430	\$ 20,976	\$ 20,564	\$ 21,603	\$ 14,139
<hr/>					
Charge-offs	\$ 4,934	\$ 2,213	\$ 6,584	\$ 4,026	\$ 2,910
Recoveries	340	201	1,325	965	789
<hr/>					
Net charge-offs	\$ 4,594	\$ 2,012	\$ 5,259	\$ 3,061	\$ 2,121
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Allowance for loan losses as a percent of period-end loans (%)	1.50	1.46	1.51	1.51	1.54
Net charge-offs (annualized) as a percent of average loans (%)	0.77	0.68	0.47	0.37	0.38
Non-performing loans as a percent of loans	1.65	1.62	1.64	1.73	1.14
Non-performing assets as a percent of assets	1.06	1.10	1.09	1.18	0.82

Table of Contents**Second Bancorp Incorporated and Subsidiaries****Consolidated Statements of Income****Quarterly Data**

(Dollars in thousands, except per share data)

	June 2003	March 2003	Dec. 2002	Sept. 2002	June 2002
INTEREST INCOME					
Loans (including fees):					
Taxable	\$ 18,814	\$ 18,605	\$ 19,637	\$ 19,598	\$ 19,965
Exempt from federal income taxes	206	211	219	227	233
Securities:					
Taxable	5,518	6,234	5,566	5,963	5,797
Exempt from federal income taxes	714	728	735	722	715
Federal funds sold and other temp. investments	136	123	154	324	394
Total interest income	25,388	25,901	26,311	26,834	27,104
INTEREST EXPENSE					
Deposits	5,563	5,779	6,771	7,526	7,429
Federal funds purchased and securities sold under agreements to repurchase	596	581	700	597	636
Note Payable	54	63	28	10	0
Other borrowed funds	3	3	14	10	2
Federal Home Loan Bank advances	4,649	4,659	4,119	4,003	3,901
Corporation-obligated mandatorily redeemable capital securities of subsidiary trust	733	733	733	734	733
Total interest expense	11,598	11,818	12,365	12,880	12,701
Net interest income	13,790	14,083	13,946	13,954	14,403
Provision for loan losses	2,855	2,173	2,350	1,573	1,303
Net interest income after provision for loan losses	10,935	11,910	11,596	12,381	13,100
NON-INTEREST INCOME					
Gain on sale of loans	6,310	4,342	5,462	2,421	1,709
Service charges on deposit accounts	1,555	1,527	1,587	1,505	1,411
Trust fees	563	609	637	596	696
Trading account losses	0	0	0	0	0
Security gains (losses)	0	51	(67)	832	0
Gain on sale of banking centers	0	5,619	0	0	0
Other operating income	2,272	2,114	(372)	1,807	237
Total non-interest income	10,700	14,262	7,247	7,161	4,053
NON-INTEREST EXPENSE					

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Salaries and employee benefits	7,642	7,604	7,217	6,494	6,325
Net occupancy	1,125	1,199	1,099	1,119	1,125
Equipment	1,059	1,039	742	931	1,023
Professional services	1,138	767	648	563	443
Assessment on deposits and other taxes	388	392	354	384	330
Amortization of intangible assets	112	118	144	110	111
Merger costs	0	0	10	124	0
Banking center reconfiguration	0	0	2,096	0	0
Other operating expenses	2,552	2,554	2,265	2,116	1,926
Total non-interest expense	14,016	13,673	14,575	11,841	11,283
Income before federal income taxes	7,619	12,499	4,268	7,701	5,870
Income tax expense	2,181	3,838	840	2,165	1,517
Income before accounting change	\$ 5,438	\$ 8,661	\$ 3,428	\$ 5,536	\$ 4,353
NET INCOME PER COMMON SHARE:					
Basic	\$ 0.57	\$ 0.90	\$ 0.35	\$ 0.56	\$ 0.44
Diluted	\$ 0.57	\$ 0.89	\$ 0.34	\$ 0.55	\$ 0.43
Weighted average common shares outstanding:					
Basic	9,468,639	9,621,709	9,835,995	9,876,844	9,958,928
Diluted	9,558,994	9,715,561	9,967,373	9,993,241	10,087,003
Note: Fully taxable equivalent adjustment	\$ 495	\$ 506	\$ 514	\$ 511	\$ 510

Table of Contents**Second Bancorp Incorporated and Subsidiaries****Consolidated Statements of Income****Year-to-Date Data**

(Dollars in thousands, except per share data)

	June 2003	March 2003	Dec. 2002	Sept. 2002	June 2002
INTEREST INCOME					
Loans (including fees):					
Taxable	\$ 37,419	\$ 18,605	\$ 79,671	\$ 60,034	\$ 40,436
Exempt from federal income taxes	417	211	922	703	476
Securities:					
Taxable	11,752	6,234	22,648	17,082	11,119
Exempt from federal income taxes	1,442	728	2,946	2,211	1,489
Federal funds sold and other temp. investments	259	123	1,085	931	607
Total interest income	51,289	25,901	107,272	80,961	54,127
INTEREST EXPENSE					
Deposits	11,342	5,779	29,400	22,629	15,103
Federal funds purchased and securities sold under agreements to repurchase	1,177	581	2,499	1,799	1,202
Note Payable	117	63	38	10	0
Other borrowed funds	6	3	42	28	18
Federal Home Loan Bank advances	9,308	4,659	15,900	11,781	7,778
Corporation-obligated mandatorily redeemable capital securities of subsidiary trust	1,466	733	2,933	2,200	1,466
Total interest expense	23,416	11,818	50,812	38,447	25,567
Net interest income	27,873	14,083	56,460	42,514	28,560
Provision for loan losses	5,028	2,173	6,159	3,809	2,236
Net interest income after provision for loan losses	22,845	11,910	50,301	38,705	26,324
NON-INTEREST INCOME					
Gain on sale of loans	10,652	4,342	11,136	5,674	3,253
Service charges on deposit accounts	3,082	1,527	5,823	4,236	2,731
Trust fees	1,172	609	2,715	2,078	1,482
Trading account losses	0	0	(20)	(20)	(20)
Security gains (losses)	51	51	592	659	(173)
Gain on sale of banking centers	5,619	5,619	0	0	0
Other operating income	4,386	2,114	3,179	3,551	1,744

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Total non-interest income	24,962	14,262	23,425	16,178	9,017
NON-INTEREST EXPENSE					
Salaries and employee benefits	15,246	7,604	26,345	19,128	12,634
Net occupancy	2,324	1,199	4,480	3,381	2,262
Equipment	2,098	1,039	3,898	3,156	2,225
Professional services	1,905	767	2,139	1,491	928
Assessment on deposits and other taxes	780	392	1,397	1,043	659
Amortization of intangible assets	230	118	475	331	221
Merger costs	0	0	134	124	0
Banking center reconfiguration	0	0	2,096	0	0
Other operating expenses	5,106	2,554	8,532	6,267	4,151
Total non-interest expense	27,689	13,673	49,496	34,921	23,080
Income before federal income taxes	20,118	12,499	24,230	19,962	12,261
Income tax expense	6,019	3,838	6,230	5,390	3,225
Net income	\$ 14,099	\$ 8,661	\$ 18,000	\$ 14,572	\$ 9,036
NET INCOME PER COMMON SHARE:					
Basic	\$ 1.48	\$ 0.90	\$ 1.82	\$ 1.47	\$ 0.91
Diluted	\$ 1.46	\$ 0.89	\$ 1.79	\$ 1.45	\$ 0.90
Weighted average common shares outstanding:					
Basic	9,552,569	9,621,709	9,905,832	9,929,276	9,948,346
Diluted	9,645,041	9,715,561	10,040,001	10,051,077	10,071,366
Note: Fully taxable equivalent adjustment	\$ 1,001	\$ 506	\$ 2,083	\$ 1,569	\$ 1,058

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Second Bancorp Incorporated and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands)

	June 30	March 31	Dec. 31	Sept. 30	June 30
	2003	2003	2002	2002	2002
ASSETS					