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 March 31, 2011

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 (State or other jurisdiction of incorporation or organization)	**36-3143493** (I.R.S. Employer Identification Number)
37 South River Street, Aurora, Illinois (Address of principal executive offices)	**60507** (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 o
Non-accelerated filer x (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 Rule 12b-2of the Exchange Act). 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 May 5, 2011, the Registrant had outstanding 14,034,991 shares of common stock, $1.00 par value per share.

Table of Contents

OLD SECOND BANCORP, INC.

Form 10-Q Quarterly Report

Table of Contents

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

	(Unaudited) March 31, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 35,905	$ 28,584
Interest bearing deposits with financial institutions	137,556	69,492
Federal funds sold	988	682
Cash and cash equivalents	174,449	98,758
Securities available-for-sale	142,225	148,647
Federal Home Loan Bank and Federal Reserve Bank stock	14,050	13,691
Loans held-for-sale	3,189	10,655
Loans	1,601,761	1,690,129
Less: allowance for loan losses	73,128	76,308
Net loans	1,528,633	1,613,821
Premises and equipment, net	53,650	54,640
Other real estate owned	85,570	75,613
Mortgage servicing rights, net	4,330	3,897
Core deposit and other intangible assets, net	5,296	5,525
Bank-owned life insurance (BOLI)	51,429	50,966
Other assets	52,585	47,708
Total assets	$ 2,115,406	$ 2,123,921
Liabilities		
Deposits:		
Noninterest bearing demand	$ 371,940	$ 330,846
Interest bearing:		
Savings, NOW, and money market	762,539	782,116
Time	767,870	795,566
Total deposits	1,902,349	1,908,528
Securities sold under repurchase agreements	1,878	2,018
Other short-term borrowings	4,579	4,141
Junior subordinated debentures	58,378	58,378
Subordinated debt	45,000	45,000
Notes payable and other borrowings	500	500
Other liabilities	22,536	21,398
Total liabilities	2,035,220	2,039,963
Stockholders Equity		
	70,151	69,921

Preferred stock, ($1.00 par value; authorized 300,000 shares at March 31, 2011; series B, 5% cumulative perpetual, 73,000 shares issued and outstanding at March 31, 2011 and December 31, 2010, $1,000.00 liquidation value)				
Common stock, $1.00 par value; authorized 60,000,000 shares; issued 18,627,858 at March 31, 2011 and 18,466,538 at December 31, 2010; outstanding 14,034,991 at March 31, 2011 and 13,911,475 at December 31, 2010		18,628		18,467
Additional paid-in capital		65,286		65,209
Retained earnings		24,056		28,335
Accumulated other comprehensive loss		(3,042)		(3,130)
Treasury stock, at cost, 4,592,867 shares at March 31, 2011 and 4,555,063 shares at December 31, 2010		(94,893)		(94,844)
Total stockholders equity		80,186		83,958
Total liabilities and stockholders equity	$	2,115,406	$	2,123,921

See accompanying notes to consolidated financial statements.

Table of Contents

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except share data)

	(Unaudited) Three Months Ended March 31, 2011	(Unaudited) Three Months Ended March 31, 2010
Interest and dividend income		
Loans, including fees	$ 20,869	$ 26,632
Loans held-for-sale	51	72
Securities:		
Taxable	878	1,238
Tax-exempt	142	745
Dividends from Federal Reserve Bank and Federal Home Loan Bank stock	69	56
Interest bearing deposits with financial institutions	70	16
Total interest and dividend income	22,079	28,759
Interest expense		
Savings, NOW, and money market deposits	576	1,385
Time deposits	3,993	5,097
Securities sold under repurchase agreements		10
Other short-term borrowings		18
Junior subordinated debentures	1,113	1,072
Subordinated debt	203	195
Notes payable and other borrowings	4	1
Total interest expense	5,889	7,778
Net interest and dividend income	16,190	20,981
Provision for loan losses	4,000	19,220
Net interest and dividend income after provision for loan losses	12,190	1,761
Noninterest income		
Trust income	1,784	1,657
Service charges on deposits	1,817	2,018
Secondary mortgage fees	227	223
Mortgage servicing income	370	163
Net gain on sales of mortgage loans	1,236	1,157
Securities gains (losses), net	139	(2)
Increase in cash surrender value of bank-owned life insurance	463	429
Debit card interchange income	700	663
Lease revenue from other real estate owned	520	518
Net gain on sale of other real estate owned	234	151
Other income	1,798	1,290
Total noninterest income	9,288	8,267
Noninterest expense		
Salaries and employee benefits	8,929	9,025
Occupancy expense, net	1,345	1,525
Furniture and equipment expense	1,460	1,639
FDIC insurance	1,739	1,428
General bank insurance	825	140
Amortization of core deposit and other intangible assets	229	282
Advertising expense	233	256
Debit card interchange expense	373	310
Legal fees	943	559

Other real estate expense		5,314		6,428
Other expense		3,208		3,157
Total noninterest expense		24,598		24,749
Loss before income taxes		(3,120)		(14,721)
Benefit for income taxes				(6,167)
Net loss		(3,120)		(8,554)
Preferred stock dividends and accretion of discount		1,159		1,128
Net loss available to common shareholders	$	(4,279)	$	(9,682)
Share and per share information:				
Ending number of shares		14,034,991		13,939,833
Average number of shares		13,973,870		13,916,650
Diluted average number of shares		14,213,701		14,197,223
Basic loss per share	$	(0.30)	$	(0.69)
Diluted loss per share		(0.30)		(0.69)
Dividends paid per share				0.01

See accompanying notes to consolidated financial statements.

Table of Contents

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	(Unaudited) Three Months Ended March 31, 2011	2010
Cash flows from operating activities		
Net loss	$ (3,120)	$ (8,554)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	1,083	1,177
Amortization of leasehold improvement	1	127
Change in market value on mortgage servicing rights	(62)	
Provision for loan losses	4,000	19,220
Provision for deferred tax expense		(2,232)
Originations of loans held-for-sale	(48,517)	(58,731)
Proceeds from sales of loans held-for-sale	56,889	62,235
Net gain on sales of mortgage loans	(1,236)	(1,157)
Change in current income taxes payable		(249)
Increase in cash surrender value of bank-owned life insurance	(463)	(429)
Change in accrued interest receivable and other assets	(5,157)	(77)
Change in accrued interest payable and other liabilities	513	619
Net premium amortization on securities	65	141
Securities (gains) losses, net	(139)	2
Amortization of core deposit and other intangible assets	229	282
Stock based compensation	238	6
Net gain on sale of other real estate owned	(234)	(151)
Write-down of other real estate owned	2,393	5,091
Net cash provided by operating activities	6,483	17,320
Cash flows from investing activities		
Proceeds from maturities and pre-refunds including pay down of securities available-for-sale	4,764	21,143
Proceeds from sales of securities available-for-sale	3,755	2,000
Purchases of securities available-for-sale	(2,000)	(5,000)
Purchases of Federal Reserve Bank and Federal Home Loan Bank stock	(359)	
Net change in loans	61,737	68,940
Investment in other real estate owned	(2,022)	(10)
Proceeds from sales of other real estate owned	9,357	4,253
Net purchases of premises and equipment	(94)	(192)
Net cash provided by investing activities	75,138	91,134
Cash flows from financing activities		
Net change in deposits	(6,179)	(41,815)
Net change in securities sold under repurchase agreements	(140)	2,945
Net change in other short-term borrowings	438	(50,608)
Dividends paid		(1,052)
Purchase of treasury stock	(49)	(40)
Net cash used in financing activities	(5,930)	(90,570)
Net change in cash and cash equivalents	75,691	17,884
Cash and cash equivalents at beginning of period	98,758	79,796

Cash and cash equivalents at end of period	$	174,449	$	97,680

Table of Contents

(In thousands)

	(Unaudited) Three Months Ended March 31, 2011	2010
Supplemental cash flow information		
Income taxes received	$	$ (3,460)
Interest paid for deposits	4,893	6,838
Interest paid for borrowings	1,320	1,319
Non-cash transfer of loans to other real estate	19,451	18,838
Change in dividends declared not paid	929	(454)
Accretion on preferred stock warrants	230	215

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 Loss	Treasury Stock	Total Stockholders Equity
Balance, December 31, 2009	$ 18,373	$ 69,039	$ 64,431	$ 141,774	$ (1,605)	$ (94,804)	$ 197,208
Comprehensive loss:							
Net loss				(8,554)			(8,554)
Change in net unrealized loss on securities available-for-sale, net of $191 tax effect					(311)		(311)
Total comprehensive loss							(8,865)
Dividends Declared, $.01 per share				(141)			(141)
Change in restricted stock	122		(122)				
Tax effect from vesting of restricted stock			(225)				(225)
Stock based compensation			231				231
Purchase of treasury stock						(40)	(40)
Preferred dividends declared (5% per preferred share)		215		(672)			(457)
Adoption of mark to market of mortgage servicing rights				29			29
Balance, March 31, 2010	$ 18,495	$ 69,254	$ 64,315	$ 132,436	$ (1,916)	$ (94,844)	$ 187,740

Balance, December 31, 2010	$ 18,467	$ 69,921	$ 65,209	$ 28,335	$ (3,130)	$ (94,844)	$ 83,958
Comprehensive loss:							
Net loss				(3,120)			(3,120)
Change in net unrealized loss on securities available-for-sale, net of $65 tax effect					88		88
Total comprehensive loss							(3,032)
Change in restricted stock	161		(161)				
Stock based compensation			238				238
Purchase of treasury stock						(49)	(49)
Preferred dividends declared (5% per preferred share)		230		(1,159)			(929)
Balance, March 31, 2011	$ 18,628	$ 70,151	$ 65,286	$ 24,056	$ (3,042)	$ (94,893)	$ 80,186

Table of Contents

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 March 31, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. 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, 2010. 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, 2010. 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.

In January 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-01 Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (Topic 310) . The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. ASU 2011-01 was effective upon issuance. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods beginning on or after June 15, 2011. Management does not expect this standard to have a material impact on the Company s financial statements.

In April 2011, the FASB issued ASU No. 2011-02, Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring. Because of inconsistencies in practice and the increased volume of debt modifications, ASU No. 2011-02, amends FASB Accounting Standard Codification (ASC) 310-40, Receivables - Troubled Debt Restructurings by Creditors , to provide additional clarifying guidance in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring qualifies as a troubled debt restructuring. The effective date is for the first interim or annual period beginning on or after June 15, 2011, to be applied retrospectively to restructurings taking place on or after the beginning of the fiscal year of adoption. The impact of ASU 2011-02 on the Company s disclosures will be reflected in Note 3 - Loans. Management does not expect this standard to have a material impact on the Company s financial statements.

Table of Contents

Note 2 Securities

Securities available-for-sale are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2011:				
U.S. Treasury	$ 1,501	$ 15	$	$ 1,516
U.S. government agencies	38,054	103	(658)	37,499
U.S. government agency mortgage-backed	72,497	1,062	(280)	73,279
States and political subdivisions	17,431	823	(127)	18,127
Collateralized debt obligations	17,864		(6,112)	11,752
Equity securities	49	5	(2)	52
	$ 147,396	$ 2,008	$ (7,179)	$ 142,225
December 31, 2010:				
U.S. Treasury	$ 1,501	$ 20	$	$ 1,521
U.S. government agencies	37,810	117	(501)	37,426
U.S. government agency mortgage-backed	75,257	1,475	(1)	76,731
States and political subdivisions	17,538	579	(263)	17,854
Collateralized mortgage obligations	3,817	179		3,996
Collateralized debt obligations	17,869		(6,796)	11,073
Equity securities	49	4	(7)	46
	$ 153,841	$ 2,374	$ (7,568)	$ 148,647

The fair value, amortized cost and weighted average yield of debt securities at March 31, 2011, by contractual maturity, were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, collateralized debt obligations and equity securities are shown separately:

	Amortized Cost	Weighted Average Yield	Fair Value
Due in one year or less	$ 4,337	3.03%	$ 4,363
Due after one year through five years	4,170	2.67%	4,327
Due after five years through ten years	41,624	3.30%	41,290
Due after ten years	6,855	4.73%	7,162
	$ 56,986	3.41%	$ 57,142
Mortgage-backed securities	72,497	3.30%	73,279
Collateralized debt obligations	17,864	1.65%	11,752
Equity securities	49	0.16%	52
	$ 147,396	3.14%	$ 142,225

The fair value, amortized cost and weighted average yield of debt securities at December 31, 2010 by contractual maturity, were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, collateralized mortgage obligations, collateralized debt obligations and equity securities are shown separately:

Table of Contents

	Amortized Cost	Weighted Average Yield	Fair Value
Due in one year or less	$ 6,103	2.34%	$ 6,128
Due after one year through five years	4,240	2.69%	4,421
Due after five years through ten years	39,627	3.19%	39,419
Due after ten years	6,879	4.73%	6,833
	$ 56,849	3.25%	$ 56,801
Mortgage-backed and collateralized mortgage obligations	79,074	3.53%	80,727
Collateralized debt obligations	17,869	1.62%	11,073
Equity securities	49	0.16%	46
	$ 153,841	3.20%	$ 148,647

At March 31, 2011, and December 31, 2010, there were no securities of any one issuer with a fair market value, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders equity.

Securities with unrealized losses at March 31, 2011, and December 31, 2010, 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		
March 31, 2011	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value
U.S. government agencies	5	$ 658	$ 24,408		$	$	5	$ 658	$ 24,408
U.S. government agency mortgage-backed	6	280	33,522				6	280	33,522
States and political subdivisions	2	72	1,078	1	55	559	3	127	1,637
Collateralized debt obligations				2	6,112	11,752	2	6,112	11,752
Equity securities	1	2	45				1	2	45
	14	$ 1,012	$ 59,053	3	$ 6,167	$ 12,311	17	$ 7,179	$ 71,364

	Less than 12 months in an unrealized loss position			Greater than 12 months in an unrealized loss position			Total		
December 31, 2010	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses	Fair Value
U.S. government agencies	6	$ 501	$ 26,309		$	$	6	$ 501	$ 26,309
U.S. government agency mortgage-backed	1	1	462				1	1	462
States and political subdivisions	3	182	3,323	1	81	533	4	263	3,856
Collateralized debt obligations				2	6,796	11,073	2	6,796	11,073
Equity securities				1	7	41	1	7	41
	10	$ 684	$ 30,094	4	$ 6,884	$ 11,647	14	$ 7,568	$ 41,741

The total number of security positions in the investment portfolio in an unrealized loss position at March 31, 2011, and December 31, 2010, was seventeen and fourteen, respectively. Recognition of other-than-temporary impairment was not necessary in the quarter ended March 31, 2011, or the year ended December 31, 2010. The changes in fair values related primarily 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 obligations increased in the period from December 31, 2010 to March 31, 2011. An increase in interest rates will generally cause a decrease in the fair value of individual securities while a decrease in interest 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 March 31, 2011, 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 these securities as level 3 securities at June 30, 2009 as described in

Table of Contents

Note 16 of this quarterly report and maintained that designation as of March 31, 2011. Management did not have the intent to sell the above securities and it is more likely than not the Company will not 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 Cost	Fair Value	Gross Unrealized Loss	S&P Credit Rating (1)	Number of Banks in Issuance	Issuance Deferrals & Defaults Amount	Issuance Deferrals & Defaults Collateral %	Issuance Excess Subordination Amount	Issuance Excess Subordination Collateral %
March 31, 2011									
Class A1	$ 9,213	$ 5,952	$ (3,261)	CCC+	63	$ 218,750	29.2%	$ 172,173	23.0%
Class A2A	8,651	5,800	(2,851)	CCC-	63	218,750	29.2%	75,173	10.0%
	$ 17,864	$ 11,752	$ (6,112)						
December 31, 2010									
Class A1	$ 9,241	$ 5,916	$ (3,325)	CCC+	63	$ 213,750	28.5%	$ 175,928	23.5%
Class A2A	8,628	5,157	(3,471)	CCC-	63	213,750	28.5%	78,928	10.5%
	$ 17,869	$ 11,073	$ (6,796)						

(1) Moody s credit rating for class A1 and A2A were Baa2 and Ba2, respectively, as of March 31, 2011, and December 31, 2010. The Fitch ratings for class A1 and A2A were BBB and B, respectively, as of March 31, 2011, and December 31, 2010

The model assumptions used to estimate fair value in the table above included estimated collateral default rates of 3.2%, 0.9%, and 0.7% in years 1, 2, and 3, respectively. Additionally, the estimated discount rates were Libor plus 5.25% for the A1 tranche and Libor plus 6.75% 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 $4.8 million and $9.3 million at March 31, 2011, and $4.4 million and $9.3 million at December 31, 2010, respectively. 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 FHLBC declared and paid a dividend in the first quarter of 2011. The Bank continues to periodically 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.

Table of Contents

Note 3 Loans

Major classifications of loans were as follows:

	March 31, 2011	December 31, 2010
Commercial (1)	$ 164,594	$ 173,884
Real estate - commercial	794,251	821,101
Real estate - construction	104,630	129,601
Real estate - residential	531,311	557,635
Consumer	4,753	5,104
Overdraft	372	739
Lease financing receivables	2,397	2,774
	$ 1,602,308	$ 1,690,838
Net deferred loan fees and costs	(547)	(709)
	$ 1,601,761	$ 1,690,129

(1) Includes $24.9 million and $24.3 million as of March 31, 2011 and December 31, 2011, respectively in loans with different credit quality indicators.

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 89.3% and 89.2% of the portfolio at March 31, 2011, and December 31, 2010, respectively. The Company is committed to overseeing and managing its loan portfolio to reduce its real estate credit concentrations in accordance with the requirements of the Memorandum of Understanding (MOU) between the Bank and the Office of the Comptroller of the Currency (the OCC). Consistent with that commitment, management has updated 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 a result of that process. Regulatory matters are discussed in more detail in Note 15 of the consolidated financial statements included in this report.

Table of Contents

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

March 31, 2011

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Nonaccrual	Total Financing Receivables	Recorded Investment 90 days or Greater Past Due and Accruing
Commercial	$ 429	$	$ 75	$ 504	$ 138,375	$ 3,019	$ 141,898	$ 75
Real estate - commercial								
Owner occupied general purpose	206	20		226	152,697	15,132	168,055	
Owner occupied special purpose	1,505	117		1,622	186,818	24,348	212,788	
Non-owner occupied general purpose					156,668	17,490	174,158	
Non-owner occupied special purpose					103,958	9,608	113,566	
Strip malls					61,488	22,664	84,152	
Farm					40,338	1,194	41,532	
Real estate - construction								
Homebuilder					10,468	24,044	34,512	
Land			267	267	11,727	10,176	22,170	267
Commercial speculative					12,123	14,179	26,302	
All other	49			49	16,355	5,242	21,646	
Real estate - residential								
Investor	2,243			2,243	193,470	14,726	210,439	
Owner occupied	6,424			6,424	130,876	15,041	152,341	
Revolving and junior liens	893	161		1,054	165,588	1,889	168,531	
Consumer	24	115		139	4,455	5	4,599	
All other					25,072		25,072	
	$ 11,773	$ 413	$ 342	$ 12,528	$ 1,410,476	$ 178,757	$ 1,601,761	$ 342

December 31, 2010

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Nonaccrual	Total Financing Receivables	Recorded Investment 90 days or Greater Past Due and Accruing
Commercial	$ 375	$ 391	$ 216	$ 982	$ 147,676	$ 3,668	$ 152,326	$ 216
Real estate - commercial								
Owner occupied general purpose	1,156	2		1,158	158,189	18,610	177,957	
Owner occupied special purpose	897		328	1,225	181,845	25,987	209,057	328
Non-owner occupied general purpose	884	499		1,383	148,406	25,623	175,412	
Non-owner occupied special purpose					104,791	11,612	116,403	

Strip malls					74,564	24,374	98,938	
Farm	148	999		1,147	41,446	741	43,334	
Real estate - construction								
Homebuilder	217			217	14,676	22,001	36,894	
Land		586		586	12,324	20,617	33,527	
Commercial speculative					21,603	14,881	36,484	
All other	65	73		138	16,545	6,013	22,696	
Real estate - residential								
Investor	2,221		469	2,690	200,011	21,223	223,924	469
Owner occupied	4,450	656		5,106	139,457	15,309	159,872	
Revolving and junior liens	284	6		290	171,990	1,559	173,839	
Consumer	9	2		11	4,931	7	4,949	
All other					24,517		24,517	
	$ 10,706	$ 3,214	$ 1,013	$ 14,933	$ 1,462,971	$ 212,225	$ 1,690,129	$ 1,013

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Credit Quality Indicators:

The Company categorizes loans into credit risk categories based on current financial information, overall debt service coverage, comparisons against industry averages, historical payment experience, and current economic trends, among other factors. The Company examines each loan and loan relationship with an outstanding balance or commitment greater than $50,000, excluding homogeneous loans such as HELOC s 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:

12

Table of Contents

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 or of the institution s credit position 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 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.

Table of Contents

Credit Quality Indicators by class of loans were as follows:

March 31, 2011

	Pass	Special Mention	Substandard (1)	Doubtfull	Total
Commercial	$ 120,798	$ 3,616	$ 17,484	$	$ 141,898
Real estate - commercial					
Owner occupied general purpose	121,800	8,099	38,156		168,055
Owner occupied special purpose	146,161	12,640	53,987		212,788
Non-owner occupied general purpose	122,276	13,496	38,386		174,158
Non-owner occupied special purpose	90,976		22,590		113,566
Strip malls	35,186	11,654	37,313		84,153
Farm	28,752		12,780		41,532
Real estate - construction					
Homebuilder	7,361	2,204	24,947		34,512
Land	7,804	3,036	11,330		22,170
Commercial speculative	6,578	567	19,157		26,302
All other	14,334	307	7,004		21,645
Real estate - residential					
Investor	153,904	17,793	38,743		210,440
Owner occupied	127,716	432	24,193		152,341
Revolving and junior leins	162,803	947	4,781		168,531
Consumer	4,583		15		4,598
All other	24,937	135			25,072
Total	$ 1,175,969	$ 74,926	$ 350,866	$	$ 1,601,761

December 31, 2010

	Pass	Special Mention	Substandard (1)	Doubtfull	Total
Commercial	$ 130,564	$ 4,122	$ 17,640	$	$ 152,326
Real estate - commercial					
Owner occupied general purpose	127,527	6,633	43,797		177,957
Owner occupied special purpose	143,165	9,762	56,130		209,057
Non-owner occupied general purpose	126,316	5,414	43,682		175,412
Non-owner occupied special purpose	91,737		24,666		116,403
Strip malls	48,661	8,304	41,973		98,938
Farm	30,812		12,522		43,334
Real estate - construction					
Homebuilder	6,470	2,780	27,644		36,894
Land	9,327	3,036	21,164		33,527
Commercial speculative	15,937	567	19,980		36,484
All other	15,024		7,672		22,696
Real estate - residential					
Investor	166,465	15,487	41,972		223,924
Owner occupied	132,833	545	26,494		159,872
Revolving and junior leins	168,596	599	4,644		173,839

Consumer	4,793	62	94		4,949
All other	24,376	141			24,517
Total	$ 1,242,603	$ 57,452	$ 390,074	$	$ 1,690,129

(1) The substandard credit quality indicator includes both potential problem loans that are currently performing and nonperforming loans

Table of Contents

Impaired loans by class of loan as of March 31, 2011, were as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Quarter Ended March 31, 2011 Average Recorded Investment	Quarter Ended March 31, 2011 Interest Income Recognized
With no related allowance recorded					
Commercial	$ 2,307	$ 2,646	$	$ 1,169	$
Commercial real estate					
Owner occupied general purpose	10,741	16,548		8,623	
Owner occupied special purpose	20,602	27,522		15,658	
Non-owner occupied general purpose	9,753	10,795		10,385	32
Non-owner occupied special purpose	1,846	1,850		2,796	5
Strip malls	5,023	5,037		7,635	
Farm	1,194	1,316		968	
Construction					
Homebuilder	15,978	26,659		18,194	29
Land	4,264	15,479		6,918	
Commercial speculative	4,794	17,270		7,252	
All other	5,177	7,225		5,413	
Residential					
Investor	4,268	4,895		8,238	
Owner occupied	14,207	15,583		14,716	78
Revolving and junior leins	1,038	1,153		1,006	
Consumer	5	6		6	
Total impaired loans with no recorded allowance	101,197	153,984		108,977	144
With an allowance recorded					
Commercial	712	776	671	2,174	
Commercial real estate					
Owner occupied general purpose	4,391	4,693	1,657	8,248	
Owner occupied special purpose	3,746	3,996	725	9,510	
Non-owner occupied general purpose	10,423	13,119	4,161	12,515	
Non-owner occupied special purpose	8,209	8,617	1,402	8,262	
Strip malls	17,640	19,879	1,988	15,884	
Farm					
Construction					
Homebuilder	10,285	15,170	2,613	8,189	
Land	5,912	5,972	872	8,479	
Commercial speculative	9,385	17,042	1,758	7,278	
All other	66	200	17	216	
Residential					
Investor	10,972	12,058	2,282	10,252	5
Owner occupied	8,877	9,613	1,445	9,568	34
Revolving and junior leins	851	860	418	718	
Consumer					
Total impaired loans with a recorded allowance	91,469	111,995	20,009	101,293	39
Total impaired loans	$ 192,666	$ 265,979	$ 20,009	$ 210,270	$ 183

Table of Contents

Impaired loans by class of loan as of December 31, 2010 were as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Commercial	$ 31	$ 994	$
Commercial real estate			
Owner occupied general purpose	6,505	7,238	
Owner occupied special purpose	10,713	12,935	
Non-owner occupied general purpose	11,017	15,030	
Non-owner occupied special purpose	3,745	6,621	
Strip malls	10,247	15,354	
Farm	741	862	
Construction			
Homebuilder	20,409	34,569	
Land	9,572	20,234	
Commercial speculative	9,710	26,650	
All other	5,648	8,227	
Residential			
Investor	12,207	16,750	
Owner occupied	15,224	16,749	
Revolving and junior leins	973	1,010	
Consumer	7	14	
Total impaired loans with no recorded allowance	116,749	183,237	
With an allowance recorded			
Commercial	3,635	3,671	1,349
Commercial real estate			
Owner occupied general purpose	12,105	14,912	1,742
Owner occupied special purpose	15,274	18,886	3,933
Non-owner occupied general purpose	14,606	16,946	6,063
Non-owner occupied special purpose	8,315	8,615	1,560
Strip malls	14,127	15,215	1,769
Farm			
Construction			
Homebuilder	6,093	9,291	1,020
Land	11,045	11,523	978
Commercial speculative	5,171	8,363	1,674
All other	366	502	25
Residential			
Investor	9,532	10,441	1,520
Owner occupied	10,259	10,589	1,096
Revolving and junior leins	585	664	258
Consumer			
Total impaired loans with a recorded allowance	111,113	129,618	22,987
Total impaired loans	$ 227,862	$ 312,855	$ 22,987

Table of Contents

Note 4 Allowance for Loan Losses

Changes in the allowance for loan losses by segment of loans for the three months ending March 31 are summarized as follows:

	2011	2010
Allowance at beginning of year	$ 76,308	$ 64,540
Charge-offs:		
Commercial	145	1,231
Real estate - commercial	5,694	3,536
Real estate - construction	1,970	11,534
Real estate - residential	1,164	2,268
Consumer other loans	114	97
Total charge-offs	9,087	18,666
Recoveries:		
Commercial	32	164
Real estate - commercial	577	
Real estate - construction	15	1,387
Real estate - residential	1,168	79
Consumer other loans	115	89
Total recoveries	1,907	1,719
Net charge-offs	7,180	16,947
Provision for loan losses	4,000	19,220
Allowance at end of year	$ 73,128	$ 66,813

Changes in the allowance for loan losses by segment of loans based on method of impairment for the quarter ended March 31, 2011, were as follows:

	Commercial	Real Estate Commercial(1)	Real Estate Construction	Real Estate Residential	Consumer	Unallocated	Total
Allowance for credit losses:							
Beginning balance	$ 6,764	$ 42,242	$ 18,344	$ 6,999	$ 880	$ 1,079	$ 76,308
Charge-offs	145	5,694	1,970	1,164	114		9,087
Recoveries	32	577	15	1,168	115		1,907
Provision	(1,041)	6,709	(3,058)	1,407	(19)	2	4,000
Ending balance	$ 5,610	$ 43,834	$ 13,331	$ 8,410	$ 862	$ 1,081	$ 73,128
Ending balance: Individually evaluated for impairment	$ 671	$ 9,933	$ 5,260	$ 4,145	$	$	$ 20,009
Ending balance: Collectively evaluated for impairment	$ 4,939	$ 33,901	$ 8,071	$ 4,265	$ 862	$ 1,081	$ 53,119
Financing receivables:							
Ending balance	$ 141,898	$ 794,251	$ 104,630	$ 531,311	$ 4,599	$ 25,072	$ 1,601,761
Ending balance: Individually evaluated for impairment	$ 3,019	$ 93,568	$ 55,861	$ 40,213	$ 5	$	$ 192,666

Ending balance: Collectively evaluated for impairment	$	138,879	$	700,683	$	48,769	$	491,098	$	4,594	$	25,072	$	1,409,095

(1) As of March 31, 2011, this segment consisted of performing loans that included a higher risk pool of loans rated as substandard that totaled $119.3 million. The amount of general allocation that was estimated for that portion of these performing substandard rated loans was $19.1 million at March 31, 2011.

Table of Contents

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 March 31, 2011	Three Months Ended March 31, 2010
Balance at beginning of period	$ 75,613	$ 40,200
Property additions	19,451	18,838
Development improvements	2,022	10
Less:		
Property disposals	9,123	4,102
Period valuation adjustments	2,393	5,091
Balance at end of period	$ 85,570	$ 49,855

Table of Contents

Activity in the valuation allowance was as follows:

	Three Months Ended March 31,	
	2011	2010
Balance at beginning of period	$ 22,220	$ 5,668
Provision for unrealized losses	2,325	5,091
Write-downs taken on sales	(2,730)	(1,183)
Other adjustments	68	
Balance at end of period	$ 21,883	$ 9,576

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

	Three Months Ended March 31,	
	2011	2010
Gain on sales, net	$ (234)	$ (151)
Provision for unrealized losses	2,325	5,091
Operating expenses	2,989	1,337
Less:		
Lease revenue	520	518
	$ 4,560	$ 5,759

Note 6 Intangible Assets

Management performed a periodic review of the core deposit and other intangible assets for impairment. Based upon these reviews, management determined there was no impairment of the core deposit and other intangible assets as of March 31, 2011. No assurance can be given that future impairment tests will not result in a charge to earnings.

The following table presents the estimated future amortization expense for core deposit and other intangibles as of March 31, 2011, for periods ended December 31 (in thousands):

	Amount
2011 (Nine months ended December 31, 2011)	$ 618
2012	780
2013	732
2014	679
2015	623
Thereafter	1,864
Total	$ 5,296

Table of Contents

Note 7 Mortgage Servicing Rights

Changes in capitalized mortgage servicing rights as of March 31, are summarized as follows:

	2011	2010
Balance at beginning of period	$ 3,897	$ 2,470
Fair value adjustment		9
Additions	371	417
Mark to market	62	(75)
Balance at end of period	4,330	2,821
Changes in the valuation allowance for servicing assets were as follows:		
Balance at beginning of period		(20)
Fair value adjustment		20
Provisions for impairment		
Recovery credited to expense		
Balance at end of period		
Net balance	$ 4,330	$ 2,821

The Company adopted ASC Topic 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 8 Deposits

Major classifications of deposits were as follows:

	March 31, 2011	December 31, 2010
Noninterest bearing demand	$ 371,940	$ 330,846
Savings	193,141	180,127
NOW accounts	266,103	304,287

Money market accounts		303,295		297,702
Certificates of deposit of less than $100,000		475,209		491,234
Certificates of deposit of $100,000 or more		292,661		304,332
	$	1,902,349	$	1,908,528

Table of Contents

Note 9 Borrowings

The following table is a summary of borrowings as of March 31, 2011, and December 31, 2010, and junior subordinated debentures are discussed in detail in Note 10:

	March 31, 2011		December 31, 2010	
Securities sold under repurchase agreements	$	1,878	$	2,018
Treasury tax and loan		4,579		4,141
Junior subordinated debentures		58,378		58,378
Subordinated debt		45,000		45,000
Notes payable and other borrowings		500		500
	$	110,335	$	110,037

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 were secured by securities with a carrying amount of $3.3 and $3.7 million at March 31, 2011, and December 31, 2010, respectively. The securities sold under agreements to repurchase consisted of U.S. government agencies and mortgage-backed securities during the two-year reporting period.

The Company s borrowings at the FHLBC require 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. As of March 31, 2011, there were no advances on the FHLBC stock of $9.3 million and collateralized loan balance of $60.0 million. At December 31, 2010, there were also no advances on the FHLBC stock of $9.3 million and loans totaling $29.3 million. The Company has also established borrowing capacity at the FRB that was not used at either March 31, 2011, or December 31, 2010. The Company currently has $77.7 million of borrowing capacity at the FRB at the current secondary rate of 1.25%.

The Bank is a Treasury Tax & Loan (TT&L) depository for the FRB and, as such, accepts 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 March 31, 2011, and December 31, 2010, TT&L deposits were $4.6 million and $4.1 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). That credit facility, which began in January 2008, 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 portions 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, based on 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 Bank, 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 the end of both December 31, 2010 and March 31, 2011. 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

Table of Contents

described therein. The agreement also contains certain customary representations and warranties and financial and negative covenants. At March 31, 2011, 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, the lender may (i) terminate all commitments to extend further credit, (ii) increase the interest rate on the revolving line and 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.

Note 10 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 may 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. When not in deferral, cash 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 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 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.

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 TARP Preferred Stock as discussed in Note 19. 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 will defer regularly scheduled dividends on the trust preferred securities. Both of the debentures issued by the Company 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. The total accumulated unpaid interest on the junior subordinated debentures including compounded interest from July 1, 2010 on the deferred payments total $3.4 million at March 31, 2011.

Table of Contents

Note 11: 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, non-qualified stock options, restricted stock, restricted stock units, and stock appreciation rights. Total shares issuable under the plan were 15,911 at March 31, 2011. Stock based awards may be granted to selected directors and officers or employees at the discretion of the board of directors. There were no stock options granted in the first quarter of 2011 or 2010. All stock options are granted for a term of ten years.

Vesting of stock options granted in 2004 and prior years was accelerated to immediately vest all options as of December 20, 2005. Options granted in 2005 were immediately vested and options granted subsequent to 2006 vest over three years. Generally, restricted stock and restricted stock units vest three years from the grant date, but the Company s Board of Directors have discretionary authority to change some terms including the amount of time until vest date. Awards under the Incentive Plan become fully vested upon a merger or change in control of the Company.

Total compensation cost that has been charged for those plans was $238,000 in the first quarter of 2011 and $231,000 in the first quarter of 2010. The total income tax benefit was $81,000 in the first quarter of 2010.

There were no stock options exercised during the first quarter of 2011 or 2010 and the Company did not grant any options of the Company s common stock during either of those periods. Total unrecognized compensation cost related to nonvested stock options granted under the Incentive Plan is $6,000 as of March 31, 2011, and is expected to be recognized over a weighted-average period of 0.83 years. Total unrecognized compensation cost related to nonvested stock options granted under the Incentive Plan was $140,000 as of March 31, 2010, and was expected to be recognized over a weighted-average period of 0.67 years.

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

March 31, 2011	**Shares**	**Weighted Average Exercise Price**	**Weighted-Average Remaining Contractual Term (years)**	**Aggregate Intrinsic Value**
Beginning outstanding	614,832	$ 25.81		
Canceled	(14,000)	28.84		
Ending outstanding	600,832	$ 25.74	3.9	$
Exercisable at end of quarter	596,832	$ 25.86	3.8	$

March 31, 2010	**Shares**	**Weighted Average Exercise Price**	**Weighted-Average Remaining Contractual Term**	**Aggregate Intrinsic Value**

Beginning outstanding	683,666	$	24.29		
Ending outstanding	683,666	$	24.29	4.5	$
Exercisable at end of quarter	644,668	$	24.37	4.3	$

Table of Contents

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

	2011		
	Shares		Weighted Average Grant Date Fair Value
Nonvested at January 1	8,000	$	2.01
Vested	(4,000)		2.01
Nonvested at March 31	4,000		2.01

Under the incentive plan, restricted stock was granted beginning in 2005 and the grant of restricted units began in February 2009. Both of these restricted awards have voting and dividend rights and are subject to forfeiture until certain restrictions have lapsed including employment for a specific period. Both restricted stock and restricted units were granted in 2010 and both are redeemable in common stock at the time of vesting. There were 141,320 restricted awards issued during the first quarter of 2011 and 341,200 restricted awards issued during the first quarter of 2010. 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 non-vested restricted awards is as follows:

	March 31, 2011			March 31, 2010		
	Shares		Weighted Average Grant Date Fair Value	Shares		Weighted Average Grant Date Fair Value
Nonvested at January 1	464,298	$	6.76	179,178	$	12.95
Granted	141,320		1.06	211,200		7.00
Vested	(98,770)		10.71	(21,663)		29.20
Forfeited	(38,938)		4.54			
Nonvested at March 31	467,910	$	4.39	368,715	$	8.59

Total unrecognized compensation cost of restricted awards is $1.3 million as of March 31, 2011, which is expected to be recognized over a weighted-average period of 1.33 years. Total unrecognized compensation cost of restricted awards was $2.2 million as of March 31, 2010, which was expected to be recognized over a weighted-average period of 3.16 years.

Table of Contents

Note 12 Loss Per Share

Loss per share is included below as of March 31 (in thousands except for share data):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Basic loss per share:		
Weighted-average common shares outstanding	13,973,870	13,916,650
Weighted-average common shares less stock based awards	13,769,856	13,707,907
Weighted-average common shares stock based awards	443,845	366,368
Net loss	$ (3,120)	$ (8,554)
Dividends on preferred shares	1,159	1,128
Net loss available to common shareholders	(4,279)	(9,682)
Common stock dividends		(137)
Nonvested share-based payment awards		(4)
Undistributed loss	(4,279)	(9,823)
Basic loss per share common undistributed earnings	(0.30)	(0.70)
Basic loss per share common distributed earnings		0.01
Basic loss per share	$ (0.30)	$ (0.69)
Diluted loss per share:		
Weighted-average common shares outstanding	13,973,870	13,916,650
Dilutive effect of restricted shares(1)	239,831	280,573
Dilutive effect of stock options		
Diluted average common shares outstanding	14,213,701	14,197,223
Net loss available to common stockholders	$ (4,279)	$ (9,682)
Diluted loss per share	$ (0.30)	$ (0.69)
Number of antidilutive options excluded from the diluted loss per share calculation	1,416,171	1,577,000

(1) Includes the common stock equivalents for restricted share rights that are dilutive.

The above (loss) earnings per share calculation did not include 815,339 common stock warrants that were outstanding as of March 31, 2011.

Table of Contents

Note 13 Other Comprehensive Income (Loss)

The following table summarizes the related income tax effect for the components of Other Comprehensive Income (Loss) as of March 31:

	Three Months Ended March 31,	
	2011	2010
Net loss available to common stockholders	$ (4,279)	$ (9,682)
Unrealized holding gains (losses) on available-for-sale securities arising during the period		
U.S. Treasury	$ (5)	$ (13)
U.S. government agencies	(171)	14
U.S. government agency mortgage-backed	(692)	172
States and political subdivisions	380	(159)
Collateralized mortgage obligations	(40)	(89)
Collateralized debt obligations	684	(426)
Equity securities	6	(3)
Total unrealized holding gains (losses) on available-for-sale securities arising during the period	$ 162	$ (504)
Related tax benefit	8(1)	192
Holding income (losses) after tax	170	(312)
Less: Reclassification adjustment for the net gains and losses realized during the period		
Realized gains (losses) by security type:		
U.S. government agencies	$	$ (2)
Collateralized mortgage obligations	139	
Net realized gain (losses)	139	(2)
Income tax (expense) benefit on net realized gains	(57)	1
Net realized gain (losses) after tax	82	(1)
Total other comprehensive income (loss)	$ 88	$ (311)

(1) Tax benefit was recorded due to the change in state statutory income tax rates, net of unrealized gains in the investment portfolio.

Note 14 Retirement Plans

The Company maintains tax-qualified contributory and non-contributory profit sharing plans covering substantially all full-time and regular part-time employees. The expense of these plans was $161,000 and $228,000 in the first three months of 2011 and 2010, respectively. The Company eliminated the profit sharing contribution and lowered the amount of the 401(K) match beginning in second quarter of 2009.

Note 15 - Regulatory & Capital Matters

On October 20, 2009, the Bank entered into a MOU with the OCC, in which the Bank agreed, among other things, to: (i) implement a variety of programs and policies to reduce its level of credit risk, including a policy to address certain concentrations of credit; and (ii) limit its amount of brokered deposits to 4.50% of total deposits, unless the prior written consent of the OCC is granted to exceed such level. In addition to the MOU, the Bank also agreed with the OCC to maintain regulatory capital ratios at levels in excess of the general minimums required to be considered well capitalized under applicable OCC regulations. Specifically, the Bank s Board of Directors agreed to achieve a minimum Tier 1 capital to adjusted total assets ratio of 8.75% and a minimum total risk-based capital to total risk-weighted assets

Table of Contents

ratio of 11.25% by December 31, 2009, and to maintain such minimum ratios thereafter. The Bank achieved these heightened regulatory capital ratios by December 31, 2009 and remained in compliance with them through March 31, 2010. However, at March 31, 2011, these regulatory capital ratios were 8.64% and 11.97%, respectively, and therefore the Bank was not in compliance with the required ratio of Tier 1 capital to adjusted total assets. As a result of the Bank s continuing financial difficulties and heightened levels of nonperforming loans, as well as the Bank s failure to be in full compliance with the agreed-upon capital ratios management expects that the OCC will replace the current MOU with a formal regulatory enforcement action.

The Company, on a consolidated basis, is considered adequately capitalized under regulatory defined capital ratios at March 31, 2011. While the Bank exceeded the general minimum regulatory requirements to be considered well capitalized , it was not in full compliance with heightened capital ratios that it has agreed to maintain with the OCC.

The Company and the Bank are subject to regulatory capital requirements administered by federal banking agencies. Those agencies define the basis for these calculations including the prescribed methodology for the calculation of the amount of risk-weighted assets. The risk based capital guidelines were designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks. The guidelines assess balance sheet and off-balance sheet exposures, and lessen disincentives for holding liquid assets. Under the regulations, assets and off-balance sheet items are assigned to risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors, and regulators can lower classifications in certain areas and/or require additional capital above adequacy guidelines. Failure to meet various capital requirements can initiate regulatory action that could have a direct material adverse effect on the financial statements. The prompt corrective action regulations provide five classifications for banks, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. Generally, if adequately capitalized, regulatory approval is not required to accept brokered deposits, however, the Bank is limited in the amount of brokered deposits that it can hold pursuant to the MOU. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required. Management can also hold higher capital levels consistent with customized risk assessments.

Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve Capital guidelines. The general bank and holding company capital adequacy guidelines are described in the accompanying table, as are the capital ratios of the Company and the Bank, as of March 31, 2011, and December 31, 2010. These ratios are calculated on a consistent basis with the ratios disclosed in the most recent filings with the regulatory agencies.

Table of Contents

Capital levels and industry defined regulatory minimum required levels:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to Be Well Capitalized (1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2011:						
Total capital to risk weighted assets						
Consolidated	$ 198,980	11.65%	$ 136,639	8.00%	N/A	N/A
Old Second National Bank	204,871	11.97	136,923	8.00	$ 171,154	10.00%
Tier 1 capital to risk weighted assets						
Consolidated	103,113	6.04	68,287	4.00	N/A	N/A
Old Second National Bank	182,843	10.68	68,481	4.00	102,721	6.00
Tier 1 capital to average assets						
Consolidated	103,113	4.88	84,519	4.00	N/A	N/A
Old Second National Bank	182,843	8.64	84,650	4.00	105,812	5.00
December 31, 2010:						
Total capital to risk weighted assets						
Consolidated	$ 203,602	11.46%	$ 142,131	8.00%	N/A	N/A
Old Second National Bank	207,007	11.63	142,395	8.00	$ 177,994	10.00%
Tier 1 capital to risk weighted assets						
Consolidated	108,138	6.09	71,027	4.00	N/A	N/A
Old Second National Bank	184,098	10.34	71,218	4.00	106,827	6.00
Tier 1 capital to average assets						
Consolidated	108,138	4.74	91,256	4.00	N/A	N/A
Old Second National Bank	184,098	8.10	90,913	4.00	113,641	5.00

(1) While the Bank exceeded the general minimum regulatory requirements to be considered well capitalized, it was not in full compliance with the heightened capital ratios that it has agreed to maintain with the OCC.

The Company s credit facility with Bank of America includes $45.0 million in subordinated debt. That debt obligation continues to qualify as Tier 2 regulatory capital. In addition, the trust preferred securities continue to qualify as Tier 1 regulatory capital, and the Company treats the maximum amount of this security type allowable under regulatory guidelines as Tier 1 capital. As of March 31, 2011, Trust preferred proceeds of $27.7 million qualified as Tier 1 regulatory capital and $28.9 million qualified as Tier 2 regulatory capital. As of December 31, 2010, Trust preferred proceeds of $29.0 million qualified as Tier 1 regulatory capital and $27.6 million qualified as Tier 2 regulatory capital.

Dividend Restrictions and Deferrals

In addition to the above requirements, banking regulations and capital guidelines generally limit the amount of dividends that may be paid by a Bank without prior regulatory approval. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year s profits, combined with the retained profit of the previous two years, subject to the capital requirements described above. As a result of the December 31, 2009 operating loss, funds were no longer available for the payment of dividends by the Bank to the Company and this restriction continued at March 31, 2011.

As discussed in Note 10, as of March 31, 2011, the Company had $58.4 million of junior subordinated debentures held by two statutory business trusts that it controls. The Company has the right to defer interest payments, which are approximately $4.3 million each year, on the debentures for a period of up to 20 consecutive quarters, and elected to begin such a deferral period in August 2010. However, all deferred interest must be paid before the Company may pay dividends on its capital stock. Therefore, the Company will not be able to pay dividends on its common stock until all deferred interest on these

Table of Contents

debentures has been paid in full. The total amount of such deferred and unpaid interest as of March 31, 2011, was $3.4 million.

Furthermore, as with the debentures discussed above, the Company is prohibited from paying dividends on its common stock unless it has fully paid all accrued dividends on its Series B Fixed Rate Cumulative Perpetual Preferred Stock. In August 2010, it also began to defer the payment of dividends on such preferred stock. Therefore, in addition to paying all the accrued and unpaid distributions on the debentures set forth above, the Company must also fully pay the Treasury all accrued and unpaid dividends on the senior preferred stock before it may reinstate the payment of dividends on the common stock. The total amount deferred preferred stock dividends as of March 31, 2011, was $2.3 million. Moreover, even should all accrued payments be paid in full, the Company may not increase the dividends payable on its common stock beyond the level that it had most recently declared prior to Treasury s investment until January of 2012 without the consent of Treasury, provided Treasury still holds the preferred stock.

Further detail on the subordinated debentures, the Series B Fixed Rate Cumulative Perpetual Preferred Stock and the deferral of interest and dividends thereon is described in Notes 10 and 19.

Note 16 Fair Value Option and Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy established also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company uses the following methods and significant assumptions to estimate fair value:

- Securities available-for-sale are valued primarily by a third party pricing agent and both the market and income valuation approaches are implemented using the following types of inputs:

- U.S. treasuries are priced using the market approach and utilizing live data feeds from active market exchanges for identical securities.

- Government-sponsored agency debt securities are primarily priced using available market information through processes such as benchmark curves, market valuations of like securities, sector groupings and matrix pricing.

- Other government-sponsored agency securities, mortgage-backed securities and some of the actively traded REMICs and CMOs are primarily priced using available market information including benchmark yields, prepayment speeds, spreads and volatility of similar securities.

- Other inactive government-sponsored agency securities are primarily priced using consensus pricing and dealer quotes.

- State and political subdivisions are largely grouped by characteristics, i.e., geographical data and source of revenue in trade dissemination systems. Because some securities are not traded daily and due to other grouping limitations, active market quotes are often obtained using benchmarking for like securities and could be valued with level 3 measurements.

Table of Contents

- Collateralized debt obligations are collateralized by trust preferred security issuances of other financial institutions. Uncertainty in the financial markets in the periods presented has resulted in reduced liquidity for these investment securities, which continued to affect market pricing in the period presented. To reflect an appropriate fair value measurement, management included a risk premium adjustment to provide an estimate of the amount that a market participant would demand because of uncertainty in cash flows in the discounted cash flow analysis. Management initially made that adjustment to Level 3 valuation at June 30, 2009 because the level of market activity for CDO securities continued to decrease and information on orderly sale transactions were not generally available.

- Marketable equity securities are priced using available market information.

- Residential mortgage loans eligible for sale in the secondary market are carried at fair market value. The fair value of loans held for sale is determined using quoted secondary market prices.

- Lending related commitments to fund certain residential mortgage loans (interest rate locks) to be sold in the secondary market and forward commitments for the future delivery of mortgage loans to third party investors as well as forward commitments for future delivery of mortgage-backed securities are considered derivatives. Fair values are estimated based on observable changes in mortgage interest rates including mortgage-backed securities prices from the date of the commitment and do not typically involve significant judgments by management.

- The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income to derive the resultant value. The Company is able to compare the valuation model inputs, such as the discount rate, prepayment speeds, weighted average delinquency and foreclosure/bankruptcy rates to widely available published industry data for reasonableness.

- Interest rate swap positions, both assets and liabilities, are based on a valuation pricing models using an income approach based upon readily observable market parameters such as interest rate yield curves.

- Both the credit valuation reserve on current interest rate swap positions and on receivables related to unwound customer interest rate swap positions was determined based upon management s estimate of the amount of credit risk exposure, including available collateral protection and/or by utilizing an estimate related to a probability of default as indicated in the Bank credit policy. Such adjustments would result in a Level 3 classification.

- The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

- Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as OREO are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Table of Contents

Assets and Liabilities Measured at Fair Value on a Recurring Basis:

The tables below present the balance of assets and liabilities at March 31, 2011, and December 31, 2010, respectively, which are measured by the Company at fair value on a recurring basis:

	March 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale				
U.S. Treasury	$ 1,516	$	$	$ 1,516
U.S. government agencies		37,499		37,499
U.S. government agency mortgage-backed		73,279		73,279
States and political subdivisions		18,127		18,127
Collateralized debt obligations			11,752	11,752
Equity securities	45		7	52
Loans held-for-sale		3,189		3,189
Mortgage servicing rights			4,330	4,330
Other assets (Interest rate swap agreements net of swap credit valuation)		2,925	(96)	2,829
Other assets (Forward loan commitments to investors)		8		8
Other assets (Forward MBS)		60		60
Total	$ 1,561	$ 135,087	$ 15,993	$ 152,641
Liabilities:				
Other liabilities (Interest rate swap agreements)	$	$ 2,925	$	$ 2,925
Other liabilities (Interest rate lock commitments to borrowers)		34		34
Other liabilities (Risk Participation Agreement)			40	40
Total	$	$ 2,959	$ 40	$ 2,999

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities available-for-sale				
U.S. Treasury	$ 1,521	$	$	$ 1,521
U.S. government agencies	9,988	27,438		37,426
U.S. government agency mortgage-backed	4,054	72,677		76,731
States and political subdivisions		14,854	3,000	17,854
Collateralized mortgage obligations		3,996		3,996
Collateralized debt obligations			11,073	11,073
Equity securities	40		6	46
Loans held-for-sale		10,655		10,655
Mortgage servicing rights			3,897	3,897
Other assets (Interest rate swap agreements net of swap credit valuation)		3,499	(108)	3,391
Other assets (Forward loan commitments to investors)		(2)		(2)
Other assets (Forward MBS)		505		505
Total	$ 15,603	$ 133,622	$ 17,868	$ 167,093

Liabilities:				
Other liabilities (Interest rate swap agreements)	$	$ 3,499	$	$ 3,499
Other liabilities (Interest rate lock commitments to borrowers)		(17)		(17)
Other liabilities (Risk Participation Agreement)			38	38
Total	$	$ 3,482	$ 38	$ 3,520

At December 31, 2010, $10.0 million in United States government agencies and $4.1 million in United States government agency mortgage backed securities were reported in level 1 at their quoted price, as they were purchased within 30 days of year-end. Subsequently, these securities are included in level 2. Additionally, at December 31, 2010, $3.0 million in state and political subdivision securities were included in level 3 as they had no observable market price and are now included in level 2 at March 31, 2011.

Table of Contents

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs are summarized as follows:

	March 31, 2011					
	Securities available-for-sale					
	Equity Securities	Collateralized Debt Obligations	States and Political Subdivisons	Mortgage Servicing Rights	Interest Rate Swap Valuation	Risk Participation Agreement
Beginning balance January 1, 2011	$ 6	$ 11,073	$ 3,000	$ 3,897	$ (108)	$ (38)
Transfers into Level 3						
Transfers out of Level 3			(3,000)			
Total gains or losses						
Included in earnings (or changes in net assets)		28		62	12	