SECOND BANCORP INC
Form 10-Q/A
August 30, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q/A

(X)	QUARTERLY REPORT UNDER SECTION 13 OR 15(d) THE SECURITIES EXCHANGE ACT OF 1934 For quarter ended March 31, 2001
OR( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period ____________________ to ___________________	
Commission file number: 0-15624	

SECOND BANCORP INCORPORATED

(exact name of registrant as specified in its charter)

Ohio	34-1547453
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

108 Main Ave. S. W. Warren, Ohio 44482-1311

(Address of principal executive offices) (Zip Code)

330.841.0123

Registrant s telephone number, including area code

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods 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 ____

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

Common Stock, without par value 10,003,260 shares outstanding as of April 30, 2001.

Explanatory Note: We are amending our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001 to include in Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operation additional information regarding changes in financial condition from December 31, 2000 to March 31, 2001.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Second Bancorp Incorporated and Subsidiary

Consolidated Balance Sheets

(Dollars in thousands)	March 31 2001	December 31 2000	March 31 2000
ASSETS			
Cash and due from banks	$36,937	$35,272	$43,925
Federal funds sold and temporary investments	25,451	0	0
Trading account	238	328	0
Securities:			
Available-for-sale (at market value)	377,323	382,098	384,941
Loans	1,076,284	1,070,089	1,099,413
Less reserve for loan losses	15,778	15,217	11,354
Net loans	1,060,506	1,054,872	1,088,059
Premises and equipment	17,533	18,039	18,611
Accrued interest receivable	10,118	11,181	9,509
Goodwill and intangible assets	6,157	6,038	5,739
Other assets	37,568	38,462	42,209
Total assets	$1,571,831	$1,546,290	$1,592,993
LIABILITIES AND SHAREHOLDERS EQUITY			
Deposits:			
Demand non-interest bearing	$105,920	$110,045	$113,207
Demand interest bearing	86,124	87,268	90,465
Savings	239,661	246,056	277,892
Time deposits	629,851	592,766	613,559
Total deposits	1,061,556	1,036,135	1,095,123
Federal funds purchased and securities sold under			

agreements to
repurchase119,684129,895136,640Note
Payable1,0001,0000Other borrowed
funds462,1632,798Federal Home Loan
Bank
advances256,591251,733233,144Accrued
expenses and other
liabilities10,9868,1679,249

Total
liabilities1,449,8631,429,0931,476,954Shareholders
equity:Common stock, no par value;
30,000,000 shares authorized; 10,785,760;
10,787,310 and 10,776,470 shares issued,
respectively36,95336,93536,944Treasury
stock; 785,000, 730,200 and 393,100
shares,
respectively(14,740)(13,947)(8,897)Other
comprehensive income (loss), net of
tax3,440281(8,597)Retained
earnings96,31593,92896,589

Total shareholders
equity121,968117,197116,039

Total liabilities and shareholders
equity$1,571,831$1,546,290$1,592,993

See notes to consolidated financial statements.

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Second Bancorp Incorporated and Subsidiary

Consolidated Statements of Income

	For the Three Months Ended March 31
(Dollars in thousands,	

except per share data)	**2001**	**2000**

INTEREST INCOME
Loans (including fees):Taxable$22,101$21,536Exempt from federal income taxes288215Securities:Taxable5,1254,709Exempt from federal income taxes773882Federal funds sold and other interest income19193

Total interest income28,47827,435**INTEREST EXPENSE**Deposits11,46910,879Federal funds purchased and securities sold under agreements to repurchase1,1871,184Note Payable1819Other borrowed funds3743Federal Home Loan Bank advances3,8512,892

Total interest expense16,56215,017

Net interest income11,91612,418Provision for loan losses761687

Net interest income after provision for loan losses11,15511,731**NON-INTEREST INCOME**Service charges on deposit accounts1,2611,054Trust fees7561,004Gains on sale of loans783391Trading account gains58114Security gains52999Other operating income1,1721,141

Total non-interest income4,5593,803**NON-INTEREST EXPENSE**Salaries and employee benefits5,1945,316Net occupancy1,1161,052Equipment1,049987Professional services343477Assessment on deposits and other taxes401413Amortization of goodwill and other intangibles81116Other operating expenses1,8671,936

Total non-interest expense10,05110,297

Income before federal income taxes5,6635,237Income tax expense1,4751,301

Net income before cumulative effect of accounting change$4,188$3,936Cumulative effect of accounting change, net of tax SFAS 133(101)0Net income$4,087$3,936

NET INCOME PER COMMON SHARE:Basic before cumulative effect of accounting change$0.42$0.38Dilutive before cumulative effect of accounting change$0.42$0.38Basic$0.41$0.38Diluted$0.41$0.38Weighted average common shares outstanding:Basic10,020,09710,406,020Diluted10,046,56210,436,890

See notes to consolidated financial statements.

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Second Bancorp Incorporated and Subsidiary

Consolidated Statements of Shareholders Equity

(Dollars in thousands)	Common Stock	Treasury Stock	Accumulated Other Comprehen- sive Income	Retained Earnings	Total	Comprehen- sive Income
Balance, January 1, 2000	$36,966	$(7,140)	$(7,791)	$94,312	$116,347	

Comprehensive income:Net income3,9363,936$3,936Other comprehensive income, net of tax Change in unrealized market value adjustment on securities available-for-sale, net of tax(806)(806)(806)

Comprehensive income$3,130

Cash dividends declared: common ($.16 per share)(1,659)(1,659)Purchase of treasury shares(1,757)(1,757)Common stock issued dividend reinvestment plan(22)(22)

Balance, March 31, 2000$36,944$(8,897)$(8,597)$96,589$116,039

Balance, January 1, 2001$36,935$(13,947)$281$93,928$117,197Comprehensive income:Net income4,0874,087$4,087Other comprehensive income, net of taxChange in other comprehensive income SFAS 133490490490Change in unrealized market value adjustment on securities available-for-sale, net of tax2,6692,6692,669

Comprehensive income$7,246

Cash dividends declared: common ($.17 per share)(1,700)(1,700)Purchase of treasury shares(793)(793)Common stock issued dividend reinvestment plan1818

Balance, March 31, 2001$36,953$(14,740)$3,440$96,315$121,968

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Second Bancorp Incorporated and Subsidiary

(Dollars in thousands) Operating Activities	For the Three Months Ended March 31 2001	 March 31 2000
Net income	$4,087	$3,936
Adjustments to reconcile net income to netcash provided by operating activities:Provision for loan losses761687Provision for depreciation850860Provision for amortization of goodwill and core deposit intangibles81116Provision for allowance for mortgage servicing rights30Net gain / amortization on servicing rights(230)76(Accretion) amortization of		

investment discount and
premium(33)90Deferred
income
taxes0(63)Securities
gains(529)(99)Other
gains, net(841)(400)Net
decrease in trading
account
securities148114Decrease
(Increase) in interest
receivable1,063(232)Increase
(Decrease) in interest
payable52(177)Originations
of loans
held-for-sale(59,912)(14,464)Proceeds
from sale of loans
held-for-sale60,69514,750Net
change in other assets &
other
liabilities2,7141,097

Net cash provided by
operating
activities8,9366,291**Investing
Activities**Proceeds from
maturities of securities
available-for-sale26,5037,757Proceeds
from sales of securities
available-for-sale32,86212,188Purchases
of securities
available-for-sale(49,922)(38,531)Net
increase in
loans(6,395)(28,253)Net
increase in premises and
equipment(344)(896)

Net cash provided by
(used by) investing
activities2,704(47,735)**Financing
Activities**Net
(decrease) increase in
demand deposits, interest
bearing demand and
savings
deposits(11,664)9,638Net
increase (decrease) in
time
deposits37,085(12,104)Net
(decrease) increase in
federal funds purchased
and securities sold under
agreements to
repurchase(10,211)30,108Decrease
in note
payable0(4,000)Net
decrease in
borrowings(2,117)(2,941)Net
advances from Federal
Home Loan

Bank4,85832,868Cash dividends(1,700)(1,659)Purchase of treasury stock(793)(1,757)Net issuance of common stock18(22)

Net cash provided by financing activities15,47650,131

Increase in cash and cash equivalents27,1168,687

Cash and cash equivalents at beginning of year35,27235,238

Cash and cash equivalents at end of period$62,388$43,925

Supplementary Cash Flow Information:Cash paid for 1) Federal Income taxes $0 and $0 for the three months ended March 31, 2001 and 2000, respectively and 2) Interest $16,496,000 and $15,091,000 for the three months ended March 31, 2001 and 2000, respectively

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (unaudited) Second Bancorp Incorporated and Subsidiary
March 31, 2001
(Dollars in thousands)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. Certain reclassifications have been made to amounts previously reported in order to conform to current period presentations. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2000.

NOTE 2 COMPREHENSIVE INCOME

During the first three months of 2001 and 2000, total comprehensive income amounted to $6,046 and $4,730, respectively. The components of comprehensive income, net of tax, for the three month periods ended March 31, 2001 and 2000 are as follows:

	2001	**2000**
Net income	$4,087	$3,936
Change in other comprehensive income SFAS 1334900Unrealized losses on available-for-sale securities2,669(806)		
Comprehensive income$7,246$3,130		

Accumulated other comprehensive income, net of related tax, at March 31, 2001 totaled $3,440 and was comprised of accumulated changes in unrealized market value adjustments on securities available-for-sale, net of tax, and other comprehensive income from SFAS 133 derivative holdings. Accumulated other comprehensive income (loss), net of related tax, at December 31, 2000 and March 31, 2000 totaled $281 and $(8,597), respectively, and were comprised entirely of accumulated changes in unrealized market value adjustments on securities available-for-sale, net of tax.

Disclosure of reclassification amounts:

	January 1 to March 31, 2001	**January 1 to March 31, 2000**
Unrealized holding gains (losses) arising during the period	$ 3,198	$ (707)
Less: reclassification for losses (gains) included in net income(529)(99)		
Net unrealized gains (losses) on available-for-sale securities$2,669$(806)		

NOTE 3 RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting standard Board (FASB) issued Statement of Financial Accounting Standards

(SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activity as amended in June, 1999 by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133, and in June 2000, by SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, (collectively SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. The accounting for changes in the fair value of derivative (gains and losses) depends on the intended use of the derivative and resulting designation. On January 1, 2001, the Corporation adopted SFAS No. 133 resulting in a cumulative effect of accounting change transition adjustment of $(101,000), after tax.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations. Second Bancorp Incorporated and Subsidiary

General

Second Bancorp Incorporated (the Company) is a one-bank holding company which owns The Second National Bank of Warren (the Bank), a Warren, Ohio based commercial bank. Operating through thirty- four branches the Bank offers a wide range of commercial and consumer banking and trust services primarily to business and individual customers in various communities in a nine county area in northeastern Ohio. The Bank focuses its marketing efforts primarily on local independent and professional firms and individuals that are the owners and principals of such firms.

Forward-looking statements:

The sections that follow contain certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). These forward-looking statements may involve significant risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the expectations discussed in these forward-looking statements.

Financial Condition

At March 31, 2001, the Company had consolidated total assets of $1.57 billion, deposits of $1.06 billion and shareholders equity of $122 million. Since March 31, 2000, total assets have decreased by $21 million or 1.3%, primarily as a result of the sale of $130 million in mortgage loans during the third quarter of 2000. The sale resulted in a smaller balance sheet and lower exposure to long-term fixed rate assets. Gross loans have decreased by $23 million to total $1.076 billion. Consumer lending activities have resulted in a strong increase in outstanding balances, while the sale of residential real estate loan balances has reduced from a 42% concentration of total loans as of March 31, 2000 to 31% at the most recent quarter end. Consumer loans represented 29% of loans at the end of the first quarter of 2001 versus 21% for the first quarter of 2000. The loan loss reserve position increased from $11.4 million at March 31, 2000 to $15.8 million at March 31, 2001 primarily through the third quarter 2000 restructuring process that included a review process that yielded an additional provision of $4 million. Cash, federal funds sold and other liquid assets increased by $18 million over the past year as short-term funding was acquired to meet anticipated loan demand.

Funding growth has primarily been generated through advances from the Federal Home Loan Bank (FHLB). FHLB advances have increased by $23 million over the past year.

Since December 31, 2000, total assets have increased by an annualized rate of 6.6%, primarily through an increase in liquid assets. Deposits have increased by $25.4 million and now total $1.06 billion. The increase in deposits was attributable to an increase in short-term time deposits totaling $37 million during the period. The short-term funding was acquired to meet anticipated loan demand. Loan growth has been nominal over the last three months, increasing by $6 million over the period.

Results of Operations
General.

The Company reported net operating income of $4,188,000, exclusive of the $101,000 cumulative effect of accounting change from the transition to SFAS 133. Net operating income for the first quarter represented a diluted forty-two cents ($.42) per share. Operating return on average assets (ROA) and return on average total shareholders equity (ROE) were 1.08% and 14.09%, respectively for the first quarter of 2001 compared to 1.02% and 13.70% for last year s first quarter. A reduced net interest margin caused by a shift in funding from core deposits to more expensive large time deposits. The decline in net interest margin was offset by an increase in non-interest income coupled with a decline in non-interest expenses.

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Asset Quality. The reserve for loan losses increased to 1.47% of loans through an addition of $761,000 in provision coupled with lower than normal net charge-offs of .07%. Loan losses are expected to resume their more historical level of .25% to .30% of loans for the remainder of the year. The reserve was 1.03% of total loans at March 31, 2000. Non-accrual loans have increased over the past year and total $5,163,000 as of March 31, 2001 versus $3,068,000 as of the same date last year. Similarly, loans past due over 90 days and still accruing totaled $3,849,000 as of March 31, 2001 versus $2,082,000 as of the same date last year, reflecting the general economic slowdown in both the local and national economies.

Net Interest Income. Net interest income for the first quarter of 2001 decreased by $502,000 from the same period last year to $11,916,000. The decrease was primarily due to a lower net interest margin that is being influenced by a decline in low-cost core deposits and an increase in higher cost large time deposits. The net interest margin declined to 3.43% for the first quarter of 2001 versus 3.61% for the same period in 2000. Average interest earning assets increased by .7% during the past year, influenced strongly by the sale of mortgage loans in the third quarter of 2000.

Non-interest Income. Non-interest income totaled $4,559,000, or 20% higher than the first quarter of 2000. The increase came from a variety of sources including 1) an increase in 20% of service charges on deposit accounts attributable to a revised deposit account structure, fee schedule and collection procedures, 2) a doubling of gains on sale of loans from $391,000 to $783,000 primarily due to lower mortgage rates and the resulting increase in refinancing activity and 3) a $430,000 increase in gains on the sale of securities. The gains on the sale of securities were generated and proceeds reinvested in higher yielding securities improving future income streams. Trust income decreased by $248,000, or 20%, from a year ago primarily to a reduction in assets under management.

Non-interest Expense. Expenses for the first quarter of 2001 were 2.4% lower than for the same period in 2000. Reductions in salaries and benefits, professional services, assessments on deposits and other taxes, amortization of goodwill and other intangibles and other operating expenses were realized.

Capital resources. Shareholders equity has increased by $6 million since March 31, 2000 due primarily to the increase in accumulated other comprehensive income (OCI), which increased by over $11 million since a year earlier. Since December 31, 2000, shareholders equity has increased by $6.3 million primarily through earnings retention and an increase in OCI. The company repurchased 54,800 shares of common stock into Treasury during the first quarter of 2001, which partially offset the increase in OCI. The Company has slightly more than 65,000 shares remaining under the present repurchase authorization. Repurchases under this authorization are expected to be completed through open market transactions at prevailing market prices and are discretionary, based upon management s periodic assessment of market conditions and financial benefit to the Company. This continuing repurchase authorization will remain in effect until amended or withdrawn by subsequent board action. As of March 31, 2001, the Company had repurchased 785,000 of the authorized shares of common stock.

Liquidity. Management of the Company s liquidity position is necessary to ensure that funds are available to meet the cash flow needs of depositors and borrowers as well as the operating cash needs of the Company. Funds are available from a number of sources including maturing securities, payments made on loans, the acquisition of new deposits, the sale of packaged loans, borrowing from the FHLB and overnight lines of credit of over $37 million through correspondent banks. The parent company has three major sources of funding including dividends from the Bank, $20 million in unsecured lines of credit with correspondent banks, which are renewable annually, and access to the capital markets. One million of the unsecured line of credit is in use as of March 31, 2001.

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Item 3. Qualitative and Quantitative Disclosure About Market Risk.

Forward-looking statements:
The sections that follow contain certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995). These forward-looking statements may involve significant risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the expectations discussed in these forward-looking statements.

Market Risk Management:
Market risk is the risk of economic loss from adverse changes in the fair value of financial instruments due to changes in (a) interest rates, (b) foreign exchange rates, or (c) other factors that relate to market volatility of the rate, index, or price underlying the financial instrument. The Company s market risk is composed primarily of interest rate risk. The Company s Asset/Liability Committee (ALCO) is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit the exposure to interest rate risk. Since nearly the Company s entire interest rate risk exposure relates to the financial instrument activity of the Bank, the Bank s Board of Directors review the policies and guidelines established by ALCO.

The primary objective of asset/liability management is to provide an optimum and stable net interest margin, after-tax return on assets and return on equity capital, as well as adequate liquidity and capital. Interest rate risk is monitored through the use of two complementary measures: dynamic gap analysis and earnings simulation models. While each of the measurement techniques has limitations, taken together they represent a reasonably comprehensive tool for measuring the magnitude of interest rate risk inherent in the Company.

The earnings simulation model forecasts earnings for a one-year horizon frame under a variety of interest rate scenarios; including interest rate shocks, stepped rates and yield curve shifts. Management evaluates the impact of the various rate simulations against earnings in a stable interest rate environment. The most recent model projects net income would increase by 0.5% if interest rates would immediately rise by 200 basis points. It projects a decrease in net income of 2.0% if interest rates would immediately fall by 200 basis points. Management believes this reflects an appropriate level of risk from interest rate movements. The earnings simulation model includes assumptions about how the various components of the balance sheet and rate structure are likely to react through time in different interest rate environments. These assumptions are derived from historical analysis and management s outlook. Management expects interest rates to have a neutral to downward bias for the remainder of 2001.

Interest rate sensitivity is managed through the use of security portfolio management techniques, the use of fixed rate long-term borrowings from the FHLB, the establishment of rate and term structures for time deposits and loans and the sale of long-term fixed rate mortgages through the secondary mortgage market. The Company also uses off-balance sheet swaps, caps and floors to manage interest rate risk.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to various pending and threatened lawsuits in which claims for monetary damages are asserted in the ordinary course of business. While any litigation involves an element of uncertainty, in the opinion of management, liabilities, if any, arising from such litigation or threat thereof will not have a material impact on the financial position or results of operations of the Company.

Item 2. Changes in Securities Not Applicable

Item 3. Defaults upon Senior Securities Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders
(a) - (d) Second Bancorp Incorporated s Annual Meeting of Shareholders was held on March 8, 2001. The results of the votes on the matters presented to shareholders are as follows: Of the 10,000,760 issued and outstanding shares eligible to vote, 8,757,523 were represented at the meeting. The shareholders approved Proposal 1 to set the number of directors at eleven with 8,172,381 votes FOR , 500,052 votes AGAINST and 85,085 ABSTAINED . Elected to serve as directors of the Company in Class I until the 2003 Annual Meeting of Shareholders under Proposal 2 were:

Share voted FOR Dr. David A. Allen, Jr. 8,233,274 WITHHELD 524,249
Share voted FOR R. L. (Rick) Blossom
8,620,125 WITHHELD 137,398Share voted FOR
Norman C. Harbert
8,232,063 WITHHELD 525,460Share voted FOR
Phyllis J. Izant
8,070,691 WITHHELD 686,832Share voted FOR
John L. Pogue 8,227,509 WITHHELD 530,014Share
voted FOR Raymond John Wean, III
8,177,177 WITHHELD 580,346

Continuing directors include John A. Anderson, Alan G. Brant, Jack Gibson and James R. Izant.

The shareholders approved Proposal 3 to ratify the appointment of Ernst & Young LLP as the independent Certified Public Accountants of the Company with votes FOR of 8,653,157, votes AGAINST of 22,280 and votes ABSTAINED of 82,082.

Item 5. Other Information Not Applicable

Item 6. Exhibits and Reports on Form 8-K:

The following exhibits are included herein:

(11) Statement re: computation of earnings per share
The Company filed a report on Form 8-K on March 27, 2001 to announce an increase in the common stock dividend to $.17 per share. The Company filed a report on Form 8-K on March 27, 2001 regarding earnings for the fourth quarter of 2000. The Company filed a report on Form 8-K on April 25, 2001 to announce earnings for the first quarter of 2001. The Company filed a report on Form 8-K on May 11, 2001 to announce the election of Rick L. Blossom as Chairman of Second Bancorp Incorporated and The Second National Bank of Warren.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SECOND BANCORP INCORPORATED

Date: August 29, 2001	/s/ David L. Kellerman
	David L. Kellerman, Treasurer

Signing on behalf of the registrant and as principal accounting officer and principal financial officer.