OLD NATIONAL BANCORP /IN/
Form 10-Q
August 04, 2009

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________
Commission File Number 1-15817

OLD NATIONAL BANCORP
(Exact name of Registrant as specified in its charter)

INDIANA	**35-1539838**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Main Street **Evansville, Indiana**	**47708**
(Address of principal executive offices)	(Zip Code)

(812) 464-1294
(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, and (2) has been subject to the filing requirements for at least the past 90 days. Yes þ 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 (s232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files).
Yes þ No o

Indicate by check mark whether the 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 Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 66,433,000 shares outstanding at June 30, 2009.

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OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	June 30, 2009 (unaudited)	December 31, 2008	June 30, 2008 (unaudited)
Assets			
Cash and due from banks	**$ 146,698**	$ 162,893	$ 223,056
Federal funds sold and resell agreements		6	1,209
Money market investments	**62,548**	30,113	10,254
Total cash and cash equivalents	**209,246**	193,012	234,519
Investment securities available-for-sale, at fair value			
U.S. Treasury	**957**		
U.S. Government-sponsored entities and agencies	**600,992**	389,278	333,212
Mortgage-backed securities	**950,500**	1,081,619	1,006,606
States and political subdivisions	**522,732**	482,204	328,040
Other securities	**174,227**	171,925	206,682
Investment securities available-for-sale	**2,249,408**	2,125,026	1,874,540
Investment securities held-to-maturity, at amortized cost (fair value $311,334, $100,831 and $108,120 respectively)	**314,170**	99,661	111,706
Federal Home Loan Bank stock, at cost	**36,090**	41,090	41,090
Residential loans held for sale, at fair value	**25,249**	17,155	16,620
Finance leases held for sale	**370,231**		
Loans:			
Commercial	**1,422,606**	1,897,966	1,826,081
Commercial real estate	**1,124,383**	1,154,916	1,196,511
Residential real estate	**448,438**	496,526	516,010
Consumer credit, net of unearned income	**1,155,779**	1,210,951	1,188,140
Total loans	**4,151,206**	4,760,359	4,726,742
Allowance for loan losses	**(70,101)**	(67,087)	(62,087)
Net loans	**4,081,105**	4,693,272	4,664,655
Premises and equipment, net	**58,671**	44,625	44,274
Accrued interest receivable	**49,082**	49,030	45,937
Goodwill	**167,884**	159,198	159,198
Other intangible assets	**36,148**	27,628	29,512
Company-owned life insurance	**224,237**	223,126	219,667
Assets held for sale	**1,567**	1,992	2,996
Other assets	**189,087**	199,075	157,072
Total assets	**$ 8,012,175**	$ 7,873,890	$ 7,601,786
Liabilities			
Deposits:			

Noninterest-bearing demand	**$ 1,045,568**	$ 888,578	$ 858,585
Interest-bearing:			
NOW	**1,297,215**	1,292,574	1,322,684
Savings	**928,879**	874,602	900,569
Money market	**451,985**	420,821	483,154
Time (including $0, $49,309 and $49,775, respectively, at fair value)	**2,074,861**	1,945,712	1,807,425
Total deposits	**5,798,508**	5,422,287	5,372,417
Short-term borrowings	**542,418**	649,623	575,280
Other borrowings	**810,305**	834,867	783,396
Accrued expenses and other liabilities	**226,355**	236,248	221,678
Total liabilities	**7,377,586**	7,143,025	6,952,771
Shareholders Equity			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Preferred stock, series T, no par value, $1,000 liquidation value, 1,000 shares authorized, 0, 100 and 0 shares issued and outstanding, respectively		97,358	
Common stock, $1 stated value, 150,000 shares authorized, 66,433, 66,321 and 66,206 shares issued and outstanding, respectively	**66,433**	66,321	66,206
Capital surplus	**570,763**	569,875	565,379
Retained earnings	**46,060**	50,815	57,824
Accumulated other comprehensive loss, net of tax	**(48,667)**	(53,504)	(40,394)
Total shareholders equity	**634,589**	730,865	649,015
Total liabilities and shareholders equity	**$ 8,012,175**	$ 7,873,890	$ 7,601,786

The accompanying notes to consolidated financial statements are an integral part of these statements.

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars in thousands, except per share data)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest Income				
Loans including fees:				
Taxable	$ **50,263**	$ 65,279	$ **101,957**	$ 136,407
Nontaxable	**5,855**	5,638	**11,705**	11,099
Investment securities, available-for-sale:				
Taxable	**25,417**	21,498	**48,898**	44,060
Nontaxable	**5,719**	3,435	**11,518**	6,656
Investment securities, held-to-maturity, taxable	**1,891**	1,323	**2,989**	2,753
Money market investments and federal funds sold	**37**	192	**98**	524
Total interest income	**89,182**	97,365	**177,165**	201,499
Interest Expense				
Deposits	**17,659**	22,097	**35,449**	51,833
Short-term borrowings	**448**	3,051	**836**	6,980
Other borrowings	**10,308**	10,873	**20,915**	21,552
Total interest expense	**28,415**	36,021	**57,200**	80,365
Net interest income	**60,767**	61,344	**119,965**	121,134
Provision for loan losses	**11,968**	5,700	**29,268**	27,605
Net interest income after provision for loan losses	**48,799**	55,644	**90,697**	93,529
Noninterest Income				
Wealth management fees	**4,258**	4,912	**8,085**	9,481
Service charges on deposit accounts	**15,675**	11,282	**26,364**	21,520
ATM fees	**5,411**	4,471	**9,551**	8,505
Mortgage banking revenue	**1,764**	1,371	**3,492**	2,604
Insurance premiums and commissions	**8,908**	9,304	**20,318**	21,373
Investment product fees	**2,250**	2,408	**4,489**	5,126
Company-owned life insurance	**420**	2,751	**1,116**	5,511
Net securities gains	**10,295**	2,061	**15,872**	6,580
Impairment on available-for-sale securities (includes losses of $8,445 and $23,733, net of $581 and $13,478 recognized in other comprehensive income, pre-tax, for the three and six months ended June 30, 2009, respectively)	**(7,864)**		**(10,255)**	
Gain (loss) on derivatives	**516**	(357)	**999**	(973)
Gain on sale leaseback transactions	**1,468**	1,599	**3,057**	3,164
Other income	**2,505**	3,711	**4,753**	7,498
Total noninterest income	**45,606**	43,513	**87,841**	90,389

Noninterest Expense				
Salaries and employee benefits	**45,206**	43,178	**87,905**	85,506
Occupancy	**12,050**	9,550	**22,642**	19,195
Equipment	**2,674**	2,499	**4,988**	5,067
Marketing	**2,618**	2,651	**4,614**	4,695
Data processing	**5,353**	4,930	**10,244**	9,552
Communication	**2,869**	2,211	**5,420**	4,522
Professional fees	**2,108**	1,891	**4,750**	3,549
Loan expense	**1,151**	1,743	**2,026**	2,994
Supplies	**1,162**	750	**2,484**	1,634
FDIC assessment	**6,341**	295	**8,425**	597
Amortization of intangibles	**1,664**	898	**2,666**	1,774
Other expense	**3,555**	4,238	**8,051**	6,685
Total noninterest expense	**86,751**	74,834	**164,215**	145,770
Income before income taxes	**7,654**	24,323	**14,323**	38,148
Income tax expense (benefit)	**(1,981)**	4,848	**(4,717)**	(667)
Net income	**9,635**	19,475	**19,040**	38,815
Preferred stock dividends and discount accretion			**(3,892)**	
Net income available to common stockholders	**$ 9,635**	$ 19,475	**$ 15,148**	$ 38,815
Net income per common share basic	**$ 0.15**	$ 0.30	**$ 0.23**	$ 0.59
Net income per common share diluted	**0.15**	0.30	**0.23**	0.59
Weighted average number of common shares outstanding-basic	**65,950**	65,640	**65,872**	65,631
Weighted average number of common shares outstanding-diluted	**65,999**	65,812	**65,916**	65,784
Dividends per common share	**$ 0.07**	$ 0.23	**$ 0.30**	$ 0.23

The accompanying notes to consolidated financial statements are an integral part of these statements.

OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars and shares in thousands)	Preferred Stock	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income
Balance, December 31, 2007		$ 66,205	$ 563,675	$ 34,346	$ (11,345)	$ 652,881	
Comprehensive income							
Net income				38,815		38,815	$ 38,815
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					(26,692)	(26,692)	(26,692)
Reclassification adjustment on cash flows hedges, net of tax					87	87	87
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax					(2,444)	(2,444)	(2,444)
Total comprehensive income							$ 9,766
Dividends common stock				(15,337)		(15,337)	
Common stock repurchased		(20)	(323)			(343)	
Stock based compensation expense			1,756			1,756	
Stock activity under incentive comp plans		21	271			292	
Balance, June 30, 2008		$ 66,206	$ 565,379	$ 57,824	$ (40,394)	$ 649,015	
Balance, December 31, 2008	**$ 97,358**	**$ 66,321**	**$ 569,875**	**$ 50,815**	**$ (53,504)**	**$ 730,865**	
Comprehensive income							
Net income				**19,040**		**19,040**	**$ 19,040**
Other comprehensive income (1)							
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax					**4,287**	**4,287**	**4,287**
Reclassification adjustment on cash flows hedges, net of tax					**114**	**114**	**114**
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax					**436**	**436**	**436**
Total comprehensive income							**$ 23,877**

Dividends common stock				**(19,872)**		**(19,872)**
Dividends preferred stock				**(1,250)**		**(1,250)**
Common stock issued		**151**	**1,357**			**1,508**
Preferred stock repurchased	**(97,358)**			**(2,642)**		**(100,000)**
Common stock repurchased		**(28)**	**(322)**			**(350)**
Warrants repurchased			**(1,200)**			**(1,200)**
Stock based compensation expense			**796**			**796**
Stock activity under incentive comp plans		**(11)**	**257**	**(31)**		**215**
Balance, June 30, 2009	**$**	**$ 66,433**	**$ 570,763**	**$ 46,060**	**$ (48,667)**	**$ 634,589**

(1) See Note 5 to the consolidated financial statements.

The accompanying notes to consolidated financial statements are an integral part of these statements.

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OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Six Months Ended June 30, 2009	2008
Cash Flows From Operating Activities		
Net income	**$ 19,040**	$ 38,815
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**4,287**	2,979
Amortization and impairment of other intangible assets	**2,666**	2,466
Net discount accretion on investment securities	**(71)**	(792)
Restricted stock expense	**614**	1,548
Stock option expense	**182**	208
Provision for loan losses	**29,268**	27,605
Net securities gains	**(15,872)**	(6,580)
Impairment on available-for-sale securities	**10,255**	
Gain on sale leasebacks	**(3,057)**	(3,164)
(Gain) loss on derivatives	**(999)**	973
Net gains on sales and write-downs of loans and other assets	**(1,325)**	(1,427)
(Gain) loss on extinguishment of debt	**247**	(254)
Increase in cash surrender value of company owned life insurance	**(1,111)**	(5,182)
Residential real estate loans originated for sale	**(153,802)**	(95,490)
Proceeds from sale of residential real estate loans	**147,558**	93,404
(Increase) decrease in interest receivable	**(20)**	4,341
(Increase) decrease in other assets	**8,729**	(20,048)
Increase (decrease) in accrued expenses and other liabilities	**(6,699)**	920
Total adjustments	**20,850**	1,507
Net cash flows provided by operating activities	**39,890**	40,322
Cash Flows From Investing Activities		
Cash and cash equivalents of acquired banking branches, net	**389,917**	
Purchases of investment securities available-for-sale	**(1,145,874)**	(604,750)
Purchase of loans	**(8,024)**	
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**394,193**	635,909
Proceeds from sales of investment securities available-for-sale	**415,092**	198,064
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**14,925**	14,718
Proceeds from sale of loans	**2,000**	2,251
Net principal collected from (loans made to) customers	**224,291**	(64,563)
Proceeds from sale of premises and equipment and other assets	**18**	6,973
Proceeds from sale leaseback of real estate	**1,646**	4,542
Purchases of premises and equipment	**(8,179)**	(5,019)
Net cash flows provided by (used in) investing activities	**280,005**	188,125

Cash Flows From Financing Activities				
Net increase (decrease) in deposits and short-term borrowings:				
Noninterest-bearing demand deposits		**77,294**		3,136
Savings, NOW and money market deposits		**(90,902)**		(40,441)
Time deposits		**(35,704)**		(251,530)
Short-term borrowings		**(107,205)**		(62,967)
Payments for maturities on other borrowings		**(349)**		(150,320)
Proceeds from issuance of other borrowings				275,000
Payments related to retirement of debt		**(25,464)**		
Cash dividends paid on common stock		**(19,872)**		(30,333)
Cash dividends paid on preferred stock		**(1,514)**		
Common stock repurchased		**(350)**		(284)
Proceeds from exercise of stock options, including tax benefit		**97**		139
Repurchase of TARP preferred stock and warrants		**(101,200)**		
Common stock issued		**1,508**		
Net cash flows provided by (used in) financing activities		**(303,661)**		(257,600)
Net increase (decrease) in cash and cash equivalents		**16,234**		(29,153)
Cash and cash equivalents at beginning of period		**193,012**		263,672
Cash and cash equivalents at end of period	**$**	**209,246**	$	234,519
Supplemental cash flow information:				
Total interest paid	**$**	**58,208**	$	87,114
Total taxes paid (net of refunds)	**$**	**2,102**	$	15,402

The accompanying notes to consolidated financial statements are an integral part of these statements.

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OLD NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, goodwill and intangibles, derivative financial instruments, income taxes and valuation of securities are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of June 30, 2009 and 2008, and December 31, 2008, and the results of its operations for the three and six months ended June 30, 2009 and 2008. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2008.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2009 presentation. Such reclassifications had no effect on net income.

These financial statements consider events that occurred through August 4, 2009, the date the financial statements were issued.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

FSP SFAS No. 157-2 In February 2008, the FASB issued FASB Staff Position No. 157-2. The staff position delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The delay expired January 1, 2009, and the expiration of the delay did not have a material impact on Old National s consolidated financial position or results of operations.

SFAS No. 141(R) In December 2007, the FASB issued Statement No. 141(R) *Business Combinations*. This statement replaces FASB Statement No. 141 *Business Combinations*. SFAS No. 141(R) establishes principles and requirements for how an acquiring company (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The new standard became effective for the Company on January 1, 2009. See Note 3 to the consolidated financial statements for the impact on the Company of adopting SFAS No. 141(R).

SFAS No. 160 In December 2007, the FASB issued Statement No. 160 *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*. SFAS No. 160 requires the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated balance sheet within equity, but separate from the parent s equity. It also requires the amount of consolidated net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income. The new standard became effective for the Company on January 1, 2009. The adoption of this statement did not have a material impact on the Company s consolidated financial position or results of operations.

SFAS No. 161 In March 2008, the FASB issued Statement No. 161 *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. SFAS No. 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related items are accounted for under Statement 133 and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The new standard became effective for the Company on January 1, 2009. The adoption of this statement did not have a material impact on the Company s consolidated financial position or results of operations and the required disclosures have been included.

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SFAS No. 165 In May 2009, the FASB issued Statement No. 165 *Subsequent Events*. SFAS No. 165 establishes the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements and the circumstances under which an entity shall recognize events or transactions that occur after the balance sheet date. SFAS No. 165 also requires disclosure of the date through which subsequent events have been evaluated. The new standard becomes effective for interim and annual periods ending after June 15, 2009. The Company adopted this standard for the interim reporting period ending June 30, 2009. The adoption of this statement did not have a material impact on the Company s consolidated financial position or results of operations.

SFAS No. 166 In June 2009, the FASB issued Statement No. 166 *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*. SFAS No. 166 amends SFAS No. 140 and removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The new standard will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting SFAS No. 166 on the consolidated financial statements.

SFAS No. 167 In June 2009, the FASB issued Statement No. 167 *Amendments to FASB Interpretation No. 46(R)*. SFAS No. 167 amends tests under Interpretation No. 46(R) for variable interest entities to determine whether a variable interest entity must be consolidated. SFAS No. 167 requires an entity to perform an analysis to determine whether an entity s variable interest or interests give it a controlling financial interest in a variable interest entity. This statement requires ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and enhanced disclosures that provide more transparent information about an entity s involvement with a variable interest entity. The new standard will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting SFAS No. 167 on the consolidated financial statements.

SFAS No. 168 In June 2009, the FASB issued Statement No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 168 replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). Rules and interpretative releases of the Securities and Exchange Commission under federal securities laws are also sources of authoritative GAAP for SEC registrants. The new standard becomes effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this statement is not expected to have a material impact on the Company s consolidated financial position or results of operations.

FSP FAS 132(R)-1 In December 2008, the FASB issued FASB Staff Position No. 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*. This FASB staff position amends FASB Statement No. 132 to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 requires disclosure of the fair value of each major category of plan assets for pension plans and other postretirement benefit plans. This FASB staff position becomes effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting FSP FAS 132(R)-1 on the consolidated financial statements, but it is not expected to have a material impact.

FSP No. FAS 107-1 and APB 28-1 In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FASB staff position amends FASB Statement No. 107 to require disclosures about fair values of financial instruments for interim reporting periods as well as in annual financial statements. The staff position also amends APB Opinion No. 28 to require those disclosures in summarized financial information at interim reporting periods. This FASB staff position becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this FASB staff position for the interim reporting period ending March 31, 2009.

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FSP No. FAS 115-2 and FAS 124-2 In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FASB staff position amends the other-than-temporary impairment guidance in U.S. generally accepted accounting principles for debt securities. If an entity determines that it has an other-than-temporary impairment on a security, it must recognize the credit loss on the security in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The staff position expands disclosures about other-than-temporary impairment and requires that the annual disclosures in FASB Statement No. 115 and FSP FAS 115-1 and FAS 124-1 be made for interim reporting periods. This FASB staff position becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this FASB staff position for the interim reporting period ending March 31, 2009. See Note 6 to the consolidated financial statements for the impact on the Company of adopting FSP No. FAS 115-2 and FAS 124-2.
FSP No. FAS 157-4 In April 2009, the FASB issued FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FASB staff position provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability. A significant decrease in the volume or level of activity for the asset or liability is an indication that transactions or quoted prices may not be determinative of fair value because transactions may not be orderly. In that circumstance, further analysis of transactions or quoted prices is needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value. This FASB staff position becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this FASB staff position for the interim reporting period ending March 31, 2009 and it did not have a material impact on the Company s consolidated financial position or results of operations.
SAB 111 In April 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 111 (SAB 111). SAB 111 amends Topic 5.M. in the Staff Accounting Bulletin series entitled *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*. On April 9, 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. SAB 111 maintains the previous views related to equity securities and amends Topic 5.M. to exclude debt securities from its scope. SAB 111 was effective for the Company as of March 31, 2009. There was no material impact to Old National s consolidated financial position or results of operations upon adoption.
SAB 112 In June 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 112 (SAB 112). SAB 112 revises or rescinds portions of the interpretative guidance included in the Staff Accounting Bulletin series in order to make the interpretative guidance consistent with recent pronouncements by the FASB, specifically SFAS No. 141(R) and SFAS No. 160. SAB 112 was effective for the Company as of June 30, 2009. There was no material impact to Old National s consolidated financial position or results of operations upon adoption.
EITF 08-6 In November 2008, the FASB Emerging Issues Task Force reached a consensus on Issue No. 08-6, *Equity Method Investment Accounting Considerations* (EITF 08-6). EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. An equity investor shall not separately test an investee s underlying assets for impairment but will recognize its share of any impairment charge recorded by an investee in earnings and consider the effect of the impairment on its investment. An equity investor shall account for a share issuance by an investee as if the investor had sold a proportionate share of its investment, with any gain or loss recognized in earnings. EITF 08-6 became effective for the Company on January 1, 2009 and did not have a material impact on the Company s consolidated financial position or results of operations.
EITF 08-7 In November 2008, the FASB Emerging Issues Task Force reached a consensus on Issue No. 08-7, *Accounting for Defensive Intangible Assets* (EITF 08-7). EITF 08-7 clarifies how to account for defensive intangible assets subsequent to initial measurement. EITF 08-7 applies to acquired intangible assets in situations in which an entity does not intend to actively use an asset but intends to hold the asset to prevent others from obtaining access to the asset. A defensive intangible asset should be accounted for as a separate unit of accounting with an expected life that reflects the consumption of the expected benefits related to that asset. The benefit from holding a defensive

intangible asset is the direct and indirect cash flows resulting from the entity preventing others from using the asset. EITF 08-7 is effective for intangible assets acquired on or after January 1, 2009. The adoption of EITF 08-7 did not have a material impact on the Company s consolidated financial position or results of operations.

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FSP EITF 03-6-1 In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. This FASB staff position concluded that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and therefore are considered participating securities for purposes of computing earnings per share. Entities that have participating securities that are not convertible into common stock are required to use the two-class method of computing earnings per share. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. This FASB staff position is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. This FASB staff position became effective for the Company on January 1, 2009 and did not have a material impact on the Company s consolidated financial position or results of operations.

NOTE 3 ACQUISITION

On March 20, 2009, Old National completed its acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consists of 65 branches and a training facility. The branches are located primarily in the Indianapolis area, with additional locations in the Lafayette, Fort Wayne, Anderson and Bloomington, Indiana markets. Pursuant to the terms of the purchase agreement, Old National paid Citizens Financial Group approximately $17.2 million. In accordance with SFAS No.141(R), Old National has expensed approximately $4.4 million of direct acquisition costs and recorded goodwill of $8.7 million and $11.2 million of intangible assets. The intangible assets are related to core deposits and are being amortized on an accelerated basis over 7 years. See Note 9 to the consolidated financial statements for additional information. On the date of acquisition, Old National assumed deposit liabilities valued at approximately $427 million and acquired a portfolio of loans valued at approximately $5.6 million.

NOTE 4 NET INCOME PER SHARE

The following table reconciles basic and diluted net income per share for the three and six months ended June 30:

(dollars and shares in thousands, except per share data)		**Three Months Ended June 30, 2009**		Three Months Ended June 30, 2008
Basic Earnings Per Share				
Net income	**$**	**9,635**	$	19,475
Less: Preferred stock dividends and accretion of discount				
Net income available to common stockholders		**9,635**		19,475
Weighted average common shares outstanding		**65,950**		65,640
Basic Earnings Per Share	**$**	**0.15**	$	0.30
Diluted Earnings Per Share				
Net income available to common stockholders		**9,635**		19,475
Weighted average common shares outstanding		**65,950**		65,640
Effect of dilutive securities:				
Restricted stock (1)		**41**		148
Stock options (2)		**8**		24
Weighted average shares outstanding		**65,999**		65,812

Diluted Earnings Per Share	**$**	**0.15**	$	0.30

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(dollars and shares in thousands, except per share data)	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Basic Earnings Per Share		
Net income	**$ 19,040**	$ 38,815
Less: Preferred stock dividends and accretion of discount	**3,892**	
Net income available to common stockholders	**15,148**	38,815
Weighted average common shares outstanding	**65,872**	65,631
Basic Earnings Per Share	**$ 0.23**	$ 0.59
Diluted Earnings Per Share		
Net income available to common stockholders	**15,148**	38,815
Weighted average common shares outstanding	**65,872**	65,631
Effect of dilutive securities:		
Restricted stock (1)	**34**	129
Stock options (2)	**10**	24
Weighted average shares outstanding	**65,916**	65,784
Diluted Earnings Per Share	**$ 0.23**	$ 0.59

(1) 144 and 220 shares of restricted stock were not included in the computation of net income per diluted share for the second quarter and six months ended June 30, 2009, respectively, because the effect would be antidulitive.

(2) Options to purchase 6,050 shares and 5,706 shares

outstanding at June 30, 2009 and 2008, respectively, were not included in the computation of net income per diluted share for the second quarter and six months ended June 30, 2009 and 2008, respectively, because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. This FASB staff position is effective for Old National for the interim periods beginning January 1, 2009. Upon adoption, all prior-period earnings per share data were recalculated according to EITF 03-6-1. These calculations resulted in no material changes to earnings per share data as previously presented.

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NOTE 5 COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and unrealized gains and losses on cash flow hedges and changes in funded status of pension plans which are also recognized as separate components of equity. Following is a summary of other comprehensive income (loss) for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2009**	**2008**	**2009**	**2008**
Net income	**$ 9,635**	$ 19,475	**$ 19,040**	$ 38,815
Other comprehensive income (loss)				
Change in securities available for sale:				
Unrealized holding gains (losses) arising during the period	**279**	(46,086)	**23,972**	(37,742)
Reclassification adjustment for securities (gains) losses realized in income	**(10,295)**	(2,061)	**(15,872)**	(6,580)
Other-than-temporary-impairment on available-for-sale debt securities recorded in other comprehensive income	**(581)**		**(13,478)**	
Other-than-temporary-impairment on available-for-sale debt securities associated with credit loss realized in income	**7,864**		**10,255**	
Income tax effect	**1,074**	19,017	**(1,623)**	17,630
Reclassification adjustment for securities transferred from available-for- sale to held-to-maturity	**1,033**		**1,033**	
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges	**(1,065)**		**44**	
Reclassification adjustment on cash flow hedges	**72**	72	**144**	143
Income tax effect	**398**	(28)	**(74)**	(56)
Defined benefit pension plans:				
Amortization of net (gain) loss recognized in income	**13**	(4,233)	**727**	(4,075)
Income tax effect	**(6)**	1,694	**(291)**	1,631
Total other comprehensive income (loss)	**(1,214)**	(31,625)	**4,837**	(29,049)
Comprehensive income (loss)	**$ 8,421**	$ (12,150)	**$ 23,877**	$ 9,766

The following table summarizes the changes within each classification of accumulated other comprehensive income for the six months ended June 30, 2009 and 2008:

(dollars in thousands)	Unrealized gains (losses) on available for sale securities	Unrecognized gain (loss) on cash flow hedges	Defined benefit pension plans	Accumulated other comprehensive income (loss)
Balance at December 31, 2008	**$ (40,504)**	**$ (480)**	**$ (12,520)**	**$ (53,504)**
Other comprehensive income (loss)	**(7,001)**	**114**	**436**	**(6,451)**

Other-than-temporary-impairment on available-for-sale securities realized in income	**10,255**			**10,255**
Reclassification of securities from available-for-sale to held-to-maturity	**1,033**			**1,033**
Balance at June 30, 2009	**$ (36,217)**	**$ (366)**	**$ (12,084)**	**$ (48,667)**
Balance at December 31, 2007	$ (3,704)	$ (655)	$ (6,986)	$ (11,345)
Other comprehensive income (loss)	(26,692)	87	(2,444)	(29,049)
Balance at June 30, 2008	$ (30,396)	$ (568)	$ (9,430)	$ (40,394)

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NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at June 30, 2009 and December 31, 2008 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2009				
Available-for-sale				
U.S. Treasury	**$ 949**	**$ 8**	**$**	**$ 957**
U.S. Government-sponsored entities and agencies	**605,100**	**2,968**	**(7,076)**	**600,992**
Mortgage-backed securities Agency	**747,723**	**13,238**	**(244)**	**760,717**
Mortgage-backed securities Non-agency	**246,561**	**448**	**(57,226)**	**189,783**
States and political subdivisions	**508,887**	**19,953**	**(6,108)**	**522,732**
Pooled trust preferrred securities	**38,529**		**(22,176)**	**16,353**
Other securities	**161,401**	**2,708**	**(6,235)**	**157,874**
Total available-for-sale securities	**$ 2,309,150**	**$ 39,323**	**$ (99,065)**	**$ 2,249,408**
Held-to-maturity				
U.S. Government-sponsored entities and agencies	**$ 229,675**	**$ 23**	**$ (4,341)**	**$ 225,357**
Mortgage-backed securities Agency	**79,173**	**1,948**		**81,121**
Other securities	**5,322**		**(466)**	**4,856**
Total held-to-maturity securities	**$ 314,170**	**$ 1,971**	**$ (4,807)**	**$ 311,334**
December 31, 2008				
Available-for-sale				
U.S. Government-sponsored entities and agencies	$ 381,634	$ 7,644	$	$ 389,278
Mortgage-backed securities Agency	850,222	15,125	(586)	864,761
Mortgage-backed securities Non-agency	276,842	318	(60,302)	216,858
States and political subdivisions	471,246	16,030	(5,072)	482,204
Pooled trust preferrred securities	48,853		(29,186)	19,667
Other securities	160,848	883	(9,473)	152,258
Total available-for-sale securities	$ 2,189,645	$ 40,000	$ (104,619)	$ 2,125,026
Held-to-maturity				
Mortgage-backed securities Agency	$ 90,987	$ 1,529	$	$ 92,516
Other securities	8,674		(359)	8,315
Total held-to-maturity securities	$ 99,661	$ 1,529	$ (359)	$ 100,831

The amortized cost and fair value of the investment securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Weighted average yield is based on amortized cost.

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(dollars in thousands)	June 30, 2009 Amortized Cost	Fair Value	Weighted Average Yield
Maturity			
Available-for-sale			
Within one year	$ 103,336	$ 104,925	5.05%
One to five years	936,417	903,665	4.60
Five to ten years	271,432	261,795	5.58
Beyond ten years	997,965	979,023	5.24
Total	$ 2,309,150	$ 2,249,408	5.01%
Held-to-maturity			
One to five years	$ 84,495	$ 85,977	4.53%
Beyond ten years	229,675	225,357	3.88
Total	$ 314,170	$ 311,334	4.05%

The following table summarizes the investment securities with unrealized losses at June 30, 2009 and December 31, 2008 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2009						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	$ 384,414	$ (7,076)	$	$	$ 384,414	$ (7,076)
Mortgage-backed securities Agency	183,170	(212)	2,467	(32)	185,637	(244)
Mortgage-backed securities Non-agency	1		172,800	(57,226)	172,801	(57,226)
States and political subdivisions	143,831	(5,344)	10,633	(764)	154,464	(6,108)
Pooled trust preferrred securities			16,353	(22,176)	16,353	(22,176)
Other securities	9,260	(4,618)	35,197	(1,617)	44,457	(6,235)
Total available-for-sale	$ 720,676	$ (17,250)	$ 237,450	$ (81,815)	$ 958,126	$ (99,065)
Held-to-Maturity						
U.S. Government-sponsored entities and agencies	$ 193,838	$ (4,341)	$	$	$ 193,838	$ (4,341)
Other securities			4,856	(466)	4,856	(466)
Total held-to-maturity	$ 193,838	$ (4,341)	$ 4,856	$ (466)	$ 198,694	$ (4,807)

December 31, 2008						
Available-for-Sale						
Mortgage-backed securities Agency	$ 66,047	$ (212)	$ 33,689	$ (378)	$ 99,736	$ (590)
Mortgage-backed securities Non-agency	83,360	(13,259)	116,192	(47,043)	199,552	(60,302)
States and political subdivisions	121,276	(5,072)			121,276	(5,072)
Pooled trust preferrred securities			19,668	(29,186)	19,668	(29,186)
Other securities	81,326	(7,793)	10,117	(1,676)	91,443	(9,469)
Total available-for-sale	$ 352,009	$ (26,336)	$ 179,666	$ (78,283)	$ 531,675	$ (104,619)
Held-to-Maturity						
Other securities	$	$	$ 8,315	$ (359)	$ 8,315	$ (359)
Total held-to-maturity	**$**	**$**	$ 8,315	$ (359)	$ 8,315	$ (359)

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Proceeds from sales and calls of securities available for sale were $627.4 million and $582.5 million for the six months ended June 30, 2009 and 2008, respectively. Gross gains of $16.8 million and $7.3 million and gross losses of $0.9 million and $0.7 million were realized on these sales during 2009 and 2008, respectively. Also impacting earnings in 2009 are other-than-temporary impairment charges related to credit loss on six trust preferred securities in the amount of $10.3 million, described below.

During the second quarter of 2009, approximately $230.1 million of U.S. government-sponsored entity and agency securities were transferred from the available-for-sale portfolio to the held-to-maturity portfolio at fair value. The $1.8 million unrealized holding gain at the date of transfer shall continue to be reported as a separate component of shareholders equity and will be amortized over the remaining life of the securities as an adjustment of yield.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets.*

In determining OTTI under the SFAS No. 115 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. The second segment of the portfolio uses the OTTI guidance provided by EITF 99-20 that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the EITF 99-20 model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When other-than-temporary-impairment occurs under either model, the amount of the other-than-temporary-impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary-impairment shall be recognized in earnings equal to the entire difference between the investment s amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the other-than-temporary-impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary-impairment related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total other-than-temporary-impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary-impairment recognized in earnings shall become the new amortized cost basis of the investment.

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As of June 30, 2009, Old National s security portfolio consisted of 1,157 securities, 276 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company s non-agency mortgage-backed and pooled trust preferred securities, as discussed below:

Non-agency Mortgage-backed Securities

At June 30, 2009, the Company s securities portfolio contained non-agency collateralized mortgage obligations with a market value of $189.8 million which had net unrealized losses of approximately $56.8 million. These non-agency mortgage-backed securities were rated AAA at purchase and are not within the scope of EITF 99-20. Four of these securities were downgraded during the quarter and as of June 30, 2009 eight of these securities were rated below investment grade with grades ranging from B3 to Caa1. These securities were evaluated to determine if the underlying collateral is expected to experience loss, resulting in a principal write-down of the notes. As part of the evaluation, a detailed analysis of deal-specific data was obtained from remittance reports provided by the trustee and data from the servicer. The collateral was broken down into several distinct buckets based on loan performance characteristics in order to apply different assumptions to each bucket. The most significant drivers affecting loan performance were examined including original loan-to-value (LTV), underlying property location and the current loan status. The loans in the current bucket were further divided based on their original LTV: a high-LTV and a low-LTV group to which different default curves and severity percentages were applied. The high-LTV group was further bifurcated into loans originated in high-risk states and all other states and a higher default-curve and severity percentages were applied to loans originated in the high-risk states. Different default curves and severity rates were applied to the remaining non-current collateral buckets. Using these collateral-specific assumptions, a model was built to project the future performance of the instrument. Based on this analysis of the underlying collateral as of June 30, 2009, Old National did not record any other-than-temporary impairment on these securities.

Pooled Trust Preferred Securities

Seven of the pooled trust preferred securities in our portfolio fall within the scope of EITF 99-20 and include $24.5 million book value. These securities were rated A2 and A3 at inception, but at June 30, 2009, Moody s rated one security Baa2, two securities Caa3 and four securities Ca. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. Upon completion of the June 30, 2009 analysis, our model indicated other-than-temporary impairment on six of these securities, all of which experienced additional defaults or deferrals during the period. For the six months ended June 30, 2009, these six securities had other-than-temporary-impairment losses of $23.7 million, of which $10.2 million was recorded as expense and $13.5 million was recorded in other comprehensive income. These six securities remained classified as available for sale at June 30, 2009, and together, the seven securities subject to EITF 99-20 accounted for $13.7 million of the unrealized loss in the pooled trust preferred securities category at June 30, 2009.

The following table details the six pooled trust preferred securities securities with other-than-temporary-impairment, their credit rating at June 30, 2009 and the related credit losses recognized in earnings:

	MM Community Funding IX	Reg Div Funding 2004		Reg Div

	Tropc 2003 Rated Caa3	Rated Caa3	Rated Ca	Pretsl XV Rated Ca	Pretsl XII Rated Ca	Funding 2005 Rated Ca	Total
Amount of other-than-temporary-impairment related to credit loss at January 1, 2009	$	$	$	$	$	$	$
Addition	828	282	1,281				2,391
Amount of other-than-temporary-impairment related to credit loss at March 31, 2009	828	282	1,281				2,391
Addition	1,583	1,178	2,915	895	810	483	7,864
Amount of other-than-temporary-impairment related to credit loss at June 30, 2009	$ 2,411	$ 1,460	$ 4,196	$ 895	$ 810	$ 483	$ 10,255

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NOTE 7 LOANS HELD FOR SALE

Effective January 1, 2008, residential loans that Old National has committed to sell are recorded at fair value in accordance with SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*. Prior to this, these residential loans had been recorded at the lower of cost or market value. At June 30, 2009 and December 31, 2008, Old National had residential loans held for sale of $25.2 million and $17.2 million, respectively.

At June 30, 2009, Old National had finance leases held for sale of $370.2 million. The leases are being marketed by an independent third party and the company anticipates that the majority of these transactions will close during the third quarter of 2009. The leases were reclassified to leases held for sale at the lower of cost or fair value, resulting in no write-down of the leases, but eliminating the need for $1.6 million of related FAS 5 historical loss allocations in the allowance for loan losses. The portfolio of leases had maturities ranging from 1 to 19 years and interest rates ranging from 2.57% to 13.21%. All of the leases are current. The majority of the leases held for sale are to municipalities, with various types of equipment securing the leases.

During the first six months of 2009, commercial and commercial real estate loans held for investment of $2.6 million were reclassified to loans held for sale at the lower of cost or fair value and sold for $2.0 million, resulting in a write-down on loans transferred to held for sale of $0.6 million, which was recorded as a reduction to the allowance for loan losses. During the first six months of 2008, commercial loans held for investment of $2.2 million were reclassified to loans held for sale at the lower of cost or fair value and sold, with no write-down on the loans transferred.

NOTE 8 ALLOWANCE FOR LOAN LOSSES

Activity in the allowance for loan losses was as follows:

	Six Months Ended June 30,	
(dollars in thousands)	**2009**	**2008**
Balance, January 1	**$ 67,087**	$ 56,463
Additions:		
Provision charged to expense	**30,855**	27,605
Provision related to leases transferred to held for sale	**(1,587)**	
Deductions:		
Write-downs from loans transferred to held for sale	**572**	
Loans charged-off	**31,895**	26,650
Recoveries	**(6,213)**	(4,669)
Net charge-offs	**26,254**	21,981
Balance, June 30	**$ 70,101**	$ 62,087

Individually impaired loans were as follows:

(dollars in thousands)	**June 30, 2009**	**December 31, 2008**
Impaired loans without an allowance for loan losses allocation	**$ 14,554**	$ 13,968
Impaired loans with an allowance for loan losses allocation	**48,174**	38,425
Total impaired loans	**$ 62,728**	$ 52,393
Allowance for loan losses allocated to impaired loans	**$ 20,426**	$ 13,599

For the six months ended June 30, 2009 and 2008, the average balance of impaired loans was $60.3 million and $49.2 million, respectively, for which no interest income was recorded. No additional funds are committed to be advanced in connection with impaired loans. Loans deemed impaired are evaluated using the fair value of the underlying collateral.

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Nonperforming loans were as follows:

(dollars in thousands)	June 30, 2009	December 31, 2008
Nonaccrual loans	**$ 77,735**	$ 64,041
Total nonperforming loans	**$ 77,735**	$ 64,041
Past due loans (90 days or more and still accruing)	**$ 2,323**	$ 2,908

Nonperforming loans includes both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

From time to time, Old National may agree to modify the contractual terms of a borrower s loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At June 30, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $0.6 million.

NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the six months ended June 30, 2009 and 2008:

(dollars in thousands)	Community Banking	Other	Total
Balance, January 1, 2009	**$ 119,325**	**$ 39,873**	**$ 159,198**
Goodwill acquired during the period	**8,686**		**8,686**
Balance, June 30, 2009	**$ 128,011**	**$ 39,873**	**$ 167,884**
Balance, January 1, 2008	$ 119,325	$ 39,873	$ 159,198
Adjustments to goodwill			
Balance, June 30, 2008	$ 119,325	$ 39,873	$ 159,198

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2008 and determined that no impairment existed as of this date. Old National recorded $8.7 million of goodwill in 2009 associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group.

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The gross carrying amount and accumulated amortization of other intangible assets at June 30, 2009 and December 31, 2008 was as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
June 30, 2009			
Amortized intangible assets:			
Core deposit	**$ 26,810**	**$ (8,671)**	**$ 18,139**
Customer business relationships	**25,753**	**(11,187)**	**14,566**
Customer loan relationships	**4,413**	**(970)**	**3,443**
Total intangible assets	**$ 56,976**	**$ (20,828)**	**$ 36,148**
December 31, 2008			
Amortized intangible assets:			
Core deposit	$ 15,623	$ (7,203)	$ 8,420
Customer business relationships	25,753	(10,189)	15,564
Customer loan relationships	4,413	(769)	3,644
Total intangible assets	$ 45,789	$ (18,161)	$ 27,628

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 7 to 25 years. Old National reviews intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Old National recorded $11.2 million of other intangibles associated with the acquisition of the branch banking network of Citizens Financial Group in the first quarter of 2009, which is included in the Community Banking column for segment reporting. During the first quarter of 2008, Old National recorded $0.2 million of other intangibles associated with the purchase of an insurance book of business. The insurance subsidiary is included in the Other column for segment reporting. During the second quarter of 2008, Old National recorded $0.7 million for impairment of intangibles due to the loss of a significant insurance client at one of its insurance subsidiaries. The insurance subsidiary is included in the Other column for segment reporting. Total amortization expense associated with other intangible assets for the six months ended June 30 was $2.7 million in 2009 and $1.8 million in 2008.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2009 remaining	$ 3,320
2010	6,130
2011	5,546
2012	4,840
2013	4,050
Thereafter	12,262
Total	$ 36,148

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NOTE 10 ASSETS HELD FOR SALE

Assets held for sale are summarized as follows:

(dollars in thousands)	June 30, 2009	December 31, 2008
Assets held for sale:		
Land	**$ 641**	$ 791
Building and improvements	**2,773**	3,401
Total	**3,414**	4,192
Accumulated depreciation	**(1,847)**	(2,200)
Assets held for sale net	**$ 1,567**	$ 1,992

During the second quarter of 2009, Old National sold one financial center with a carrying value of approximately $0.4 million in a sale-leaseback transaction with an unrelated party.

Assets remaining held for sale at June 30, 2009 include three financial centers which are actively being marketed. Old National plans to continue occupying these properties under long-term lease arrangements. See note 17 to the consolidated financial statements for additional information on Old National s long-term lease arrangements.

NOTE 11 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates as of June 30, 2009:

(dollars in thousands)	Federal Funds Purchased	Repurchase Agreements	Other Short-term Borrowings	Total
2009				
Outstanding at June 30, 2009	**$ 143,411**	**$ 284,847**	**$ 114,160**	**$ 542,418**
Average amount outstanding	**264,609**	**291,958**	**134,465**	**691,032**
Maximum amount outstanding at any month-end	**488,392**	**292,478**	**158,809**	
Weighted average interest rate:				
During six months ended June 30, 2009	**0.20%**	**0.23%**	**0.36%**	**0.24%**
At June 30, 2009	**0.13**	**0.17**	**0.22**	**0.17**

Other Short-term Borrowings

Line of Credit

During the first quarter of 2008, Old National entered into a $100 million revolving credit facility at the parent company level. Three unrelated financial institutions serve as lenders for the facility. During part of 2008, $55 million was outstanding under the revolving credit facility and was included in other short-term borrowings. The facility had an interest rate of LIBOR plus 1.00% and a maturity of 364 days. There was no amount outstanding as of December 31, 2008. On February 13, 2009, the line of credit was terminated.

During the second quarter of 2009, Old National entered into a $30 million revolving credit facility at the parent level. The facility had an interest rate of LIBOR plus 2.00% and a maturity of 364 days. There was no amount outstanding as of June 30, 2009.

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Term Auction Facility

On January 2, 2009, Old National borrowed $100 million from the Federal Reserve under its Term Auction Facility. The borrowing had an interest rate of .20% and a maturity of 83 days. On January 15, 2009, Old National borrowed an additional $50 million from the Federal Reserve under the Term Auction Facility. The additional borrowing had an interest rate of .25% and a maturity of 28 days. On February 12, 2009, the $50 million borrowing was rolled over into new debt with an interest rate of .25% and a maturity date of March 12, 2009. On March 12, 2009, the $50 million borrowing was rolled over into new debt with an interest rate of .25% and a maturity date of April 9, 2009. On April 9, 2009, the $50 million debt matured and was replaced with $100 million of new debt with an interest rate of .25% and a maturity date of May 7, 2009. On April 23, 2009, Old National borrowed an additional $50 million with an interest rate of .25% and a maturity date of July 16, 2009. On June 4, 2009, Old National borrowed an additional $50 million with an interest rate of .25% and a maturity date of July 2, 2009.

NOTE 12 FINANCING ACTIVITIES

The following table summarizes Old National s and its subsidiaries other borrowings at June 30, 2009, and December 31, 2008:

(dollars in thousands)	**June 30, 2009**	December 31, 2008
Old National Bancorp:		
Senior unsecured note (fixed rate 5.00%) maturing May 2010	**$ 50,000**	$ 50,000
Junior subordinated debenture (fixed rates 6.27% to 8.00% and variable rate 3.65%) maturing April 2032 to March 2035	**108,000**	108,000
SFAS 133 fair value hedge and other basis adjustments	**(749)**	(771)
Old National Bank:		
Securities sold under agreements to repurchase (fixed rates 2.45% to 4.06%) maturing December 2010 to October 2012	**99,000**	99,000
Federal Home Loan Bank advances (fixed rates 2.11% to 8.34%) maturing September 2009 to January 2023	**399,871**	425,198
Subordinated bank notes (fixed rate 6.75%) maturing October 2011	**150,000**	150,000
Capital lease obligation	**4,370**	4,390
SFAS 133 fair value hedge and other basis adjustments	**(187)**	(950)
Total other borrowings	**$ 810,305**	$ 834,867

Contractual maturities of other borrowings at June 30, 2009, were as follows:

(dollars in thousands)	
Due in 2009	$ 2,020
Due in 2010	99,043
Due in 2011	275,046
Due in 2012	150,688
Due in 2013	106,405
Thereafter	178,039
SFAS 133 fair value hedge and other basis adjustments	(936)
Total	$ 810,305

FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances had weighted-average rates of 3.82% and 3.81% at June 30, 2009, and December 31, 2008, respectively. These borrowings are collateralized by investment securities and residential real

estate loans up to 150% of outstanding debt.

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SUBORDINATED BANK NOTES

Subordinated bank notes qualify as Tier 2 Capital for regulatory purposes, subject to certain limitations, and are in accordance with the senior and subordinated global bank note program in which Old National Bank may issue and sell up to a maximum of $1 billion. Notes issued by Old National Bank under the global note program are not obligations of, or guaranteed by, Old National Bancorp.

JUNIOR SUBORDINATED DEBENTURES

Junior subordinated debentures related to trust preferred securities are classified in other borrowings . These securities qualify as Tier 1 capital for regulatory purposes, subject to certain limitations.

Old National guarantees the payment of distributions on the trust preferred securities issued by ONB Capital Trust II. ONB Capital Trust II issued $100 million in preferred securities in April 2002. The preferred securities have a liquidation amount of $25 per share with a cumulative annual distribution rate of 8.0% or $2.00 per share payable quarterly and maturing on April 15, 2032. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by ONB Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after April 12, 2007. Costs associated with the issuance of these trust preferred securities totaling $3.3 million in 2002 were capitalized and are being amortized through the maturity dates of the securities. The unamortized balance is included in other assets in the consolidated balance sheet.

During February 2007, Old National acquired St. Joseph Capital Trust I and St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust I and St. Joseph Capital Trust II. St. Joseph Capital Trust I issued $3.0 million in preferred securities in July 2003. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 305 basis points, payable quarterly and maturing on July 11, 2033. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust I. St. Joseph Capital Trust II issued $5.0 million in preferred securities in March 2005. The preferred securities have a cumulative annual distribution rate of 6.27% until March 2010 when it will carry a variable rate of interest priced at the three-month LIBOR plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II. Old National may redeem the junior subordinated debentures and thereby cause a redemption of the trust preferred securities in whole (or in part from time to time) on or after September 30, 2008 (for debentures owned by St. Joseph Capital Trust I) and on or after March 31, 2010 (for debentures owned by St. Joseph Capital Trust II), and in whole (but not in part) following the occurrence and continuance of certain adverse federal income tax or capital treatment events.

CAPITAL LEASE OBLIGATION

On January 1, 2004, Old National entered into a long-term capital lease obligation for a financial center in Owensboro, Kentucky, which extends for 25 years with one renewal option for 10 years. The economic substance of this lease is that Old National is financing the acquisition of the building through the lease and accordingly, the building is recorded as an asset and the lease is recorded as a liability. The fair value of the capital lease obligation was estimated using a discounted cash flow analysis based on Old National s current incremental borrowing rate for similar types of borrowing arrangements.

At June 30, 2009, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)		
2009 remaining	$	194
2010		390
2011		390
2012		390
2013		390
Thereafter		11,314
Total minimum lease payments		13,068
Less amounts representing interest		8,698
Present value of net minimum lease payments	$	4,370

NOTE 13 EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National s policy is to contribute at least the minimum funding requirement determined by the plan s actuary.

Old National also maintains an unfunded pension restoration plan (the Restoration Plan) which provides benefits for eligible employees that are in excess of the limits under Section 415 of the Internal Revenue Code of 1986, as amended, that apply to the Retirement Plan. The Restoration Plan is designed to comply with the requirements of ERISA. The entire cost of the plan, which was also frozen as of December 31, 2005, is supported by contributions from the Company.

Old National contributed $0.2 million to cover benefit payments from the Restoration Plan during the first six months of 2009. Old National expects to contribute an additional $0.2 million to cover benefit payments from the Restoration Plan during the remainder of 2009.

The net periodic benefit cost and its components were as follows for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2009**	2008	**2009**	2008
Interest cost	**$ 493**	$ 535	**$ 986**	$ 1,071
Expected return on plan assets	**(482)**	(792)	**(965)**	(1,584)
Recognized actuarial loss	**363**	158	**726**	316
Settlement	**(350)**	434		434
Net periodic benefit cost	**$ 24**	$ 335	**$ 747**	$ 237

NOTE 14 STOCK-BASED COMPENSATION

During May 2008, shareholders approved the Company s 2008 Incentive Compensation Plan which authorizes up to a maximum of 1.0 million shares plus certain shares covered under the 1999 Equity Incentive Plan. At June 30, 2009, 1.4 million shares remained available for issuance. The granting of awards to key employees is typically in the form of options to purchase capital stock or restricted stock.

Stock Options

The Company granted 177 thousand stock options during the first six months of 2009. Using the Black-Scholes option pricing model, the Company estimated the fair value of these stock options to be $0.3 million. The Company will

expense this amount ratably over the three-year vesting period. The assumptions used in the option pricing model and the determination of stock option expense were an expected volatility of 28.8%; a risk free interest rate of 2.08%; an expected option term of six years; a 5.31% dividend yield; and a forfeiture rate of 7%. These options expire in ten years.

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Old National recorded $0.1 million of stock based compensation expense, net of tax, during the first six months of 2009 as compared to $0.1 million for the first six months of 2008.

Restricted Stock Awards

The Company granted 80 thousand time-based restricted stock awards to certain key officers during 2009, with shares vesting at the end of a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of June 30, 2009, unrecognized compensation expense was estimated to be $3.2 million for unvested restricted share awards.

Old National recorded expense of $0.3 million, net of tax benefit, during the first six months of 2009, compared to expense of $1.0 million during the first six months of 2008 related to the vesting of restricted share awards. Included in the first six months of 2009 is the reversal of $0.8 million of expense associated with certain performance-based restricted stock grants.

Restricted Stock Units

The Company granted 106 thousand shares of performance based restricted stock units to certain key officers during 2009, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. In addition, certain of the restricted stock units are subject to relative performance factors which could increase or decrease the percentage of shares issued.

Old National recorded $0.1 million of stock based compensation expense, net of tax, during the first six months of 2009. The Company did not grant restricted stock units in 2008.

NOTE 15 INCOME TAXES

Following is a summary of the major items comprising the differences in taxes from continuing operations computed at the federal statutory rate and as recorded in the consolidated statement of income for the three and six months ended June 30:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2009**	**2008**	**2009**	**2008**
Provision at statutory rate of 35%	**$ 2,679**	$ 8,513	**$ 5,013**	$ 13,352
Tax-exempt income	**(4,060)**	(3,921)	**(8,231)**	(7,694)
Reversal of portion of unrecognized tax benefits				(6,611)
State income taxes	**(675)**	354	**(1,481)**	358
Other, net	**75**	(98)	**(18)**	(72)
Income tax expense (benefit)	**$ (1,981)**	$ 4,848	**$ (4,717)**	$ (667)
Effective tax rate	**(25.9)%**	19.9%	**(32.9)%**	(1.7)%

For the three months ended June 30, 2009, the effective tax rate was lower than the three months ended June 30, 2008. The main factor for the decrease in the effective tax rate for the three months ended June 30, 2009, was that the tax-exempt income comprised a higher percentage of pre-tax income in the three months ended June 30, 2009 than at June 30, 2008. For the six months ended June 30, 2009, the effective tax rate was lower than the six months ended June 30, 2008. The main factor for the decrease in the effective tax rate for the six months ended June 30, 2009, was that the tax-exempt income comprised a higher percentage of pre-tax income in the six months ended June 30, 2009 than at June 30, 2008.

Unrecognized Tax Benefits

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. Unrecognized state income tax benefits are reported net of their related deferred federal income tax benefit.
A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(dollars in thousands)	2009
Balance at January 1	$ 7,513
Additions based on tax positions related to the current year	52
Balance at June 30	$ 7,565

Approximately $1.9 million of unrecognized tax benefits, if recognized, would favorably affect the effective income tax rate in future periods.

NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

As part of the Company s overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was $150.0 million and $55.1 million at June 30, 2009 and December 31, 2008, respectively. In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At June 30, 2009, the notional amount of the interest rate lock commitments and forward commitments were $39.9 million and $64.2 million, respectively. At December 31, 2008, the notional amount of the interest rate lock commitments and forward commitments were $20.6 million and $37.0 million, respectively. It is the Company s practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $511.1 million and $511.1 million, respectively, at June 30, 2009. At December 31, 2008, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $484.0 million and $484.0 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps, foreign exchange forward contracts and commodity swaps and options. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. Old National s exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. There are provisions in our agreements with the counterparties that allow for certain unsecured credit exposure up to an agreed threshold. Exposures in excess of the agreed thresholds are collateralized. In addition, the Company minimizes credit risk through credit approvals, limits, and monitoring procedures.

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The following tables summarize the fair value of derivative financial instruments utilized by Old National:

	Asset Derivatives			
	June 30, 2009		December 31, 2008	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under Statement 133				
Interest rate contracts	Other assets	**$ 541**	Other assets	$ 1
Total derivatives designated as hedging instruments under Statement 133		**$ 541**		$ 1
Derivatives not designated as hedging instruments under Statement 133				
Interest rate contracts	Other assets	**$ 32,576**	Other assets	$ 45,737
Commodity contracts	Other assets		Other assets	130
Foreign exchange contracts	Other assets		Other assets	441
Mortgage contracts	Other assets	**589**	Other assets	459
Total derivatives not designated as hedging instruments under Statement 133		**$ 33,165**		$ 46,767
Total derivative assets		**$ 33,706**		$ 46,768

	Liability Derivatives			
	June 30, 2009		December 31, 2008	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments under Statement 133				
Interest rate contracts	Other liabilities	**$ 32,173**	Other liabilities	$ 46,338
Commodity contracts	Other liabilities		Other liabilities	130
Foreign exchange contracts	Other liabilities		Other liabilities	441
Mortgage contracts	Other liabilities	**73**	Other liabilities	505
Total derivatives not designated as hedging instruments under Statement 133		**$ 32,246**		$ 47,414
Total derivative liabilities		**$ 32,246**		$ 47,414

The effect of derivative instruments on the Consolidated Statement of Income for the three and six months ended June 30, 2009 and 2008 are as follows:

Derivatives Not Designated as	**Location of Gain or (Loss)**	**Amount of Gain or (Loss)**

Hedging Instruments under Statement 133	**Recognized in Income on Derivative**	**Recognized in Income on Derivative**			
Interest rate contracts (1)	Interest income / (expense)	**$**	**(68)**	$	123
Interest rate contracts (3)	Other income / (expense)		**455**		(331)
Mortgage contracts	Mortgage banking revenue		**234**		19
Total		**$**	**621**	$	(189)

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(dollars in thousands)		Six months Ended June 30, 2009	Six months Ended June 30, 2008
Derivatives in Statement 133 Fair Value Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ 1,101**	$ 676
Interest rate contracts (2)	Other income / (expense)	**72**	71
Total		**$ 1,173**	$ 747

Derivatives Not Designated as Hedging Instruments under Statement 133	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ (428)**	$ 123
Interest rate contracts (3)	Other income / (expense)	**927**	(1,044)
Mortgage contracts	Mortgage banking revenue	**562**	(115)
Total		**$ 1,061**	$ (1,036)

(1) Amounts represent the net interest payments as stated in the contractual agreements.

(2) Amounts represent ineffectiveness on derivatives designated as fair value hedges under SFAS 133.

(3) Includes both the valuation differences between the customer and offsetting counterparty swaps as well as

the change in the value of the derivative instruments entered into to offset the change in fair value of certain retail certificates of deposit which the company elected to record at fair value under SFAS 159. See Note 20 to the consolidated financial statements.

NOTE 17 COMMITMENTS AND CONTINGENCIES

LITIGATION

In the normal course of business, Old National Bancorp and its subsidiaries have been named, from time to time, as defendants in various legal actions. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages.

Old National contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, Old National cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, or other relief, if any, might be. Subject to the foregoing, Old National believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of Old National, although the outcome of such matters could be material to Old National s operating results and cash flows for a particular future period, depending on, among other things, the level of Old National s revenues or income for such period.

In November 2002, several beneficiaries of certain trusts filed a complaint against Old National Bancorp and Old National Trust Company in the United States District Court for the Western District of Kentucky relating to the administration of the trusts in 1997. The complaint, as amended, alleged that Old National (through a predecessor), as trustee, mismanaged termination of a lease between the trusts and a tenant mining company. The complaint seeks, among other relief, unspecified damages, (costs and expenses, including attorneys fees, and such other relief as the court might find just and proper.) On March 25, 2009, the Court granted summary judgment to Old National concluding that the plaintiffs do not have standing to sue Old National in this matter. The plaintiffs subsequently filed a motion to alter or amend the judgment with the Court. The Plaintiffs motion to alter or amend the judgment was granted by the Court on July 29, 2009, reversing the Court s March 25, 2009 Order as to standing. The July 29, 2009 Order also permits Old National to file a new motion for summary judgment with respect to issues that have not been resolved by the Court. Old National continues to believe that it has meritorious defenses to each of the claims in the lawsuit and intends to continue to vigorously defend the lawsuit. There can be no assurance, however, that Old National will be successful, and an adverse resolution of the lawsuit could have a material adverse effect on its consolidated financial position and results of operations in the period in which the lawsuit is resolved. Old National is not presently able to reasonably estimate potential losses, if any, related to the lawsuit and has not recorded a liability in its accompanying Consolidated Balance Sheets.

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LEASES

In December 2006, Old National entered into a sale leaseback agreement with an unrelated third party for its three main buildings in downtown Evansville, Indiana. Old National sold assets with a carrying value of $69.9 million, received approximately $79.0 million in cash and incurred $0.4 million of selling costs. The $8.7 million deferred gain will be amortized over the term of the lease. The agreement requires rent payments of approximately $6.6 million per year over the next 23 years.

During 2007, seventy-three financial centers were sold in a series of sale leaseback transactions to an unrelated party. Old National received cash proceeds of $176.3 million, net of selling costs. The properties sold had a carrying value of $65.3 million, resulting in a gain of $111.1 million. In 2007, $4.7 million of this gain was recognized, the remainder has been deferred and is being amortized over the term of the leases. The leases have terms of ten to twenty-four years, and Old National has the right, at its option, to extend the term of the leases for four additional successive terms of five years each, upon specified terms and conditions. Under the agreements signed in 2007, Old National is obligated to pay base rents for the properties in an aggregate annual amount of $14.0 million in the first year.

In addition, Old National sold an office building located in Evansville, Indiana to an unrelated party in a separate transaction during 2007. This transaction resulted in cash proceeds of $3.4 million, net of selling costs. The property had a carrying value of $3.7 million, resulting in a loss of $0.3 million. Old National agreed to lease back the building for a term of five years. Under the lease agreement, Old National is obligated to pay a base rent of $0.4 million per year.

During 2008, Old National sold eight financial centers in a series of sale leaseback transactions to unrelated parties. Old National received cash proceeds of $15.9 million, net of selling costs. The properties sold had a carrying value of $12.0 million. The $3.9 million deferred gain will be amortized over the term of the leases. The leases have terms of fifteen to twenty years. Under the lease agreements, Old National is obligated to pay a base rent of $1.5 million per year.

During 2009, Old National sold two financial centers in sale leaseback transactions to unrelated parties. Old National received cash proceeds of $1.4 million, net of selling costs. The properties sold had a carrying value of $1.0 million. The $0.4 million deferred gain will be amortized over the term of the leases. The leases have terms of fifteen years. Under the lease agreements, Old National is obligated to pay a base rent of $0.1 million per year.

In March 2009, Old National acquired the Indiana retail branch banking network of Citizens Financial Group. The network included 65 leased locations. Old National intends to close or merge 11 of these locations into existing branch locations during 2009. The leases have term of less than one year to ten years. Under the lease agreements, Old National is obligated to pay a base rent of approximately $2.6 million per year.

CREDIT-RELATED FINANCIAL INSTRUMENTS

In the normal course of business, Old National s banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.049 billion and standby letters of credit of $101.7 million at June 30, 2009. At June 30, 2009, approximately $991 million of the loan commitments had fixed rates and $58 million had floating rates, with the fixed interest rates ranging from 0.5% to 18%. At December 31, 2008, loan commitments were $1.124 billion and standby letters of credit were $108.4 million. These commitments are not reflected in the consolidated financial statements. At June 30, 2009 and December 31, 2008, the balance of the allowance for unfunded loan commitments was $4.1 million and $3.5 million, respectively.

At June 30, 2009 and December 31, 2008 Old National had credit extensions of $27.5 million and $29.0 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National s clients. At June 30, 2009 and December 31, 2008, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $24.1 million and $25.0 million, respectively. Old National did not provide collateral for the remaining credit extensions.

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NOTE 18 FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FIN 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At June 30, 2009, the notional amount of standby letters of credit was $101.7 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.5 million.

During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap has a notional amount of $9.4 million at June 30, 2009.

NOTE 19 SEGMENT INFORMATION

Old National operates in two operating segments: community banking and treasury. The community banking segment serves customers in both urban and rural markets providing a wide range of financial services including commercial, real estate and consumer loans; lease financing; checking, savings, time deposits and other depository accounts; cash management services; and debit cards and other electronically accessed banking services and Internet banking. Treasury manages investments, wholesale funding, interest rate risk, liquidity and leverage for Old National. Additionally, treasury provides other miscellaneous capital markets products for its corporate banking clients. Other is comprised of the parent company and several smaller business units including insurance, wealth management and brokerage. It includes unallocated corporate overhead and intersegment revenue and expense eliminations.

In order to measure performance for each segment, Old National allocates capital and corporate overhead to each segment. Capital and corporate overhead are allocated to each segment using various methodologies, which are subject to periodic changes by management. Intersegment sales and transfers are not significant.

Old National uses a funds transfer pricing (FTP) system to eliminate the effect of interest rate risk from net interest income in the community banking segment and from companies included in the other column. The FTP system is used to credit or charge each segment for the funds the segments create or use. The net FTP credit or charge is reflected in segment net interest income.

The financial information for each operating segment is reported on the basis used internally by Old National s management to evaluate performance and is not necessarily comparable with similar information for any other financial institution.

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Summarized financial information concerning segments is shown in the following table for the three and six months ended June 30:

(dollars in thousands)	Community Banking	Treasury	Other	Total
Three months ended June 30, 2009				
Net interest income	**$ 66,783**	**$ (4,782)**	**$ (1,234)**	**$ 60,767**
Provision for loan losses	**11,978**	**85**	**(95)**	**11,968**
Noninterest income	**26,525**	**3,308**	**15,773**	**45,606**
Noninterest expense	**68,193**	**2,810**	**15,748**	**86,751**
Income (loss) before income taxes	**13,137**	**(4,369)**	**(1,114)**	**7,654**
Total assets	**4,754,079**	**3,138,161**	**119,935**	**8,012,175**
Three months ended June 30, 2008				
Net interest income	$ 64,813	$ (2,652)	$ (817)	$ 61,344
Provision for loan losses	5,493	207		5,700
Noninterest income	21,382	5,236	16,895	43,513
Noninterest expense	56,193	1,148	17,493	74,834
Income before income taxes	24,509	1,229	(1,415)	24,323
Total assets	4,971,884	2,514,308	115,594	7,601,786
Six months ended June 30, 2009				
Net interest income	**$ 136,241**	**$ (14,536)**	**$ (1,740)**	**$ 119,965**
Provision for loan losses	**29,278**	**85**	**(95)**	**29,268**
Noninterest income	**46,701**	**7,508**	**33,632**	**87,841**
Noninterest expense	**127,671**	**4,258**	**32,286**	**164,215**
Income before income taxes	**25,993**	**(11,371)**	**(299)**	**14,323**
Total assets	**4,754,079**	**3,138,161**	**119,935**	**8,012,175**
Six months ended June 30, 2008				
Net interest income	$ 128,053	$ (5,681)	$ (1,238)	$ 121,134
Provision for loan losses	27,379	226		27,605
Noninterest income	40,483	11,879	38,027	90,389
Noninterest expense	108,108	2,483	35,179	145,770
Income (loss) before income taxes	33,049	3,489	1,610	38,148
Total assets	4,971,884	2,514,308	115,594	7,601,786

NOTE 20 FAIR VALUE

Effective January 1, 2008, the Company adopted SFAS No. 157 and SFAS No. 159. Both standards address aspects of the expanding application of fair value accounting.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (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. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

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

Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or 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.

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Old National used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and libor curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Residential loans held for sale: The fair value of loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

Derivative financial instruments: The fair values of derivative financial instruments are based on derivative valuation models using market data inputs as of the valuation date (Level 2).

Deposits: The fair value of retail certificates of deposit is estimated by discounting future cash flows using rates currently offered for deposits with similar remaining maturities (Level 2).

Assets and liabilities measured at fair value under SFAS No. 157 on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

		Fair Value Measurements at June 30, 2009 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Investment securities available-for-sale	**$ 2,249,408**		**$ 2,233,055**	**$ 16,353**
Residential loans held for sale	**25,249**		**25,249**	
Derivative assets	**33,706**		**33,706**	
Financial Liabilities				
Certain retail certificates of deposit				
Derivative liabilities	**32,246**		**32,246**	

		Fair Value Measurements at December 31, 2008 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Investment securities available-for-sale	**$ 2,125,026**		**$ 2,105,358**	**$ 19,668**
Residential loans held for sale	**17,155**		**17,155**	
Derivative assets	**46,768**		**46,768**	

Financial Liabilities		
Certain retail certificates of deposit	**49,309**	**49,309**
Derivative liabilities	**47,414**	**47,414**

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The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2009:

(dollars in thousands)	Fair Value Measurements using Significant Unobservable Inputs (Level 3) Pooled Trust Preferred Securities Available-for-Sale
Beginning balance, January 1, 2009	$ 19,668
Accretion/amortization of discount or premium	(14)
Payments received	(99)
Credit loss write-downs	(10,255)
Increase/decrease in fair value of securities	7,053
Transfers in and/or out of Level 3	
Ending balance, June 30, 2009	$ 16,353

Included in the income statement is $14 thousand in interest expense from the amortization of discounts on securities. The increase in market value is reflected in the balance sheet as an increase in the fair value of investment securities available-for sale, an increase in accumulated other comprehensive income, which is included in shareholders equity, and a decrease in other assets related to the tax impact.

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at June 30, 2009 Using			
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Impaired loans	$ 27,748			$ 27,748

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of $48.1 million, with a valuation allowance of $20.4 million at June 30, 2009.

	Fair Value Measurements at December 31, 2008 Using			
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Impaired loans	$ 24,826			$ 24,826

Impaired loans, which are measured for impairment using the fair value of the collateral, had a principal amount of $38.4 million, with a valuation allowance of $13.6 million at December 31, 2008.

Financial instruments recorded using SFAS No. 159

Under SFAS No. 159, the Company may elect to report most financial instruments and certain other items at fair value on an instrument-by instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made.

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Additionally, the transition provisions of SFAS No. 159 permit a one-time election for existing positions at the adoption date with a cumulative-effect adjustment included in beginning retained earnings and future changes in fair value reported in net income. The Company did not elect the fair value option for any existing position at January 1, 2008.

The Company did elect the fair value option under SFAS No. 159 prospectively for the following items:

- Residential mortgage loans held for sale
- Certain retail certificates of deposit

For items for which the fair value option has been elected, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on financial assets (except any that are on nonaccrual status). Included in the income statement are $210 thousand and $347 thousand of interest income for residential loans held for sale for the three and six months ended June 30, 2009, respectively. Included in the income statement are $124 thousand and $220 thousand of interest income for residential loans held for sale for the three and six months ended June 30, 2008, respectively. Interest expense is recorded based on the contractual amount of interest expense incurred. The income statement includes $2 thousand and $73 thousand of interest expense for the three and six months ended June 30, 2009, respectively, for certain retail certificates of deposit under SFAS No. 159. The income statement includes $431 thousand and $576 thousand of interest expense for the three and six months ended June 30, 2008, respectively, for certain retail certificates of deposit under SFAS No. 159.

Residential mortgage loans held for sale

Old National has elected the fair value option under SFAS No. 159 for newly originated conforming fixed-rate and adjustable-rate first mortgage loans held for sale. These loans are intended for sale and are hedged with derivative instruments. None of these loans are 90 days or more past due, nor are any on nonaccrual status. Old National has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. The fair value option was not elected for loans held for investment. This election was effective for applicable loans originated after January 1, 2008.

Certain retail certificates of deposit

Old National has elected the fair value option under SFAS No. 159 for certain retail certificates of deposit; specifically, pools of retail certificates of deposit that have been matched with derivative instruments. Old National has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. This election was adopted prospectively for certain retail certificates of deposit originated after January 1, 2008. At June 30, 2009, there were no retail certificates of deposit accounted for under the fair value option under SFAS No. 159.

As of June 30, 2009, the difference between the aggregate fair value and the aggregate remaining principal balance for loans and certificates of deposit for which the fair value option has been elected was as follows. Accrued interest at period end is included in the fair value of the instruments.

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
Residential loans held for sale	**$ 25,249**	**$ 181**	**$ 25,068**
Certain retail certificates of deposit			

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The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three and six months ended June 30, 2009:

Changes in Fair Value for the Three Months ended June 30, 2009, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Residential loans held for sale	$ (427)	$ 4	$	$ (423)
Certain retail certificates of deposit	61	83		144

Changes in Fair Value for the Six Months ended June 30, 2009, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Residential loans held for sale	$ 178	$ 3	$	$ 181
Certain retail certificates of deposit				

As of June 30, 2008, the difference between the aggregate fair value and the aggregate remaining principal balance for loans and certificates of deposit for which the fair value option has been elected was as follows. Accrued interest at period end is included in the fair value of the instruments.

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
Residential loans held for sale	$ 16,620	$ 289	$ 16,331
Certain retail certificates of deposit	49,775	37	49,738

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets and liabilities carried at fair value for the three and six months ended June 30, 2008:

Changes in Fair Value for the Three Months ended June 30, 2008, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Residential loans held for sale	$ 120	$ 1	$	$ 121
Certain retail certificates of deposit	690		(431)	259

Changes in Fair Value for the Six Months ended June 30, 2008, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option

Total Changes

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	in Fair Values Included in Current Period Earnings
Residential loans held for sale	**$ 286**	**$ 3**	**$**	**$ 289**
Certain retail certificates of deposit	**538**		**(575)**	**(37)**

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In accordance with FSP FAS 107-1, the carrying amounts and estimated fair values of financial instruments, not previously presented, at June 30, 2009 and December 31, 2008 are as follows:

(dollars in thousands)	Carrying Value	Fair Value
June 30, 2009		
Financial Assets		
Cash, due from banks, federal funds sold and money market investments	$ 209,246	$ 209,246
Investment securities held-to-maturity	314,170	311,334
Federal Home Loan Bank stock	36,090	36,090
Loans, net (including impaired loans)	4,081,105	4,283,646
Accrued interest receivable	49,082	49,082
Financial Liabilities		
Deposits	$ 5,798,508	$ 5,841,192
Short-term borrowings	542,418	542,399
Other borrowings	810,305	824,718
Accrued interest payable	13,946	13,946
Standby letters of credit	538	538
Off-Balance Sheet Financial Instruments		
Commitments to extend credit	$	$ 2,266

(dollars in thousands)	Carrying Value	Fair Value
December 31, 2008		
Financial Assets		
Cash, due from banks, federal funds sold and money market investments	$ 193,012	$ 193,012
Investment securities held-to-maturity	99,661	100,831
Federal Home Loan Bank stock	41,090	41,090
Loans, net (including impaired loans)	4,693,272	4,997,869
Accrued interest receivable	49,030	49,030
Financial Liabilities		
Deposits	$ 5,372,978	$ 5,425,134
Short-term borrowings	649,623	649,610
Other borrowings	834,867	850,569
Accrued interest payable	14,954	14,954
Standby letters of credit	494	494
Off-Balance Sheet Financial Instruments		
Commitments to extend credit	$	$ 1,614

The following methods and assumptions were used to estimate the fair value of each type of financial instrument.

Cash, due from banks, federal funds sold and resell agreements and money market investments: For these instruments, the carrying amounts approximate fair value.

Investment securities: Fair values for investment securities held-to-maturity are based on quoted market prices, if available. For securities where quoted prices are not available, fair values are estimated based on market prices of similar securities.

Federal Home Loan Bank Stock: The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.
Loans: The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.
Deposits: The fair value of noninterest-bearing demand deposits and savings, NOW and money market deposits is the amount payable as of the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using rates currently offered for deposits with similar remaining maturities.
Short-term borrowings: Federal funds purchased and other short-term borrowings generally have an original term to maturity of 30 days or less and, therefore, their carrying amount is a reasonable estimate of fair value. The fair value of securities sold under agreements to repurchase is estimated by discounting future cash flows using current interest rates.
Other borrowings: The fair value of medium-term notes, subordinated debt and senior bank notes is determined using market quotes. The fair value of FHLB advances is determined using quoted prices for new FHLB advances with similar risk characteristics. The fair value of other debt is determined using comparable security market prices or dealer quotes.
Standby letters of credit: Fair values for standby letters of credit are based on fees currently charged to enter into similar agreements. The fair value for standby letters of credit was recorded in Accrued expenses and other liabilities on the consolidated balance sheet in accordance with FIN 45.
Off-balance sheet financial instruments: Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements. For further information regarding the notional amounts of these financial instruments, see Notes 17 and 18.

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is an analysis of our results of operations for the three and six months ended June 30, 2009 and 2008, and financial condition as of June 30, 2009, compared to June 30, 2008, and December 31, 2008. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business that are based on estimates and involves certain risks and uncertainties. Therefore, future results could differ significantly from our current expectations and the related forward-looking statements.

EXECUTIVE SUMMARY

During the quarter, we successfully completed the integration of the 65 branches acquired from Citizens Financial on March 20, 2009. The branches are located primarily in the Indianapolis area, with additional locations in the Indiana markets of Lafayette, Fort Wayne, Anderson, and Bloomington. On the date of acquisition, we assumed deposit liabilities valued at approximately $427 million and acquired a portfolio of loans valued at approximately $5.6 million. During the second quarter, we acquired additional loans from Citizens Financial valued at $8.0 million and opened 4,580 new demand deposit accounts.
The goodwill and intangibles of $19.9 million recorded in connection with the acquisition as well as the repurchase on March 31, 2009, of $100 million in preferred stock sold to the U.S. Department of Treasury as part of the Capital Purchase Program, along with the subsequent repurchase of the warrant for $1.2 million on May 11, 2009 impacted our capital ratios during the first and second quarters. Management is focused on building and maintaining strong capital levels to allow us to both absorb loan growth as it materializes and to take advantage of likely acquisition opportunities. As part of our capital strategy, management is working to reduce leverage on the balance sheet and took actions to reduce the investment portfolio late in the second quarter, and, in addition, moved a large portion of our lease portfolio to held-for-sale status. These actions could result in a lower margin and net income in the near term.
Net income for the second quarter of 2009 is $9.6 million, compared to $6.6 million and $19.5 million for the quarters ended December 31, 2008 and June 30, 2008, respectively. Results for the second quarter of 2009 were impacted negatively by a $4.0 million charge related to a special assessment of FDIC insurance expense and

other-than-temporary impairment of $7.9 million related to certain pooled-trust preferred securities. Partially offsetting these charges were securities gains of $10.3 million resulting from calls and sales during the quarter. As of June 30, 2009, our security portfolio consisted of 1,157 securities, 276 of which were in an unrealized loss position. The majority of unrealized losses are related to our non-agency mortgage-backed and pooled trust preferred securities. Management will continue to monitor these securities closely.

Net interest margin in the second quarter of 2009 was 3.59% compared to 3.63% during the first quarter of 2009, and 3.85% year-over-year. The decrease from the first quarter is primarily the result of higher average deposit balances, reducing our need for other borrowings which are currently at a more favorable rate. Also contributing to the lower margin is a decrease in average loans outstanding and an increase in lower yielding securities.

Although we believe our conservative stance toward underwriting policies and real estate lending has positioned us well, the credit markets continue to be a challenge in 2009. We recorded provision expense of $12.0 million during the second quarter. Non-accrual loan levels remained relatively constant compared to the prior quarter while criticized and classified loans increased slightly. As a percent of total loans, the allowance was 1.69% at June 30, 2009, compared to 1.41% and 1.31% at December 31, 2008 and June 30, 2008, respectively. Annualized net charge-offs were 1.18% of average loans in the second quarter of 2009 compared to 1.14% in the fourth quarter of 2008, and 1.35% year-over-year. Nonperforming loans totaled 1.71% of total loans at June 30, 2009, compared to 1.34% at December 31, 2008 and 1.43% a year ago.

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		**%**	**Six Months Ended June 30,**		**%**
(dollars in thousands)	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Income Statement Summary:						
Net interest income	**$ 60,767**	$ 61,344	(0.9)%	**$ 119,965**	$ 121,134	(1.0)%
Provision for loan losses	**11,968**	5,700	110.0	**29,268**	27,605	6.0
Noninterest income	**45,606**	43,513	4.8	**87,841**	90,389	(2.8)
Noninterest expense	**86,751**	74,834	15.9	**164,215**	145,770	12.7
Other Data:						
Return on average common equity	**6.02**%	11.58%		**4.73**%	11.54%	
Efficiency ratio	**77.50**	68.37		**74.91**	66.10	
Tier 1 leverage ratio	**7.10**	8.22		**7.10**	8.22	
Net charge-offs to average loans	**1.18**	1.35		**1.13**	0.94	

Net Interest Income

Net interest income is our most significant component of earnings, comprising over 57% of revenues at June 30, 2009. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Other factors include prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. In the current market wholesale funding sources cost less than client deposits; however, funding from client deposits generally cost less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize our mix of assets and funding and our net interest income and margin.

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Net interest income and net interest margin in the following discussion are presented on a fully taxable equivalent basis, which adjusts tax-exempt or nontaxable interest income to an amount that would be comparable to interest subject to income taxes using the federal statutory tax rate of 35% in effect for all periods. Net income is unaffected by these taxable equivalent adjustments as the offsetting increase of the same amount is made to income tax expense. Net interest income includes taxable equivalent adjustments of $5.6 million and $4.6 million for the three months ended June 30, 2009 and 2008, respectively. Taxable equivalent adjustments for the six months ended June 30, 2009 and 2008 were $11.4 million and $9.0 million, respectively.

Taxable equivalent net interest income was $66.3 million and $131.4 million for the three and six months ended June 30, 2009, up from the $65.9 million and $130.1 million reported for the three and six months ended June 30, 2008. The net interest margin was 3.59% and 3.61% for the three and six months ended June 30, 2009, compared to 3.85% and 3.76% for the three and six months ended June 30, 2008. The increase in net interest income is primarily due to the increase in interest earning assets being greater than the increase in interest-bearing liabilities. The decrease in net interest margin is primarily due to a change in the mix of interest earning assets and interest-bearing liabilities. The yield on average earning assets decreased 84 basis points from 5.97% to 5.13% while the cost of interest-bearing liabilities decreased 65 basis points from 2.46% to 1.81% in the quarterly year-over-year comparison. In the year-to-date comparison, the yield on average assets decreased 91 basis points from 6.11% to 5.20% while the cost of interest-bearing liabilities decreased 85 basis points from 2.72% to 1.87%.

Average earning assets were $7.396 billion for the three months ended June 30, 2009, compared to $6.856 billion for the three months ended June 30, 2008, an increase of 7.9%, or $540.4 million. Average earning assets were $7.287 billion for the six months ended June 30, 2009, compared to $6.915 billion for the six months ended June 30, 2008, an increase of 5.4%, or $371.9 million. Significantly affecting average earning assets at June 30, 2009 compared to June 30, 2008, was the increase in the size of the investment portfolio combined with the reduction of the size of the loan portfolio. During the six months ended June 30, 2009, $1.146 billion of investment securities were purchased and $627.4 million of investment securities were called by the issuers or sold. In addition, commercial and commercial real estate loans have been affected by continued weak loan demand in our markets, more stringent loan underwriting standards and our desire to lower future potential credit risk by being cautious towards the real estate market. Year over year, the investment portfolio, which generally has an average yield lower than the loan portfolio, has increased as a percent of interest earning assets.

Also affecting margin was an increase in noninterest-bearing demand deposits and time deposits. Included in deposits at June 30, 2009 are $84.2 million of noninterest-bearing deposits and $136.1 million of time deposits from the Citizens Financial branch acquisition. In the last half of 2008, $19.3 million of high cost brokered certificates of deposit were called or matured and $5.5 million of retail certificates of deposit were called. In addition, $51 million of FHLB advances matured in the last half of 2008 and a revolving credit facility with $55 million outstanding was paid off in the fourth quarter of 2008. During the first half of 2009, $81.0 million of high cost brokered certificates of deposit were called and $56.6 million of retail certificates of deposit were called. In addition, $25.0 million of FHLB advances were prepaid in the first half of 2009. Year over year, brokered certificates of deposit, which have an average interest rate higher than other types of deposits, have decreased as a percent of interest-bearing liabilities. Year over year, noninterest-bearing demand deposits have increased as a percent of total funding.

Provision for Loan Losses

The provision for loan losses was $12.0 million for the three months ended June 30, 2009, compared to $5.7 million for the three months ended June 30, 2008. The provision for loan losses was $29.3 million for the six months ended June 30, 2009, compared to $27.6 million for the six months ended June 30, 2008. The higher provision in 2009 is attributable to an increase in net charge-offs combined with an increase in nonaccrual loans. Included in the 2008 provision is $18.5 million associated with the misconduct of a former loan officer in the Indianapolis market and subsequent deterioration of these credits. See the discussion in Allowance for Loan Losses and Reserve for Unfunded Commitments in the Risk Management section of Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Noninterest Income

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. Noninterest income for the three months ended June 30, 2009, was $45.6 million, an increase of $2.1 million, or 4.8%, from the $43.5 million reported for the three months ended June 30, 2008. For the six months ended June 30, 2009, noninterest income was $87.8 million, a decrease of $2.5 million, or 2.8%, from the $90.4 million reported for the six months ended June 30, 2008.

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Net securities gains were $2.4 million and $5.6 million for the three and six months ended June 30, 2009, compared to net securities gains of $2.1 million and $6.6 million for the three and six months ended June 30, 2008. Included in the second quarter and first six months of 2009 is $7.9 million and $10.3 million, respectively, in charges for other-than-temporary-impairment on six pooled trust preferred securities. The 2008 net securities gains were primarily the result of securities which were called by the issuers.

Wealth management fees were $4.3 million and $8.1 million for the three and six months ended June 30, 2009 as compared to $4.9 million and $9.5 million for the three and six months ended June 30, 2008. Trust fee income has declined as a result of lower market values of managed assets.

Service charges on deposit accounts were $15.7 million and $26.4 million for the three and six months ended June 30, 2009, compared to $11.3 million and $21.5 million for the three and six months ended June 30, 2008. The increase in revenue is primarily attributable to the acquisition of the retail branch banking network of Citizens Financial Group in March 2009.

ATM fees were $5.4 million and $9.6 million for the three and six months ended June 30, 2009, compared to $4.5 million and $8.5 million for the three and six months ended June 30, 2008. The increase in debit card usage is primarily attributable to the Citizens Financial branch acquisition.

Revenue from company-owned life insurance was $0.4 million and $1.1 million for the three and six months ended June 30, 2009, compared to $2.8 million and $5.5 million for the three and six months ended June 30, 2008. During the third quarter of 2008, the crediting rate formula for the 1997 company-owned life insurance policy was amended to adopt a more conservative position and improve the overall market to book value ratio. This change resulted in lower revenues in the first six months of 2009 and we anticipate lower revenue levels to continue in future periods.

Fluctuations in the value of our derivatives resulted in gains on derivatives of $0.5 million and $1.0 million for the three and six months ended June 30, 2009 as compared to losses on derivatives of $0.4 million and $1.0 million for the three and six months ended June 30, 2008.

Other income decreased $1.2 million and $2.7 million for the three and six months ended June 30, 2009 as compared to the three and six months ended June 30, 2008. The decrease in the quarterly comparison was primarily as a result of a decrease in customer derivative fee revenue combined with a decrease in the gain on fair value adjustments related to certain retail certificates of deposit accounted for under SFAS No. 159. The decrease in the six month comparison was primarily as a result of a $1.5 million gain associated with the redemption of class B VISA shares recorded during the first quarter of 2008 combined with a decrease in customer derivative fee revenue and a decrease in the gain on fair value adjustments related to certain retail certificates of deposit accounted for under SFAS No. 159.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2009, totaled $86.8 million, an increase of $11.9 million, or 15.9%, from the $74.8 million recorded for the three months ended June 30, 2008. For the six months ended June 30, 2009, noninterest expense was $164.2 million, an increase of $18.4 million, or 12.7%, from the $145.8 million recorded for the six months ended June 30, 2008. The increased expenses in 2009 relate primarily to costs associated with the 65 Citizens Financial branches acquired during March 2009, as well as a $4.0 million special assessment of FDIC insurance expense.

Salaries and benefits is the largest component of noninterest expense. For the three months ended June 30, 2009, salaries and benefits were $45.2 million compared to $43.2 million for the three months ended June 30, 2008. For the six months ended June 30, 2009, salaries and benefits were $87.9 million compared to $85.5 million for the six months ended June 30, 2008. Included in the second quarter of 2009 is approximately $3.6 million of personnel expense associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group and $0.6 million for higher medical insurance expenses. Partially offsetting these increases was a $2.0 million reversal of performance-based incentive compensation expense. Included in the first six months of 2009 is approximately $5.2 million of personnel expense associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group and $1.1 million for higher medical insurance expense. Partially offsetting these increases was a $3.3 million reversal of performance-based incentive compensation expense.

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Occupancy expense increased $2.5 million and $3.4 million for the three and six months ended June 30, 2009, compared to the three and six months ended June 30, 2008, primarily as a result of increases in rent expense and the amortization of leasehold improvements. Utilities expense and real estate taxes also increased for the three and six months ended June 30, 2009 as compared to the three and six months ended June 30, 2008. The increase in rent expense is related to the sale leaseback transactions discussed in Note 17 to the consolidated financial statements and the additional 65 branches acquired from Citizens Financial in the first quarter of 2009. The increase in amortization expense is also related to the acquisition of the branches from Citizens Financial.

Professional fees increased $1.2 million for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008. The increase is primarily attributable to legal and other professional fees associated with the acquisition of the Citizens Financial branch network.

FDIC assessment expense was $6.3 million for the three months ended June 30, 2009, compared to $0.3 million for the three months ended June 30, 2008. For the six months ended June 30, 2009, FDIC assessment expense was $8.4 million compared to $0.6 million for the six months ended June 30, 2008. The increase is primarily due to the increase in the rates banks pay for deposit insurance and the expiration of our one-time assessment credit at the end of 2008. The FDIC implemented a special assessment during the second quarter of 2009 which resulted in approximately $4.0 of additional expense during the quarter. It is possible that the FDIC will impose another special assessment later in the year as part of its restoration plan.

The increase in the expense for amortization of intangibles for both the quarterly and year-to-date comparisons is primarily due to the core deposit intangible associated with the acquisition of the retail branch banking network of Citizens Financial Group and subsequent amortization of this asset.

Other expense for the three months ended June 30, 2009, totaled $3.6 million, a decrease of $0.7 million compared to the three months ended June 30, 2008. Other expense for the six months ended June 30, 2009, totaled $8.1 million, an increase of $1.4 million compared to the six months ended June 30, 2008. During the second quarter of 2008, we recorded $0.7 million for impairment of intangibles due to the loss of a significant insurance client at one of its insurance subsidiaries. The insurance subsidiary is included in the Other column for segment reporting. There is no corresponding expense in 2009. The provision for unfunded commitments increased $1.0 million for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008. Included in the six months ended June 30, 2009 is approximately $1.0 million of conversion expenses related to the acquisition of the retail branch banking network of Citizens Financial Group.

Provision for Income Taxes

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was a benefit of 25.9% for the three months ended June 30, 2009, compared to expense of 19.9% for the three months ended June 30, 2008. The provision for income taxes, as a percentage of pre-tax income, was a benefit of 32.9% for the six months ended June 30, 2009, compared to a benefit of 1.7% for the six months ended June 30, 2008. The decrease in the effective tax rate for the three and six months ended June 30, 2009, is the result of tax-exempt income being a higher percentage of pre-tax income in 2009 than in the prior year. See Note 15 to the consolidated financial statements for additional information.

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FINANCIAL CONDITION

Overview

At June 30, 2009, our assets were $8.012 billion, a 5.4% increase compared to June 30, 2008 assets of $7.602 billion, and an annualized increase of 3.5% compared to December 31, 2008 assets of $7.874 billion. On March 20, 2009, Old National completed its acquisition of the Indiana retail branch banking network of Citizens Financial Group, which increased assets by approximately $424.7 million and deposits by $424.5 million.

Earning Assets

Our earning assets are comprised of investment securities, loans and loans and leases held for sale, and money market investments. Earning assets were $7.209 billion at June 30, 2009, an increase of 6.3% from June 30, 2008, and an annualized increase of 3.8% since December 31, 2008.

Investment Securities

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we do have $79.2 million of 15- and 20-year fixed-rate mortgage pass-through securities in our held-to-maturity investment portfolio and during the second quarter of 2009 approximately $230.1 million of U.S. government-sponsored entity and agency securities were added to our held-to-maturity investment portfolio.

At June 30, 2009, the total investment securities portfolio was $2.600 billion compared to $2.027 billion at June 30, 2008, an increase of $572.3 million or 28.2%. Investment securities increased $333.9 million compared to December 31, 2008, an annualized increase of 29.5%. Investment securities represented 36.1% of earning assets at June 30, 2009, compared to 29.9% at June 30, 2008, and 32.0% at December 31, 2008. Funds received in the Citizens Financial branch acquisition have been invested primarily in investment securities. There were $99.0 million of unplanned calls of securities during the second quarter. Stronger commercial loan demand in the future and management s efforts to deleverage the balance sheet could also result in a reduction in the securities portfolio. As of June 30, 2009, management does not intend to sell any securities with an unrealized loss position.

The investment securities available-for-sale portfolio had net unrealized losses of $59.7 million at June 30, 2009, an increase of $8.7 million compared to net unrealized losses of $51.0 million at June 30, 2008, and a decrease of $4.9 million compared to net unrealized losses of $64.6 million at December 31, 2008. A $10.3 million charge was recorded during the first six months of 2009 related to other-than-temporary-impairment on six pooled trust preferred securities. Contributing to the volatility in net unrealized losses over the past twelve months are changes in interest rates and the financial crisis affecting the banking system and financial markets.

The investment portfolio had an average duration of 5.35 years at June 30, 2009, compared to 4.50 years at June 30, 2008, and 3.87 years at December 31, 2008. The annualized average yields on investment securities, on a taxable equivalent basis, were 5.19% for the three months ended June 30, 2009, compared to 5.30% for the three months ended June 30, 2008, and 5.62% for the three months ended December 31, 2008. Average yields on investment securities, on a taxable equivalent basis, were 5.31%, 5.18% and 5.34% for the six months ended June 30, 2009 and 2008, and for the year ended December 31, 2008, respectively.

Residential Loans Held for Sale

Residential loans held for sale were $25.2 million at June 30, 2009, compared to $16.6 million at June 30, 2008, and $17.2 million at December 31, 2008. Residential loans held for sale are loans that are closed, but not yet purchased by investors. The amount of residential loans held for sale on the balance sheet varies depending on the amount of originations and timing of loan sales to the secondary market. The increase in residential loans held for sale from June 30, 2008, is primarily attributable to increased activity in residential lending in late 2008 and the first half of 2009.

We elected the fair value option under SFAS No. 159 prospectively for residential loans held for sale. The election was effective for loans originated after January 1, 2008. The aggregate fair value exceeded the unpaid principal balances by $0.2 million, $0.6 million and $0.3 million as of June 30, 2009, December 31, 2008 and June 30, 2008, respectively.

Finance Leases Held for Sale

At June 30, 2009, Old National had finance leases held for sale of $370.2 million. These leases were transferred from the commercial loan category at cost utilizing the lower of cost or fair value method. The portfolio of leases had maturities ranging from 1 to 19 years and interest rates ranging from 2.57% to 13.21%. All of the leases are current. The majority of the leases held for sale are to municipalities, with various types of equipment securing the leases.

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans are the second largest classification within earning assets, representing 35.3% of earning assets at June 30, 2009, a decrease from 44.6% at June 30, 2008, and a decrease from 43.2% at December 31, 2008. At June 30, 2009, commercial and commercial real estate loans were $2.547 billion, a decrease of $475.6 million since June 30, 2008, and a decrease of $505.9 million since December 31, 2008. The majority of the decrease relates to the finance leases which were transferred to held for sale. In addition, weak loan demand in our markets continues to affect loan growth. Our conservative underwriting standards have also contributed to slower loan growth. We continue to be cautious towards the real estate market in an effort to lower credit risk.

Consumer Loans

At June 30, 2009, consumer loans, including automobile loans, personal and home equity loans and lines of credit, and student loans, decreased $32.4 million or 2.7% compared to June 30, 2008, and decreased $55.2 million or, annualized, 9.1% since December 31, 2008.

Residential Real Estate Loans

Residential real estate loans, primarily 1-4 family properties, have decreased in significance to the loan portfolio over the past five years due to higher levels of loan sales into the secondary market, primarily to private investors. We sell the majority of residential real estate loans originated as a strategy to better manage interest rate risk and liquidity. We sell almost all residential real estate loans servicing released without recourse.

At June 30, 2009, residential real estate loans were $448.4 million, a decrease of $67.6 million, or 13.1%, from June 30, 2008.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at June 30, 2009, totaled $204.0 million, an increase of $15.3 million compared to $188.7 million at June 30, 2008, and an increase of $17.2 million compared to $186.8 million at December 31, 2008. We recorded $19.9 million of goodwill and other intangible assets associated with the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which is included in the Community Banking column for segment reporting. During the second quarter of 2008, Old National recorded $0.7 million for impairment of intangibles due to the loss of a significant insurance client at one of its insurance subsidiaries. The insurance subsidiary is included in the Other column for segment reporting. The remaining decreases were the result of standard amortization expense related to the other intangible assets.

Real Estate Assets Held for Sale

Real estate assets held for sale were $1.6 million at June 30, 2009, a decrease of $1.4 million compared to $3.0 million at June 30, 2008. The decline is the result of the sale leaseback transactions during 2008 and the second quarter of 2009. Included in real estate assets held for sale at June 30, 2009 are three financial centers that are actively being marketed. We plan to continue occupying these properties under long-term lease agreements after sale.

Other assets have increased $32.0 million, or 20.4%, since June 30, 2008, primarily as a result of an increase in deferred tax assets and fluctuations in the fair value of derivative financial instruments. Based on current forecasts, we believe our deferred tax assets are fully realizable and we will be able to apply net operating losses to future periods.

Funding
Total funding, comprised of deposits and wholesale borrowings, was $7.151 billion at June 30, 2009, an increase of 6.2% from $6.731 billion at June 30, 2008, and an annualized increase of 7.1% from $6.907 billion at December 31, 2008. Included in total funding were deposits of $5.799 billion at June 30, 2009, an increase of $426.1 million, or 7.9%, compared to June 30, 2008, and an increase of $376.2 million compared to December 31, 2008. Included in total deposits at June 30, 2009 is $356.2 million from the acquisition of the Indiana retail branch banking network of Citizens Financial Group. In the last half of 2008, we called $5.5 million of retail certificates of deposit; and $19.3 million of high cost brokered certificates of deposit were called or matured. During the first half of 2009, $81.0 million of high cost brokered certificates of deposit were called and $56.6 million of retail certificates of deposit were called. Noninterest-bearing deposits increased 21.8% or $187.0 million compared to June 30, 2008. Time deposits increased 14.8% or $267.4 million compared to June 30, 2008. Year over year, we have experienced an increase in noninterest-bearing demand deposits that has favorably impacted the cost of funds.
Effective January 1, 2008, we elected the fair value option under SFAS No. 159 prospectively for certain retail certificates of deposit. The carrying value of these retail certificates of deposit was $0, $49.3 million and $49.7 million as of June 30, 2009, December 31, 2008 and June 30, 2008, respectively. The carrying values at December 31, 2008 and June 30, 2008 were comprised of contractual balances of $48.5 million and $49.7 million and fair value adjustments of $0.8 million and $37 thousand, respectively.
We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At June 30, 2009, wholesale borrowings, including short-term borrowings and other borrowings, decreased $6.0 million, or 0.4%, from June 30, 2008 and decreased $131.8 million, or 17.8%, annualized, from December 31, 2008, respectively. Wholesale funding as a percentage of total funding was 18.9% at June 30, 2009, compared to 20.2% at June 30, 2008, and 21.5% at December 31, 2008. Short-term borrowings have decreased $32.9 million since June 30, 2008 while long-term borrowings have increased $26.9 million since June 30, 2008. We purchased $80.0 million of low-cost FHLB advances during the last half of 2008. In addition, $51.0 million of FHLB advances matured in the last half of 2008 and a revolving credit facility with $55.0 million outstanding was paid off in the fourth quarter of 2008. During the first half of 2009, $25.0 million of FHLB advances were prepaid.
Capital
Shareholders equity totaled $634.6 million at June 30, 2009, compared to $649.0 million at June 30, 2008, and $730.9 million at December 31, 2008. The December 31, 2008 balance included $100 million of non-voting preferred shares and common stock warrants issued to the Treasury Department as part of the Capital Purchase Program for healthy financial institutions. On March 31, 2009, we accelerated the accretion of the $2.6 million discount and repurchased all of the $100 million of non-voting preferred shares from the Treasury Department.
As part of the TARP CPP, we entered into a Letter Agreement and Securities Purchase Agreement with the Treasury Department on December 12, 2008, pursuant to which Old National sold (i) 100,000 shares of Old National s Fixed Rate Cumulative Perpetual Preferred Stock, Series T (the Series T Preferred Stock) and (ii) warrants (the Warrants) to purchase up to 813,008 shares of Old National s common stock at an initial per share exercise price of $18.45.
The Series T Preferred Stock qualified as Tier 1 capital and the Treasury Department was entitled to cumulative dividends at a rate of 5% per year for the first five years, and 9% per year thereafter. The Preferred Stock had priority in the payment of dividends over any cash dividends paid to common stockholders. The adoption of ARRA permitted Old National to redeem the Series T Preferred Stock without penalty and without the need to raise new capital, subject to the Treasury s consultation with Old National s regulatory agency. The Warrants had a 10-year term and were immediately exercisable upon issuance. The common stock warrants were repurchased on May 11, 2009, for $1.2 million.
During the fourth quarter of 2007, we declared a cash dividend of $0.23 per share to be paid in the first quarter of 2008, which was included in the fourth quarter 2007 financial results. We paid a cash dividend of $0.23 per share for the second quarter of 2008, which reduced equity by $15.3 million. We declared cash dividends of $0.23 and $0.07 per share during the first and second quarters of 2009, respectively, which reduced equity by $19.9 million. We also accrued dividends on the preferred shares for the three months ended March 31, 2009, which reduced equity by $1.2 million. We repurchased shares of our stock, reducing shareholders equity by $0.4 million during the six months

ended June 30, 2009, and $0.3 million during the six months ended June 30, 2008. The repurchases related to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by $4.3 million during the six months ended June 30, 2009, and decreased equity by $26.7 million during the six months ended June 30, 2008. Shares issued for stock options, restricted stock and stock compensation plans increased shareholders equity by $2.5 million during the six months ended June 30, 2009, compared to $2.0 million during the six months ended June 30, 2008.

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Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At June 30, 2009, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition. To be categorized as well-capitalized, the bank subsidiary must maintain at least a total risk-based capital ratio of 10.0%, a Tier 1 risk-based capital ratio of 6.0% and a Tier 1 leverage ratio of 5.0%. Regulatory capital ratios have decreased from December 31, 2008 levels primarily due to the repurchase of $100 million of preferred shares from the Treasury Department on March 31, 2009.

As of June 30, 2009, Old National s consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

	Regulatory Guidelines Minimum	June 30, 2009	June 30, 2008	December 31, 2008
Risk-based capital:				
Tier 1 capital to total avg assets (leverage ratio)	4.00%	**7.10%**	8.22%	9.50%
Tier 1 capital to risk-adjusted total assets	4.00	**10.25**	11.23	12.73
Total capital to risk-adjusted total assets	8.00	**12.59**	14.10	15.06
Shareholders equity to assets	N/A	**7.92**	8.54	9.28

RISK MANAGEMENT

Overview

Management, with the oversight of the Board of Directors, has in place company-wide structures, processes, and controls for managing and mitigating risk. The following discussion addresses the three major risks that we face: credit, market, and liquidity.

Credit Risk

Credit risk represents the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms. Our primary credit risks result from our investment and lending activities.

Investment Activities

Within our securities portfolio, the non-agency collateralized mortgage obligations represent the greatest exposure to the current instability in the residential real estate and credit markets. At June 30, 2009, we had non-agency collateralized mortgage obligations of $189.8 million or approximately 8.4% of the available-for-sale securities portfolio. The net unrealized loss on these securities at June 30, 2009, was approximately $56.8 million.

We expect conditions in the overall residential real estate and credit markets to remain uncertain for the foreseeable future. Deterioration in the performance of the underlying loan collateral could result in deterioration in the performance of our asset-backed securities. Four of these securities were downgraded during the quarter and as of June 30, 2009 eight of these securities were rated below investment grade. Additional credit deterioration in future periods could result in other-than-temporary-impairment in certain of these securities.

We also carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and performance of underlying collateral. At June 30, 2009, we had pooled trust preferred securities with a fair value of approximately $16.4 million, or 0.7% of the available-for-sale securities portfolio. During the first six months of 2009, we determined that six of these securities had other-than-temporary-impairment as a result of additional defaults or deferrals during the period. A $10.3 million charge related to the credit loss was realized in earnings during the first six months of 2009. These securities remained classified as available-for-sale and at June 30, 2009, the unrealized loss on our pooled trust preferred securities was approximately $22.2 million.

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The majority of the remaining mortgage-backed securities are backed by U.S. government-sponsored or federal agencies. Municipal bonds, corporate bonds and other debt securities are evaluated by reviewing the credit-worthiness of the issuer and general market conditions. We do not have the intent to sell these securities and it is likely that we will not be required to sell these securities before their anticipated recovery.

Counterparty Exposure

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation in a financial transaction. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National s net counterparty exposure was an asset of $227.5 million at June 30, 2009.

Lending Activities

Community-based lending personnel, along with region-based independent underwriting and analytic support staff, extend credit under guidelines established and administered by our Risk and Credit Policy Committee. This committee, which meets quarterly, is made up of outside directors. The committee monitors credit quality through its review of information such as delinquencies, credit exposures, peer comparisons, problem loans and charge-offs. In addition, the committee reviews and approves recommended loan policy changes to assure it remains appropriate for the current lending environment.

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. At June 30, 2009, we had no concentration of loans in any single industry exceeding 10% of its portfolio and had no exposure to foreign borrowers or lesser-developed countries. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Illinois and Kentucky. We continue to be affected by weakness in the economy of our principal markets. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens or weakens.

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Summary of under-performing, criticized and classified assets:

(dollars in thousands)	June 30, 2009	June 30, 2008	December 31, 2008
Nonaccrual loans			
Commercial and commercial real estate	**$ 62,730**	$ 57,307	$ 52,394
Residential real estate	**7,424**	4,976	5,474
Consumer	**7,581**	5,769	6,173
Total nonaccrual loans	**77,735**	68,052	64,041
Past due loans (90 days or more and still accruing)			
Commercial and commercial real estate	**1,126**	611	991
Residential real estate	**134**		
Consumer	**1,063**	970	1,917
Total past due loans	**2,323**	1,581	2,908
Foreclosed properties	**4,768**	3,309	2,934
Total under-performing assets	**$ 84,826**	$ 72,942	$ 69,883
Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans)	**$ 191,324**	$ 149,751	$ 180,118
Other classified assets (3)	**145,299**		34,543
Criticized loans	**101,019**	97,542	124,855
Total criticized and classified assets	**$ 437,642**	$ 247,293	$ 339,516
Asset Quality Ratios:			
Non-performing loans/total loans (1) (2)	**1.71%**	1.43%	1.34%
Under-performing assets/total loans and foreclosed properties (1)	**1.86**	1.54	1.46
Under-performing assets/total assets	**1.06**	0.96	0.89
Allowance for loan losses/under-performing assets	**82.64**	85.12	96.00

(1) Loans include residential loans held for sale and leases held for sale.

(2) Non-performing loans include nonaccrual and renegotiated loans.

(3) Includes 8 pooled trust preferred

securities, 8
non-agency
mortgage-backed
securities and 2
corporate
securities at
June 30, 2009.

Loan charge-offs, net of recoveries, totaled $13.6 million for the three months ended June 30, 2009, a decrease of $2.3 million from the three months ended June 30, 2008. Net charge-offs for the six months ended June 30, 2009 totaled $26.3 million compared to $22.0 million for the six months ended June 30, 2008. Included in the first six months of 2009 and 2008 are $1.2 million and $13.9 million, respectively, of charge-offs associated with the misconduct of a former loan officer in the Indianapolis market. Included in the three and six months ended June 30, 2009 is $0.6 million of charge-offs associated with commercial and commercial real estate loans which were transferred to held for sale and sold during the second quarter. Annualized, net charge-offs to average loans were 1.18% and 1.13% for the three and six months ended June 30, 2009, as compared to 1.35% and 0.94% for the three and six months ended June 30, 2008.

Under-performing assets totaled $84.8 million at June 30, 2009, an increase of $11.9 million compared to $72.9 million at June 30, 2008, and an increase of $14.9 million compared to $69.9 million at December 31, 2008. As a percent of total loans and foreclosed properties, under-performing assets at June 30, 2009, were 1.86%, an increase from the June 30, 2008 ratio of 1.54% and an increase from the December 31, 2008 ratio of 1.46%. Nonaccrual loans were $77.7 million at June 30, 2009, compared to $68.1 million at June 30, 2008, and $64.0 million at December 31, 2008.

From time to time, Old National may agree to modify the contractual terms of a borrower s loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms of six months. At June 30, 2009, loans modified in a troubled debt restructuring, which are included in nonaccrual loans, totaled $0.6 million.

Management will continue its efforts to reduce the level of under-performing loans and will consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

Total classified and criticized assets were $437.6 million at June 30, 2009, an increase of $190.3 million from June 30, 2008, and an increase of $98.1 million from December 31, 2008. Other classified assets include $145.3 million and $34.5 million of investment securities that fell below investment grade rating at June 30, 2009 and December 31, 2008, respectively.

Allowance for Loan Losses and Reserve for Unfunded Commitments

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance. At June 30, 2009, the allowance for loan losses was $70.1 million, an increase of $8.0 million compared to $62.1 million at June 30, 2008, and an increase of $3.0 million compared to $67.1 million at December 31, 2008. As a percentage of total loans excluding loans and leases held for sale, the allowance was 1.69% at June 30, 2009, compared to 1.31% at June 30, 2008, and 1.41% at December 31, 2008. The provision for loan losses for the three months ended June 30, 2009, amounted to $12.0 million compared to $5.7 million for the three months ended June 30, 2008. The provision for the six months ended June 30, 2009, amounted to $29.3 million compared to $27.6 million for the six months ended June 30, 2008. The increase in the provision year over year is primarily attributable to an increase in net charge-offs combined with an increase in nonaccrual loans.

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. In accordance with generally accepted accounting principles, the $4.1 million reserve for unfunded loan commitments is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments was $3.5 million at December 31, 2008.

Market Risk

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, currency exchange rates, and other relevant market rates or prices. Interest rate risk is our primary market risk and results from timing differences in the re-pricing of assets and liabilities, changes in the slope of the yield curve, and the potential exercise of explicit or embedded options.

We manage interest rate risk within an overall asset and liability management framework that includes attention to credit risk, liquidity risk and capitalization. A principal objective of asset/liability management is to manage the sensitivity of net interest income to changing interest rates. Asset and liability management activity is governed by a policy reviewed and approved annually by the Board of Directors. The Board of Directors has delegated the administration of this policy to the Funds Management Committee, a committee of the Board of Directors, and the Executive Balance Sheet Management Committee, a committee comprised of senior executive management. The Funds Management Committee meets quarterly and oversees adherence to policy and recommends policy changes to the Board. The Executive Balance Sheet Management committee meets at least quarterly. This committee determines balance sheet management strategies and initiatives for the Company. A group comprised of corporate and line management meets monthly to implement strategies and initiatives determined by the Executive Balance Sheet Management Committee.

We use two modeling techniques to quantify the impact of changing interest rates on the Company, Net Interest Income at Risk and Economic Value of Equity. Net Interest Income at Risk is used by management and the Board of Directors to evaluate the impact of changing rates over a two-year horizon. Economic Value of Equity is used to evaluate long-term interest rate risk. These models simulate the likely behavior of our net interest income and the likely change in our economic value due to changes in interest rates under various possible interest rate scenarios. Because the models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect our net interest income and value, we recognize that model outputs are not guarantees of actual results. For this reason, we model many different combinations of interest rates and balance sheet assumptions to

understand its overall sensitivity to market interest rate changes.

Old National s Board of Directors, through its Funds Management Committee, monitors our interest rate risk. Policy guidelines, in addition to June 30, 2009 and 2008 results are as follows:

Net Interest Income 12 Month Policies

	Interest Rate Change in Basis Points (bp)					
	Down 300	**Down 200**	**Down 100**	**Up 100**	**Up 200**	**Up 300**
Green Zone	-12.00%	-6.50%	-3.00%	-3.00%	-6.50%	-12.00%
Yellow Zone	-12.00% to -15.00%	-6.50% to -8.50%	-3.00% to -4.00%	-3.00% to -4.00%	-6.50% to -8.50%	-12.00% to -15.00%
Red Zone	-15.00%	-8.50%	-4.00%	-4.00%	-8.50%	-15.00%
6/30/2009	**N/A**	**N/A**	**N/A**	**2.89%**	**3.21%**	**3.09%**
6/30/2008	**N/A**	-3.75%	0.39%	-0.62%	-1.41%	-2.00%

Net Interest Income 24 Month Cumulative Policies

	Interest Rate Change in Basis Points (bp)					
	Down 300	**Down 200**	**Down 100**	**Up 100**	**Up 200**	**Up 300**
Green Zone	-12.00%	-6.50%	-3.00%	-3.00%	-6.50%	-12.00%
Yellow Zone	-12.00% to -15.00%	-6.50% to -8.50%	-3.00% to -4.00%	-3.00% to -4.00%	-6.50% to -8.50%	-12.00% to -15.00%
Red Zone	-15.00%	-8.50%	-4.00%	-4.00%	-8.50%	-15.00%
6/30/2009	**N/A**	**N/A**	**N/A**	**5.05%**	**5.83%**	**5.98%**
6/30/2008	**N/A**	-7.20%	-0.89%	-0.08%	-0.55%	-1.06%

Economic Value of Equity Policies

	Interest Rate Change in Basis Points (bp)					
	Down 300	**Down 200**	**Down 100**	**Up 100**	**Up 200**	**Up 300**
Green Zone	-22.00%	-12.00%	-5.00%	-5.00%	-12.00%	-22.00%
Yellow Zone	-22.00% to -30.00%	-12.00% to -17.00%	-5.00% to -7.50%	-5.00% to -7.50%	-12.00% to -17.00%	-22.00% to -30.00%
Red Zone	-30.00%	-17.00%	-7.50%	-7.50%	-17.00%	-30.00%
6/30/2009	**N/A**	**N/A**	**N/A**	**-5.09%**	**-12.49%**	**-18.12%**
6/30/2008	**N/A**	-9.53%	-1.42%	-3.15%	-7.07%	-10.97%

Red zone policy limits represent our normal absolute interest rate risk exposure compliance limit. Policy limits defined as green zone represent the range of potential interest rate risk exposures that the Funds Management Committee believes to be normal and acceptable operating behavior. Yellow zone policy limits represent a range of interest rate risk exposures falling below the bank s maximum allowable exposure (red zone) but above its normally acceptable interest rate risk levels (green zone). Policy limits are applicable to negative changes in Net Interest Income at Risk and Economic Value of Equity.

Modeling for the Down 100 Basis Points , Down 200 Basis Points , and Down 300 Basis Points scenarios for both the Net Interest Income at Risk and Economic Value of Equity are not applicable in the current rate environment because

the scenarios floor at Zero before absorbing the full 100, 200, and 300 basis point drop, respectively.
At June 30, 2009, modeling indicated Old National s Net Interest Income at Risk values were positive for Up 100, Up 200 and Up 300 scenarios for both the 12-month and 24-month Net Interest Income at Risk.

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At June 30, 2009, modeling indicated that Old National was with in the yellow zone policy limit for the Up 100 and Up 200 Economic Value of Equity scenarios. Management has agreed to monitor these scenarios closely. The Up 300 Economic Value of Equity Scenarios fell with in the Old National s green zone policy limit, which is considered normal and acceptable for Economic Value of Equity scenarios.

In addition to policy-defined scenarios, Old National models other scenarios to measure interest rate risk. For example, the company models a yield curve based on current swap spreads and a 12-month forward curve. As of June 30, 2009, Old National s 12 month cumulative Net Interest Income at Risk for the scenario was 3.04%. In addition, Old National models a ramp scenario where rates are increased 25 basis points each quarter over a 12 month timeframe. As of June 30, 2009, Old National s 12 month cumulative Net Interest Income at Risk for this scenario was 0.64%.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. Our derivatives had an estimated fair value gain of $1.5 million at June 30, 2009, compared to an estimated fair value loss of $0.6 million at December 31, 2008. In addition, the notional amount of derivatives increased by $194.8 million from 2008. See Note 16 to the consolidated financial statements for further discussion of derivative financial instruments.

Liquidity Risk

Liquidity risk arises from the possibility that we may not be able to satisfy current or future financial commitments, or may become unduly reliant on alternative funding sources. The Funds Management Committee of the Board of Directors establishes liquidity risk guidelines and, along with the Balance Sheet Management Committee, monitors liquidity risk. The objective of liquidity management is to ensure we have the ability to fund balance sheet growth and meet deposit and debt obligations in a timely and cost-effective manner. Management monitors liquidity through a regular review of asset and liability maturities, funding sources, and loan and deposit forecasts. We maintain strategic and contingency liquidity plans to ensure sufficient available funding to satisfy requirements for balance sheet growth, properly manage capital markets funding sources and to address unexpected liquidity requirements.

Loan repayments and maturing investment securities are a relatively predictable source of funds. However, deposit flows, calls of investment securities and prepayments of loans and mortgage-related securities are strongly influenced by interest rates, the housing market, general and local economic conditions, and competition in the marketplace. We continually monitor marketplace trends to identify patterns that might improve the predictability of the timing of deposit flows or asset prepayments.

Our ability to acquire funding at competitive prices is influenced by rating agencies views of our credit quality, liquidity, capital and earnings. All of the rating agencies place us in an investment grade that indicates a low risk of default. Standard and Poor s and Dominion Bond Rating Services have each issued a stable outlook in conjunction with their ratings as of December 31, 2008. On October 13, 2008, Moody s Investor Service changed Old National Bancorp s outlook to negative. As of December 12, 2008, Fitch Rating Services changed their long-term outlook rating from negative to stable for both Old National Bancorp (the Parent Company) and Old National Bank (the Bank Subsidiary). The senior debt ratings of Old National Bancorp (the Parent Company) and Old National Bank (the Bank Subsidiary) at June 30, 2009, are shown in the following table.

SENIOR DEBT RATINGS

	Standard and Poor s		**Moody s Investor Service**		**Fitch, Inc.**		**Dominion Bond Rating Svc.**	
	Long term	**Short term**	**Long term**	**Short term**	**Long term**	**Short term**	**Long term**	**Short term**
Old National Bancorp	BBB	N/A	A2	N/A	BBB	F2	BBB (high)	R-2 (high)
Old National Bank	BBB+	A2	A1	P-1	BBB+	F2	A (low)	R-1 (low)

N/A = not applicable

As of June 30, 2009, the Bank Subsidiary had the capacity to borrow $800.7 million from the Federal Reserve Bank s discount window. The Bank Subsidiary is also a member of the Federal Home Loan Bank (FHLB) of Indianapolis, which provides a source of funding through FHLB advances. The Bank Subsidiary maintains relationships in capital markets with brokers and dealers to issue certificates of deposits and short-term and medium-term bank notes as well.

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The Parent Company has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. The Parent Company obtains funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt markets. At June 30, 2009, the Parent Company s other borrowings outstanding remained unchanged at $157.2 million compared with December 31, 2008. There is $50.0 million Parent Company debt scheduled to mature within the next 12 months. During the second quarter of 2009, Old National entered into a $30 million revolving credit facility at the parent level. The facility had an interest rate of LIBOR plus 2.00% and a maturity of 364 days. There was no amount outstanding as of June 30, 2009.

Old National agreed to participate in the U.S. Treasury Department Capital Purchase Program for healthy financial institutions during fourth quarter 2008. Under the program, Old National sold preferred, non-voting shares of its stock and warrants valued at $100 million to the U.S. Treasury Department. As of March 31, 2009, Old National repurchased all of the $100 million of non-voting preferred shares from the Treasury Department. The common stock warrants were repurchased on May 11, 2009, for $1.2 million.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. At December 31, 2006, the Bank Subsidiary had received regulatory approval to declare a dividend up to $76 million in the first quarter of 2007. The Parent Company used the cash obtained from the dividend to fund its purchase of St. Joseph Capital Corporation during the first quarter of 2007. As a result of this special dividend, the Bank Subsidiary requires approval of regulatory authority for the payment of dividends to the Parent Company. Such approval was obtained for the payment of dividends at June 30, 2009.

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.049 billion and standby letters of credit of $101.7 million at June 30, 2009. At June 30, 2009, approximately $991 million of the loan commitments had fixed rates and $58 million had floating rates, with the fixed rates ranging from 0.5% to 18%. At December 31, 2008, loan commitments were $1.124 billion and standby letters of credit were $108.4 million. The term of these off-balance sheet arrangements is typically one year or less.

During the second quarter of 2007, we entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of $9.4 million at June 30, 2009.

CONTRACTUAL OBLIGATIONS

The following table presents our significant fixed and determinable contractual obligations at June 30, 2009:

CONTRACTUAL OBLIGATIONS

	Payments Due In				
(dollars in thousands)	**One Year or Less (A)**	**One to Three Years**	**Three to Five Years**	**Over Five Years**	**Total**
Deposits without stated maturity	$ 3,723,647	$	$	$	$ 3,723,647
IRAs, consumer and brokered certificates of deposit	718,115	968,508	293,016	95,222	2,074,861
Short-term borrowings	542,418				542,418
Other borrowings	2,020	374,089	257,093	177,103	810,305
Operating leases	16,048	62,071	58,649	319,045	455,813

(A) For the remaining six

months of fiscal
2009.

We rent certain premises and equipment under operating leases. See Note 17 to the consolidated financial statements for additional information on long-term lease arrangements.

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We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 16 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 17 to the consolidated financial statements.

In addition, liabilities recorded under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48) are not included in the table because the amount and timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities recorded under FIN 48 is included in Note 15 to the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008. Certain accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from these judgments and estimates which could have a material affect on our financial condition and results of operations.

The following accounting policies materially affect our reported earnings and financial condition and require significant judgments and estimates. Management has reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board.

Goodwill and Intangibles

Description. For acquisitions, we are required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value. These often involve estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under Statement of Financial Accounting Standards (SFAS) No. 142 *Goodwill and Other Intangible Assets*, goodwill and indefinite-lived assets recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset.

Judgments and Uncertainties. The determination of fair values is based on internal valuations using management s assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors.

Effect if Actual Results Differ From Assumptions. Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying values of goodwill or intangible assets and could result in impairment losses affecting the financials of the Company as a whole and the individual lines of business in which the goodwill or intangibles reside.

Allowance for Loan Losses

Description. The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses in the consolidated loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, assessments of the impact of current and anticipated economic conditions on the portfolio and historical loss experience. The allowance represents management s best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional

allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

The allowance is increased through a provision charged to operating expense. Uncollectible loans are charged-off through the allowance. Recoveries of loans previously charged-off are added to the allowance. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. Our policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. We monitor the quality of our loan portfolio on an on-going basis and use a combination of detailed credit assessments by relationship managers and credit officers, historic loss trends, and economic and business environment factors in determining the allowance for loan losses. We record provisions for loan losses based on current loans outstanding, grade changes, mix of loans and expected losses. A detailed loan loss evaluation on an individual loan basis for our highest risk loans is performed quarterly. Management follows the progress of the economy and how it might affect our borrowers in both the near and the intermediate term. We have a formalized and disciplined independent loan review program to evaluate loan administration, credit quality and compliance with corporate loan standards. This program includes periodic reviews and regular reviews of problem loan reports, delinquencies and charge-offs.

Judgments and Uncertainties. We use migration analysis as a tool to determine the adequacy of the allowance for loan losses for non-retail loans that are not impaired. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination.

We calculate migration analysis using several different scenarios based on varying assumptions to evaluate the widest range of possible outcomes. The migration-derived historical commercial loan loss rates are applied to the current commercial loan pools to arrive at an estimate of probable losses for the loans existing at the time of analysis. The amounts determined by migration analysis are adjusted for management s best estimate of the effects of current economic conditions, loan quality trends, results from internal and external review examinations, loan volume trends, credit concentrations and various other factors. Historic loss ratios adjusted for expectations of future economic conditions are used in determining the appropriate level of allowance for consumer and residential real estate loans.

Effect if Actual Results Differ From Assumptions. The allowance represents management s best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

Management s analysis of probable losses in the portfolio at June 30, 2009, resulted in a range for allowance for loan losses of $8.4 million with the potential effect to net income ranging from a decrease of $2.2 million to an increase of $3.3 million. These sensitivities are hypothetical and are not intended to represent actual results.

Derivative Financial Instruments

Description. As part of our overall interest rate risk management, we use derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. Management believes hedge effectiveness is evaluated properly in preparation of the financial statements. All of the derivative financial instruments we use have an active market and indications of fair value can be readily obtained. We are not using the short-cut method of accounting for any fair value derivatives.

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Judgments and Uncertainties. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items.

Effect if Actual Results Differ From Assumptions. To the extent hedging relationships are found to be effective, as determined by SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. However, if in the future the derivative financial instruments used by us no longer qualify for hedge accounting treatment, all changes in fair value of the derivative would flow through the consolidated statements of income in other noninterest income, resulting in greater volatility in our earnings.

Income Taxes

Description. We are subject to the income tax laws of the U.S., its states and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. On January 1, 2007, we adopted FIN 48 to account for uncertain tax positions. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 12 to the Consolidated Financial Statements for a further description of our provision and related income tax assets and liabilities.

Judgments and Uncertainties. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.

Effect if Actual Results Differ From Assumptions. Although management believes that the judgments and estimates used are reasonable, actual results could differ and we may be exposed to losses or gains that could be material. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would result in a reduction in our effective income tax rate in the period of resolution.

Valuation of Securities

Description. The fair value of our securities is determined with reference to price estimates. In the absence of observable market inputs related to items such as cash flow assumptions or adjustments to market rates, management judgment is used. Different judgments and assumptions used in pricing could result in different estimates of value.

When the fair value of a security is less than its amortized cost for

an extended period, we consider whether there is an other than temporary impairment in the value of the security. If, in management s judgment, an other-than-temporary-impairment exists, the portion of the loss in value attributable to credit quality is transferred from accumulated other comprehensive loss as an immediate reduction of current earnings and the cost basis of the security is written down by this amount.

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We consider the following factors when determining an other-than-temporary-impairment for a security or investment:

- The length of time and the extent to which the market value has been less than amortized cost;
- The financial condition and near-term prospects of the issuer;
- The underlying fundamentals of the relevant market and the outlook for such market for the near future;
- Our intent to sell the debt security or whether it is more likely than not that we will be required to sell the debt security before its anticipated recovery; and
- When applicable for purchased beneficial interests, the estimated cash flows of the securities are assessed for adverse changes.

Quarterly, securities are evaluated for other-than-temporary-impairment in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and Emerging Issues Task Force No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets* and FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. An impairment that is an other-than-temporary-impairment is a decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment. Other-than-temporary-impairments result in reducing the security s carrying value by the amount of credit loss. The credit component of the other-than-temporary-impairment loss is realized through the statement of income and the remainder of the loss remains in other comprehensive income.

Judgments and Uncertainties. The determination of other-than-temporary-impairment is a subjective process, and different judgments and assumptions could affect the timing and amount of loss realization. In addition, significant judgments are required in determining valuation and impairment, which include making assumptions regarding the estimated prepayments, loss assumptions and interest cash flows.

Effect if Actual Results Differ From Assumptions. Actual credit deterioration could be more or less severe than estimated. Upon subsequent review, if cash flows have significantly improved, the discount would be amortized into earnings over the remaining life of the debt security in a prospective manner based on the amount and timing of future cash flows. Additional credit deterioration resulting in an adverse change in cash flows would result in additional other-than-temporary impairment loss recorded in the income statement.

FORWARD-LOOKING STATEMENTS

In this report, we have made various statements regarding current expectations or forecasts of future events, which speak only as of the date the statements are made. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are also made from time-to-time in press releases and in oral statements made by the officers of Old National. Forward-looking statements are identified by the words expect, may, could, intend, project, estimate, believe , anticipate and similar Forward-looking statements also include, but are not limited to, statements regarding estimated cost savings, plans and objectives for future operations, and expectations about performance as well as economic and market conditions and trends.

Such forward-looking statements are based on assumptions and estimates, which although believed to be reasonable, may turn out to be incorrect. Therefore, undue reliance should not be placed upon these estimates and statements. We can not assure that any of these statements, estimates, or beliefs will be realized and actual results may differ from those contemplated in these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised to consult further disclosures we may make on related subjects in our filings with the SEC. In addition to other factors discussed in this report, some of the important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include the following:

- economic, market, operational, liquidity, credit and interest rate risks associated with our business;

economic conditions generally and in the financial services industry;

- increased competition in the financial services industry either nationally or regionally, resulting in, among other things, credit quality deterioration;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- governmental legislation and regulation, including changes in accounting regulation or standards;
- our ability to execute our business plan;
- a weakening of the economy which could materially impact credit quality trends and the ability to generate loans;
- changes in the securities markets; and
- changes in fiscal, monetary and tax policies.

Investors should consider these risks, uncertainties and other factors in addition to risk factors included in our other filings with the SEC.

ITEM 3. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management s Discussion and Analysis of Financial Condition and Results of Operations-Market Risk and Liquidity Risk.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures. Old National s principal executive officer and principal financial officer have concluded that Old National s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this Form 10-Q, are effective at the reasonable assurance level as discussed below to ensure that information required to be disclosed by Old National in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to Old National s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Controls. Management, including the principal executive officer and principal financial officer, does not expect that Old National s disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgements in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be only reasonable assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting. There were no changes in Old National s internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, Old National s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

Old National s business could be harmed by any of the risks noted below. In analyzing whether to make or to continue an investment in Old National, investors should consider, among other factors, the following:

Risks Related to Old National s Business

The current banking crisis, including the Enactment of the Emergency Economic Stabilization Act of 2008 (EESA) and the American Recovery and Reinvestment Act of 2009 (ARRA), may significantly affect our financial condition, results of operations, liquidity or stock price.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers underlying financial strength.

EESA, which established the Troubled Asset Relief Program (TARP), was signed into law in October 2008. As part of TARP, the Treasury established the Capital Purchase Program (CPP) to provide up to $700 billion of funding to eligible financial institutions through the purchase of capital stock and other financial instruments for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Then, on February 17, 2009, President Obama signed ARRA, as a sweeping economic recovery package intended to stimulate the economy and provide for broad infrastructure, energy, health, and education needs. There can be no assurance as to the actual impact that EESA or its programs, including the CPP, and ARRA or its programs, will have on the national economy or financial markets. The failure of these significant legislative measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common shares.

There have been numerous actions undertaken in connection with or following EESA and ARRA by the Federal Reserve Board, Congress, the Treasury, the FDIC, the SEC and others in efforts to address the current liquidity and credit crisis in the financial industry that followed the sub-prime mortgage market meltdown which began in 2007. These measures include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. The purpose of these legislative and regulatory actions is to help stabilize the U.S. banking system. EESA, ARRA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, our business, financial condition and results of operations could be materially and adversely affected.

If Old National s actual loan losses exceed Old National s allowance for loan losses, Old National s net income will decrease.

Old National makes various assumptions and judgments about the collectibility of Old National s loan portfolio, including the creditworthiness of Old National s borrowers and the value of the real estate and other assets serving as collateral for the repayment of Old National s loans. Despite Old National s underwriting and monitoring practices, the effect of the declining economy could negatively impact the ability of Old National s borrowers to repay loans in a timely manner and could also negatively impact collateral values. As a result, Old National may experience significant loan losses that could have a material adverse effect on Old National s operating results. Since Old National must use assumptions regarding individual loans and the economy, Old National s current allowance for loan losses may not be sufficient to cover actual loan losses. Old National s assumptions may not anticipate the severity or duration of the current credit cycle and Old National may need to significantly increase Old National s provision for losses on loans if one or more of Old National s larger loans or credit relationships becomes delinquent or if Old National expands its commercial real estate and commercial lending. In addition, federal and state regulators periodically review Old National s allowance for loan losses and may require Old National to increase the provision for loan losses or recognize loan charge-offs. Material additions to Old National s allowance would materially decrease Old National s

net income. There can be no assurance that Old National s monitoring procedures and policies will reduce certain lending risks or that Old National s allowance for loan losses will be adequate to cover actual losses.

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Old National s loan portfolio includes loans with a higher risk of loss.

The Bank originates commercial real estate loans, commercial loans, agricultural real estate loans, agricultural loans, consumer loans, and residential real estate loans primarily within Old National s market areas. Commercial real estate, commercial, consumer, and agricultural loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. These loans also have greater credit risk than residential real estate for the following reasons:

Commercial Real Estate Loans. Repayment is dependent upon income being generated in amounts sufficient to cover operating expenses and debt service.

Commercial Loans. Repayment is dependent upon the successful operation of the borrower s business.

Consumer Loans. Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.

Agricultural Loans. Repayment is dependent upon the successful operation of the business, which is greatly dependent on many things outside the control of either the Bank or the borrowers. These factors include weather, commodity prices, and interest rates.

Credit quality issues may broaden in these sectors during 2009 depending on the severity and duration of the declining economy and current credit cycle.

If Old National forecloses on collateral property, Old National may be subject to the increased costs associated with the ownership of real property, resulting in reduced revenues.

Old National may have to foreclose on collateral property to protect Old National s investment and may thereafter own and operate such property, in which case Old National will be exposed to the risks inherent in the ownership of real estate. The amount that Old National, as a mortgagee, may realize after a default is dependent upon factors outside of Old National s control, including, but not limited to: (i) general or local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the mortgaged properties; (vi) environmental remediation liabilities; (vii) ability to obtain and maintain adequate occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations and fiscal policies; and (x) acts of God. Certain expenditures associated with the ownership of real estate, principally real estate taxes, insurance, and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the income earned from such property, and Old National may have to advance funds in order to protect Old National s investment, or Old National may be required to dispose of the real property at a loss. The foregoing expenditures and costs could adversely affect Old National s ability to generate revenues, resulting in reduced levels of profitability.

We face risks with respect to future expansion.

We may acquire other financial institutions or parts of those institutions in the future, and we may engage in de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services. Acquisitions and mergers involve a number of expenses and risks, including:

- the time and costs associated with identifying potential new markets, as well as acquisition and merger targets;
- the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;

- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;
- entry into new markets where we lack experience;
- the introduction of new products and services into our business;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and
- the risk of loss of key employees and customers.

We may incur substantial costs to expand, and we can give no assurance such expansion will result in the levels of profits we seek. There can be no assurance integration efforts for any future mergers or acquisitions will be successful. Also, we may issue equity securities in connection with future acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any future mergers or acquisitions, our integration efforts will be successful or that, after giving effect to the acquisition, we will achieve profits comparable to or better than our historical experience.

Old National operates in an extremely competitive market, and Old National s business will suffer if Old National is unable to compete effectively.

In Old National s market area, the Company encounters significant competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies securities brokerage firms, insurance companies, money market mutual funds and other financial intermediaries. The Company s competitors may have substantially greater resources and lending limits than Old National does and may offer services that Old National does not or cannot provide. Old National s profitability depends upon Old National s continued ability to compete successfully in Old National s market area.

The loss of key members of Old National s senior management team could adversely affect Old National s business.

Old National believes that Old National s success depends largely on the efforts and abilities of Old National s senior management. Their experience and industry contacts significantly benefit Old National. The competition for qualified personnel in the financial services industry is intense, and the loss of any of Old National s key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect Old National s business.

A breach of information security or compliance breach by one of our agents or vendors could negatively affect Old National s reputation and business.

Old National relies upon a variety of computing platforms and networks over the internet for the purposes of data processing, communication and information exchange. Despite the safeguards instituted by Old National, such systems are susceptible to a breach of security. In addition, Old National relies on the services of a variety of third-party vendors to meet Old National s data processing and communication needs. If confidential information is compromised, financial losses, costs and/or other damages could occur. Such costs and/or losses could materially affect Old National s earnings.

Fiduciary Activity Risk Factor

Old National Is Subject To Claims and Litigation Pertaining To Fiduciary Responsibility

From time to time, customers make claims and take legal action pertaining to Old National s performance of its fiduciary responsibilities. If such claims and legal actions are not resolved in a manner favorable to Old National they may result in significant financial liability and/or adversely affect the market perception of Old National and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Old National s business, which, in turn, could have a material adverse effect on the Old National s financial condition and results of operations.

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Risks Related to the Banking Industry

Changes in economic or political conditions could adversely affect Old National s earnings, as Old National s borrowers ability to repay loans and the value of the collateral securing Old National s loans decline.

Old National s success depends, to a certain extent, upon economic or political conditions, local and national, as well as governmental monetary policies. Conditions such as the on-going recession, unemployment, changes in interest rates, inflation, money supply and other factors beyond Old National s control may adversely affect its asset quality, deposit levels and loan demand and, therefore, the Old National s earnings. Because Old National has a significant amount of commercial real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of Old National s borrowers to make timely repayments of their loans, which would have an adverse impact on Old National s earnings. In addition, substantially all of Old National s loans are to individuals and businesses in Old National s market area. Consequently, any economic decline in Old National s primary market areas which include Indiana, Kentucky and Illinois could have an adverse impact on Old National s earnings.

Current levels of market volatility are unprecedented

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers seemingly without regard to those issuers underlying financial strength. The current market volatility could contribute to a further decline in the market value of certain security investments and other assets of Old National and if current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on results of operations, capital or financial position.

Changes in interest rates could adversely affect Old National s results of operations and financial condition.

Old National s earnings depend substantially on Old National s interest rate spread, which is the difference between (i) the rates Old National earns on loans, securities and other earning assets and (ii) the interest rates Old National pays on deposits and other borrowings. These rates are highly sensitive to many factors beyond Old National s control, including general economic conditions and the policies of various governmental and regulatory authorities. If market interest rates rise, Old National will have competitive pressures to increase the rates Old National pays on deposits, which could result in a decrease of Old National s net interest income. If market interest rates decline, Old National could experience fixed rate loan prepayments and higher investment portfolio cash flows, resulting in a lower yield on earnings assets.

Old National operates in a highly regulated environment, and changes in laws and regulations to which Old National is subject may adversely affect Old National s results of operations.

Old National operates in a highly regulated environment and is subject to extensive regulation, supervision and examination by the Office of Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (the Federal Reserve) and the State of Indiana. Applicable laws and regulations may change, and such changes may adversely affect Old National s business. Such regulation and supervision of the activities in which an institution may engage is primarily intended for the protection of the depositors and federal deposit insurance funds. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution s allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes in the regulations governing institutions, could have a material impact on Old National and its operations.

Changes in technology could be costly.
The banking industry is undergoing technological innovation at a fast pace. To keep up with its competition, Old National needs to stay abreast of innovations and evaluate those technologies that will enable it to compete on a cost-effective basis. The cost of such technology, including personnel, can be high in both absolute and relative terms. There can be no assurance, given the fast pace of change and innovation, that Old National s technology, either purchased or developed internally, will meet or continue to meet the needs of Old National.
Our earnings could be adversely impacted by incidences of fraud and compliance failures that are not within our direct control.
We are subject to fraud and compliance risk in connection with the origination of loans. Fraud risk includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures adversely impact the performance of our loan portfolio.

Risks Related to Old National s Stock

We may not be able to pay dividends in the future in accordance with past practice.
Old National has traditionally paid a quarterly dividend to common stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on Old National s earnings, capital requirements, financial condition and other factors considered relevant by Old National s Board of Directors.
The price of Old National s common stock may be volatile, which may result in losses for investors.
General market price declines or market volatility in the future could adversely affect the price of Old National s common stock. In addition, the following factors may cause the market price for shares of Old National s common stock to fluctuate:

- announcements of developments related to Old National s business;
- fluctuations in Old National s results of operations;
- sales or purchases of substantial amounts of Old National s securities in the marketplace;
- general conditions in Old National s banking niche or the worldwide economy;
- a shortfall or excess in revenues or earnings compared to securities analysts expectations;
- changes in analysts recommendations or projections; and
- Old National s announcement of new acquisitions or other projects.

Old National s charter documents and federal regulations may inhibit a takeover, prevent a transaction that may favor or otherwise limit Old National s growth opportunities, which could cause the market price of Old National s common stock to decline.
Certain provisions of Old National s charter documents and federal regulations could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of Old National. In addition, Old National must obtain approval from regulatory authorities before acquiring control of any other company.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
(c) **ISSUER PURCHASES OF EQUITY SECURITIES**

(b) Value estimated using the terms of the $1.5 million promissory note, the application of a synthetic debt rating based on CASI’s publicly-available financial information, and the prevailing interest yields on similar public debt securities as of September 17, 2014. The face value of the promissory note as of March 31, 2016 is included within "other receivables" on the accompanying Condensed Consolidated Balance Sheets.

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In addition, CASI will be responsible for paying any royalties or milestones that we are obligated to pay to our third-party licensors resulting from the achievement of certain milestones and/or sales of CASI Out-Licensed Products, but only to the extent of the greater China portion of such royalties or milestones.

11. OUT-LICENSE OF ZEVALIN IN CERTAIN EX-U.S. TERRITORIES TO MUNDIPHARMA

On November 16, 2015, we entered into an out-license agreement with Mundipharma International Corporation Limited for their commercialization of ZEVALIN in Asia (excluding India and Greater China), Australia, New Zealand, Africa, the Middle East, and Latin America (including the Caribbean). In return, we received $18 million (comprised of $15 million received in December 2015 and $3 million received in January 2016). Of these proceeds, $15 million was recognized within "license fees and service revenue" in the fourth quarter of 2015, and $0.4 million of the $3 million payment was recognized in the same caption in the first quarter of 2016. As of March 31, 2016, $2.5 million remains deferred and is presented within "deferred revenue" (current and non-current) in the accompanying Condensed Consolidated Balance Sheets. As Mundipharma has sales of ZEVALIN kits in their territories, the remaining unrecognized portion of this $3 million payment will be reported by us within "license fees and service revenue" on an established per-unit basis. Mundipharma is required to reimburse us for our payment of royalties due to Bayer from their ZEVALIN sales - see Note 16(b)(ii).

We are also eligible to receive an additional $2 million upon Mundipharma's achievement of a specified sales milestone, that if/when achieved, will also be reported within "license fees and service revenue".

In connection with this out-license, on November 16, 2015, we concurrently sold to Mundipharma K.K., all common stock of Spectrum Pharmaceuticals GK (the legal entity through which we previously sold ZEVALIN in Japan) for $2.2 million (in the form of an unsecured note, payable no later than May 2016), representing its net asset value (excluding inventory) as of November 16, 2015.

12. OUT-LICENSE OF ZEVALIN, FOLOTYN, BELEODAQ, AND MARQIBO IN CANADA TERRITORY TO SERVIER

On January 8, 2016, we entered into a strategic partnership with Servier Canada, Inc. for the out-licenses of ZEVALIN, FOLOTYN, BELEODAQ, and MARQIBO. We received $6 million in upfront payments in the first quarter of 2016 which was recognized within "license fees and service revenue" in the accompanying Condensed Consolidated Statement of Operations. We will also receive development milestone payments if/when achieved, and a high single-digit royalty on their sales of these products.

13. CO-PROMOTION ARRANGEMENT WITH EAGLE PHARMACEUTICALS

On November 4, 2015, we executed an agreement with Eagle Pharmaceuticals, Inc. ("Eagle") whereby designated members of our sales force will concurrently market up to six of Eagle's pharmaceutical products along with our products, in return for fixed monthly payments over the initial 18 month contract term through June 30, 2017, aggregating $12.8 million (the "Eagle Agreement"). We are also eligible to receive milestone payments of up to $5 million for sales made in 2016 that exceed certain thresholds, and up to $4 million for sales made in the first half 2017 that exceed certain thresholds. In addition, for performance above such sales levels in 2016, and in the first half of 2017, we are eligible to receive variable-based payments in the high single-digits on incremental sales of Eagle's products above these established threshold levels.

The fixed payments received by us, as well as reimbursable costs for certain marketing activities that we coordinate with third parties on Eagle's behalf, are recognized within "license fees and service revenue" on our accompanying

Consolidated Statement of Operations. This amount was $1.9 million for the quarter ended March 31, 2016. Any variable payments due to us will be recognized in the period earned and reported within the same revenue caption. An allocation of our sales personnel costs that are dedicated to Eagle sales activities are reported within "cost of service revenue" on our accompanying Consolidated Statement of Operations, as are reimbursable costs for Eagle marketing activities. These were an aggregate $1.3 million for the quarter ended March 31, 2016.
Eagle may extend the initial term of this agreement by six months to December 31, 2017 at its sole election. Any extensions after December 31, 2017 require mutual consent and will be for six months per extension. The Eagle Agreement may be terminated by either party for uncured material breaches and certain other events following a change of control or

insolvency of either party, and solely by Eagle for convenience with 60 days written notice, subject to an established termination fee, as calculated within the Eagle Agreement.

14. CONVERTIBLE SENIOR NOTES

Overview

On December 17, 2013, we entered into an agreement for the sale of $120 million aggregate principal amount of 2.75% Convertible Senior Notes due December 2018 (the “2018 Convertible Notes”). The 2018 Convertible Notes are convertible into shares of our common stock at a conversion rate of 95 shares per $1,000 principal amount of the 2018 Convertible Notes, equating to 11.4 million common shares if fully converted. The in-the-money conversion price is equivalent to $10.53 per common share. The conversion rate and conversion price is subject to adjustment under certain limited circumstances. The 2018 Convertible Notes bear interest at a rate of 2.75% per year, payable semiannually in arrears on June 15 and December 15 of each year. The 2018 Convertible Notes will mature and become payable on December 15, 2018, subject to earlier conversion into common stock at the holders’ option.

The sale of the 2018 Convertible Notes closed on December 23, 2013 and our net proceeds were $115.4 million, after deducting banker and professional fees of $4.6 million. We used a portion of these net proceeds to simultaneously enter into “bought call” and “sold warrant” transactions with Royal Bank of Canada (collectively, the “Note Hedge”). We recorded the Note Hedge on a net cost basis of $13.1 million, as a reduction to “additional paid-in capital” in our accompanying Condensed Consolidated Balance Sheets. Under applicable GAAP, the Note Hedge transaction is not expected to be marked-to-market through earnings or comprehensive income in future reported periods.

Conversion Hedge

We entered into Note Hedge transactions to reduce the potential dilution to our stockholders and/or offset any cash payments that we are required to make in excess of the principal amount, upon conversion of the 2018 Convertible Notes (in the event that the market price of our common stock is greater than the conversion price). The strike price of the “bought call” is equal to the conversion price and conversion rate of the 2018 Convertible Notes, matching the 11.4 million common shares the 2018 Convertible Notes may be converted into. The strike price of our “sold warrant” is $14.03 per share of our common stock, and is also for 11.4 million common shares.

Conversion Events

On and after June 15, 2018, and until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or a portion of their 2018 Convertible Notes. Prior to June 15, 2018, holders may convert all or a portion of their 2018 Convertible Notes only under any of the following circumstances: (1) during any fiscal quarter (and only during such fiscal quarter), if, for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on the last trading day of the immediately preceding fiscal quarter, the last reported sale price of our common stock on such trading day is greater than or equal to 130% of the Notes' conversion price on such trading day; (2) during the five consecutive business day period immediately following any five consecutive trading day period in which, for each trading day of that measurement period, the trading price per $1,000 principal amount of 2018 Convertible Notes for such trading day was less than 98% of the product of (i) the last reported sale price of our common stock on such trading day and (ii) the Notes' conversion rate on such trading day; (3) upon the occurrence of certain corporate transactions; and (4) at any time prior to our stockholders’ approval to settle the 2018 Convertible Notes in our common shares and/or cash. As of March 31, 2016, the 2018 Convertible Notes are not eligible to be converted into our common stock, as none of the above elements (1) through (4) were met. Our stockholders’ approval of "flexible settlement" occurred at our Annual Meeting of Stockholders on June 29, 2015. As a result, we may (at our election) settle any future conversions of the 2018 Convertible Notes by paying or delivering cash, shares of our common stock, or a combination of cash and shares of our common stock. However, if the holders of the Convertible Notes do not elect any conversion into

our common stock, our December 2018 obligation to repay the principal amount of $120 million in cash, plus any accrued and unpaid interest, is unchanged.
Carrying Value and Fair Value
The carrying value of the 2018 Convertible Notes as of March 31, 2016 is summarized as follows:

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(all tabular amounts presented in thousands, except share, per share, per unit, and number of years)
(Unaudited)

Principal amount	$120,000
(Less): Unamortized debt discount (amortized through December 2018)	(17,067)
(Less): Debt issuance costs (see Note 3(d))	(2,000)
March 31, 2016 carrying value	$100,933

As of March 31, 2016 and December 31, 2015, the estimated aggregate fair value of the 2018 Notes is $106.6 million and $105.1 million, respectively. These fair value estimates are less than the principal amount of $120 million, largely since the conversion feature of the 2018 Notes was, and remains, out-of-the-money. These estimated fair values represent a Level 2 measurement (see Note 2(xiii)), based upon the 2018 Convertible Notes' quoted bid price at each date in a thinly-traded market.
Components of Interest Expense on 2018 Convertible Notes
The following table sets forth the components of interest expense recognized in the accompanying Condensed Consolidated Statements of Operations for the 2018 Convertible Notes for the three months ended March 31, 2016:

Contractual coupon interest expense	$825
Amortization of debt issuance costs	171
Accretion of debt discount	1,385
Total	$2,381
Effective interest rate	8.66 %

15. MUNDIPHARMA AGREEMENT AND DRUG DEVELOPMENT LIABILITY
As the result of our acquisition of Allos Therapeutics, Inc. on September 5, 2012 (through which we obtained distribution rights for FOLOTYN), we assumed its obligations under an active strategic collaboration agreement with a third-party, Mundipharma (the “Mundipharma Collaboration Agreement”). Under the Mundipharma Collaboration Agreement, we retained full commercialization rights for FOLOTYN in the U.S. and Canada, with Mundipharma having exclusive rights to commercialize FOLOTYN in all other countries in the world (the “Mundipharma Territories”).
On May 29, 2013, the Mundipharma Collaboration Agreement was amended and restated (the “Amended Mundipharma Collaboration Agreement”), in order to modify: (i) the scope of the licensed territory, (ii) milestone payments, (iii) royalty rates, and (iv) drug development obligations. In connection with the Amended Mundipharma Collaboration Agreement, we received a one-time $7 million payment from Mundipharma for certain research and development activities to be performed by us.
As a result of the Amended Mundipharma Collaboration Agreement, (a) Europe and Turkey were excluded from Mundipharma’s commercialization territory, (b) we may receive regulatory milestone payments of up to $16 million, and commercial progress and sales-dependent milestone payments of up to $107 million, (c) we will receive tiered double-digit royalties based on net sales of FOLOTYN within Mundipharma’s licensed territories, and (d) we and Mundipharma will bear our own FOLOTYN development costs.
On May 29, 2015 and effective as of May 1, 2015, we entered into an amendment to the Amended Mundipharma Collaboration Agreement (the “Amendment”). Pursuant to the Amendment, among other things, the parties revised the conditions to our exercise of the option to gain commercialization rights in Switzerland from Mundipharma, and also revised tiered double digit royalties payable by Mundipharma on net sales in Switzerland.
The fair value of this liability is included in the current and long-term portions of “drug development liability” within the accompanying Condensed Consolidated Balance Sheets, and it includes our assumptions about personnel needed to perform these research and development activities, third party costs for projected clinical trial enrollment, and patient treatment-related follow up through approximately 2031.

The fair value of our “drug development liability” within our accompanying Condensed Consolidated Balance Sheets was estimated using the discounted income approach model. The unobservable inputs (i.e., Level 3 inputs - see Note 2(xiii)) in this valuation model that have the most significant effect on these liabilities include (i) estimates of research and development personnel costs needed to perform the research and development services, (ii) estimates of expected cash outflows to third

Notes to Condensed Consolidated Financial Statements
(all tabular amounts presented in thousands, except share, per share, per unit, and number of years)
(Unaudited)

parties for services and supplies during the expected period of performance through 2031, and (iii) an appropriate discount rate for these expenditures. These inputs are reviewed by management on a quarterly basis for continued applicability.
We assess this liability at each reporting date and record its adjustment through "research and development" expense in our accompanying Condensed Consolidated Statements of Operations.

	Drug Development Liability, Current – FOLOTYN	Drug Development Liability, Long Term – FOLOTYN	Total Drug Development Liability – FOLOTYN
Balance at December 31, 2015	$ 259	$ 14,427	$ 14,686
Transfer from long-term to current in 2016	74	(74)	—
(Less): Expenses incurred in 2016	(176)	—	(176)
Balance at March 31, 2016	$ 157	$ 14,353	$ 14,510

16. COMMITMENTS AND CONTINGENCIES

(a) Facility Leases
We lease our principal executive office in Henderson, Nevada under a non-cancelable operating lease expiring April 30, 2019. We also lease our research and development facility in Irvine, California under a non-cancelable operating lease expiring May 31, 2019, in addition to several other administrative office leases. Each lease agreement contains scheduled rent increases which are accounted for on a straight-line basis.
(b) In-Licensing and Out-Licensing Agreements, Co-Development Agreements, and Milestone Payments
Our drug candidates are being developed pursuant to license agreements that provide us with territory-specific rights to its manufacture, sublicense, and sale. We are generally responsible for all development costs, patent filings and maintenance costs, sales and marketing costs, and liability insurance costs. We are also obligated to make certain milestone payments to third parties upon the achievement of regulatory and sales milestones that are specified in these license agreements. We estimate and present a corresponding liability on our Condensed Consolidated Balance Sheets when amounts are probable and reasonably estimable. In addition, we are obligated to pay royalties based on our current and future net sales of in-licensed products.
Our most significant of these agreements are listed and summarized below:
(i) ZEVALIN U.S.: In-Licensing and Development in the U.S.
In December 2008, we acquired rights to commercialize and develop ZEVALIN in the U.S. as the result of a transaction with Cell Therapeutics, Inc. ("CTI") through our wholly-owned subsidiary, RIT Oncology LLC ("RIT"). We assumed certain agreements with various third parties related to ZEVALIN intellectual property for its manufacture, use, and sale in the U.S.
In accordance with the terms of assumed contracts, we are required to meet specified payment obligations, including a milestone payment to Corixa Corporation of $5 million based on ZEVALIN sales in the U.S. (the "Corixa Liability"). This milestone has not yet been met, and $0.1 million for this potential milestone achievement is included within "acquisition-related contingent obligations" in our accompanying Condensed Consolidated Balance Sheet as of March 31, 2016 and December 31, 2015, respectively. Our U.S. net sales-based royalties are in the low to mid-single digits to Genentech, Inc. and mid-teens to Biogen.
(ii) ZEVALIN Ex-U.S.: In-License and Asset Purchase Agreement with Bayer Pharma
In April 2012, through our wholly-owned subsidiary, Spectrum Pharmaceuticals Cayman, L.P., we completed the acquisition of licensing rights to market ZEVALIN outside of the U.S. from Bayer Pharma AG ("Bayer"). ZEVALIN is

currently approved in approximately 40 countries outside the U.S. for the treatment of B-cell non-Hodgkin lymphoma, including countries in Europe, Latin America, and Asia.

In consideration for the rights granted under the agreement, concurrent with the closing, we paid Bayer a one-time fee of €19 million. Our ex-U.S. net sales-based royalty to Bayer ranges between the single digits to mid-teens. We amended the agreement in February 2016. Under the amendment, in the event that we elect to sublicense the rights in certain countries, our applicable royalty on net sales to Bayer would be adjusted to a tiered rate from the single digits to 20% in such countries. Unless earlier terminated, the term of the agreement, as amended, continues until the expiration of the last-to-expire patent covering the sale of a licensed product in the relevant country, or 15 years from the date of first commercial sale of the licensed product in such country, whichever is longer.

(iii) ZEVALIN Ex-U.S.: Out-License Agreement with Dr. Reddy’s

Effective June 27, 2014, we executed an exclusive License Agreement with Dr. Reddy’s Laboratories Ltd. (“Dr. Reddy’s”), for the distribution rights of ZEVALIN within India. The agreement term is 15 years from the receipt of pending approval of ZEVALIN from the Drug Controller General of India. On December 17, 2014, upon the execution of a supply agreement, an upfront and non-refundable payment of $0.5 million was triggered and was paid to us in February 2015. The recognition of this upfront payment is reported on a straight-line basis within “license fee and service revenue” on the Condensed Consolidated Statements of Operations over a 10 year term through December 2024. Additionally, sales and regulatory milestones (aggregating $3 million) will become payable to us when achieved by Dr. Reddy’s, as well as a 20% royalty on net sales of ZEVALIN in India.

(iv) ZEVALIN Ex-U.S.: Out-License Agreement with Mundipharma

On November 16, 2015, we entered into an out-license agreement with Mundipharma International Corporation Limited ("Mundipharma") for their commercialization of ZEVALIN in Asia (excluding India and Greater China), Australia, New Zealand, Africa, the Middle East, and Latin America (including the Caribbean). In return, we received $18 million (comprised of $15 million received in December 2015 and $3 million received in January 2016). Of these proceeds, $15 million was recognized within "license fees and service revenue" in the fourth quarter of 2015, and $0.4 million of the $3 million payment was recognized in the same caption in the first quarter of 2016. As of March 31, 2016, $2.5 million remains deferred and is presented within "deferred revenue" (current and non-current) in the accompanying Condensed Consolidated Balance Sheets. As Mundipharma has sales of ZEVALIN kits in their territories, the remaining unrecognized portion of this $3 million value will be recognized by us in subsequent periods within "license fees and service revenue" on an established per-unit basis. Mundipharma is required to reimburse us for our payment of royalties due to Bayer from their ZEVALIN sales (see Note 16(b)(ii)).

We are also eligible to receive an additional $2 million upon Mundipharma's achievement of a specified sales milestone, that if/when achieved, will also be reported within "license fees and service revenue".

(v) FUSILEV: In-License Agreement with Merck & Cie AG

In May 2006, we amended and restated a license agreement with Merck & Cie AG (“Merck”), which we assumed in connection with our March 2006 acquisition of the assets of Targent, Inc. Pursuant to the license agreement with Merck, we obtained the exclusive license to use regulatory filings related to FUSILEV and a non-exclusive license under certain patents and know-how to develop, manufacture, use, and sell FUSILEV in the field of oncology in North America in return for a royalty percentage (in the mid-single digits) of net sales. Merck is eligible to receive a $0.2 million payment from us upon the achievement of a FDA approval of an oral form of FUSILEV. This milestone has not yet been met, and no amounts have been accrued in our accompanying Condensed Consolidated Balance Sheets for its potential achievement.

(vi) FOLOTYN: In-License Agreement with Sloan-Kettering Institute, SRI International and Southern Research Institute

In December 2002, Allos entered into the FOLOTYN License Agreement with Sloan-Kettering Institute for Cancer Research, SRI International, and Southern Research Institute. As a result of Allos becoming our wholly owned subsidiary in September 2012, we are bound by the FOLOTYN License Agreement under which we obtained exclusive worldwide rights to a portfolio of patents and patent applications related to FOLOTYN and its uses. Under

the terms of the FOLOTYN License Agreement, we are required to fund all development programs and will have sole responsibility for all commercialization activities. In addition, we pay graduated royalties to our licensors based on our (including sub licensees) worldwide annual net sales of FOLOTYN. Royalties are 8% of annual worldwide net sales up to $150 million; 9% of annual worldwide net sales of $150 million through $300 million; and 11% of annual worldwide net sales in excess of $300 million.

(vii) EVOMELA: In-License Agreement with Cydex Pharmaceuticals, Inc.

Notes to Condensed Consolidated Financial Statements
(all tabular amounts presented in thousands, except share, per share, per unit, and number of years)
(Unaudited)

In March 2013, we completed the acquisition of exclusive global development and commercialization rights to EVOMELA from Ligand (see Note 9(b)). We filed a New Drug Application ("NDA") with the FDA in December 2015 for its use as a conditioning treatment prior to autologous stem cell transplant for patients with MM. On March 10, 2016, the FDA communicated its approval of the NDA for EVOMELA. In connection with this FDA approval, we made a $6 million milestone payment to Ligand on April 13, 2016.

We are required to pay Ligand additional amounts of up to $66 million (inclusive of the $6 million milestone payment we made for FDA approval), upon the achievement of certain regulatory milestones and net sales thresholds, which we have valued at $6 million and $5.2 million within “acquisition-related contingent obligations” in our accompanying Condensed Consolidated Statements of Operations as of March 31, 2016 and December 31, 2015, respectively. We will also pay royalties of 20% on our net sales of licensed products in all territories.

(viii) MARQIBO: Contingent Consideration Agreement with Talon Therapeutics, Inc.

In July 2013, we completed the acquisition of Talon, through which we obtained exclusive global development and commercialization rights to MARQIBO (see Note 9(a)). As part of this acquisition, we issued the former Talon stockholders contingent value rights (“CVR”) that we have valued and presented on our accompanying Condensed Consolidated Balance Sheets as a $1.6 million and $1.4 million liability within “acquisition-related contingent obligations” as of March 31, 2016 and December 31, 2015, respectively. The CVR has a maximum payout value of $195 million if all sales and regulatory approval milestones are achieved.

(ix) APAZIQUONE: License Agreements with Allergan, Inc. and NDDO Research Foundation

In October 2008, we entered into an exclusive development and commercialization collaboration agreement with Allergan for APAZIQUONE. Pursuant to the terms of the agreement, Allergan paid us an up-front non-refundable fee of $41.5 million at closing (which we have amortized through revenue within “license fees and service revenue” in full as of December 31, 2013). In October 2008, pursuant to a letter agreement with NDDO Research Foundation (“NDDO”), we agreed to pay NDDO the following in relation to APAZIQUONE milestones: (a) upon FDA acceptance of the NDA, the issuance of 25,000 of our common shares (which occurred in March 2016, and the $0.1 million value of these shares is included in "research and development" expense for the three months ended March 31, 2016) and (b) upon FDA approval of the drug (its target decision date is set for December 11, 2016), a one-time payment of $0.3 million.

In January 2013, we entered into a second amendment to the license, development, supply and distribution agreement with Allergan to amend the agreement and reacquire the rights originally licensed to Allergan in the U.S., Europe, and other territories in exchange for a tiered single-digit royalty on certain products containing APAZIQUONE, and relieved Allergan of its development and commercialization obligations.

(x) APAZIQUONE: Collaboration Agreement with Nippon Kayaku Co. LTD.

In November 2009, we entered into a collaboration agreement with Nippon Kayaku Co., LTD. (“Nippon Kayaku”) for the development and commercialization of APAZIQUONE in Asia, except North and South Korea (the “Nippon Kayaku Territory”). In addition, Nippon Kayaku received exclusive rights to APAZIQUONE for the treatment of non-muscle invasive bladder cancer in Asia (other than North and South Korea), including Japan and China. Nippon Kayaku will conduct APAZIQUONE clinical trials in the Nippon Kayaku Territory pursuant to a development plan. Further, Nippon Kayaku will be responsible for all expenses relating to the development and commercialization of APAZIQUONE in the Nippon Kayaku Territory.

Under the terms of this agreement, Nippon Kayaku paid us an upfront fee of $15 million (which we have amortized through revenue within “license fees and service revenue” in full as of December 31, 2013). Nippon Kayaku is also obligated to make additional payments to us based on the achievement of certain development, regulatory and commercialization milestones. Under the terms of the agreement, we are entitled to payment of $10 million and $126 million upon achievement of certain regulatory and commercialization milestones, respectively. Also, Nippon Kayaku

has agreed to pay us royalties based on a percentage of net sales of the subject products in the defined territory in the mid-teen digits.

(xi) BELEODAQ: In-License and Collaboration Agreement with Onxeo

In February 2010, we entered into a licensing and collaboration agreement with TopoTarget A/S (now Onxeo DK) ("Onxeo"), as amended in October 2013, for the development and commercialization of BELEODAQ. The agreement provides

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that we have the exclusive right to manufacture, develop, and commercialize BELEODAQ in North America and India, with an option for China. Pursuant to the terms of this agreement, we paid Onxeo an upfront fee of $30 million in 2010.

Under continuing terms, all development, including studies, will be conducted under a joint development plan, which we will fund 70% of such costs, and Onxeo will fund 30%. We have final decision-making authority for all developmental activities in North America and India (and China upon exercise of its option). Onxeo has final decision-making authority for all developmental activities in all other jurisdictions. In February 2014, upon FDA acceptance of our new drug application, we issued one million shares of our common stock, and made a $10 million milestone payment to Onxeo. The aggregate payout value of this first milestone at achievement was $17.8 million, and was recognized within "research and development" in the first quarter of 2014.

In July 2014, we received approval from the FDA for BELEODAQ's use for injection and treatment of relapsed or refractory peripheral T-cell lymphoma. As a result, we paid a second milestone payment to Onxeo of $25 million in November 2014, which we capitalized as an amortizable intangible asset. Other potential milestone payments due upon BELEODAQ regulatory achievements and sales thresholds (aggregating up to $278 million) are not included within "total liabilities" in our accompanying Condensed Consolidated Balance Sheets.

We will pay Onxeo future royalties in the mid-teen digits based on net sales of BELEODAQ. The agreement will continue until the expiration of the last royalty payment period in the last country in the defined territory with certain provisions surviving, unless earlier terminated in accordance with its terms.

(xii) SPI-2012: Co-Development and Commercialization Agreement with Hanmi Pharmaceutical Company

In January 2012 (and as amended in March 2014 and October 2014), we entered into a License, Development, and Supply Agreement with Hanmi Pharmaceutical Company, Ltd. ("Hanmi"), for SPI-2012, formerly known as "LAPS-GCSF", a drug based on Hanmi's proprietary LAPSCOVERY™ technology for the treatment of chemotherapy induced neutropenia. Under the terms of the agreement, as amended, we have primary financial responsibility for the SPI-2012 development plan. We have worldwide rights for SPI-2012, except for Korea, China, and Japan. As of March 31, 2016, we owed Hanmi a milestone payment of $1.9 million (as quantified under GAAP), based on initial patient dosing in January 2016 as part of our Phase III study. This will be settled through the combination of cash paid on Hanmi's behalf to applicable tax authorities, and the issuance of 318,750 of our common shares to Hanmi. This value was recognized within "research and development" expense in accompanying Condensed Consolidated Statement of Operations for the three months ended March 31, 2016. We also will be responsible for milestones relating to regulatory approvals and sales thresholds (aggregating $238 million), which are not included within "total liabilities" in our Condensed Consolidated Balance Sheets. We will pay Hanmi royalties in the mid-teen digits on our net sales of SPI-2012.

(xiii) POZIOTINIB: In-License Agreement with Hanmi

In February 2015, we executed an in-license agreement with Hanmi Pharmaceutical Co., Ltd for POZIOTINIB, a pan-HER inhibitor in Phase 2 clinical trials, requiring our upfront payment for these rights. This drug has shown single agent activity in the treatment of various cancer types during Phase I studies, including breast, gastric, colorectal, and lung cancers.

Under the terms of this agreement, we received the exclusive rights to commercialize POZIOTINIB globally, excluding Korea and China. Hanmi, and its development partners, will bear full responsibility for completion of on-going Phase 2 trials in Korea. We will bear full financial responsibility for all other clinical studies. We will pay Hanmi future regulatory and sales-dependent milestones payments (aggregating $358 million), which are not included within "total liabilities" in our accompanying Condensed Consolidated Balance Sheets. We will pay Hanmi royalties in the low to mid-teen digits on our net sales of POZIOTINIB.

(xiv) ZEVALIN, FOLOTYN, BELEODAQ, and MARQIBO: Out-License Agreement with Servier

In January 2016, we entered into a strategic partnership with Servier Canada, Inc. for the out-licenses of ZEVALIN, FOLOTYN, BELEODAQ, and MARQIBO. We received an aggregate $6 million in upfront payments in the first quarter of 2016 which was recognized within "license fees and service revenue". We will also receive development milestone payments if/when achieved, and a high single-digit royalty on their sales of these products.

(c) Service Agreements

In connection with the research and development of our drug products, we have entered into contracts with numerous third party service providers, such as radio-pharmacies, distributors, clinical trial centers, clinical research organizations, data

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monitoring centers, and with drug formulation, development and testing laboratories. The financial terms of these agreements are varied and generally obligate us to pay in stages, depending on achievement of certain events specified in the agreements, such as contract execution, reservation of service or production capacity, actual performance of service, or the successful accrual and dosing of patients.

At each period end, we accrue for all services received, with such accruals based on factors such as estimates of work performed, patient enrollment, completion of patient studies and other events. Should we decide to discontinue and/or slow-down the work on any project, the associated costs for those projects would be limited to the extent of the work completed. Generally, we are able to terminate these contracts due to the discontinuance of the related project(s) and thus avoid paying for the services that have not yet been rendered.

(d) Supply Agreements

We have entered into certain supply agreements, or have issued purchase orders, which require us to make minimum purchases from vendors for the manufacture of our products. These commitments do not exceed our planned commercial requirements, and the contracted prices do not exceed their fair market value.

(e) Employment Agreement

We have entered into an employment agreement with our Chief Executive Officer under which cash compensation and benefits would become payable in the event of termination by us for any reason other than cause, his resignation for good reason, or upon a change in control of our Company.

(f) Deferred Compensation Plan

The Spectrum Pharmaceuticals, Inc. Deferred Compensation Plan (the “DC Plan”) is administered by the Compensation Committee of our Board of Directors and is intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

The DC Plan is maintained to provide deferred compensation benefits for a select group of our employees (the “DC Participants”). Under the DC Plan, we provide the DC Participants with the opportunity to make annual elections to defer up to a specified amount or percentage of their eligible cash compensation, and we have the option to make discretionary contributions. At March 31, 2016 and December 31, 2015, the aggregate DC Plan deferrals by employees and our discretionary contributions totaled $7.1 million and $6.5 million, respectively, and are included within “other long-term liabilities” in the accompanying Condensed Consolidated Balance Sheets.

(g) Litigation

We are involved from time-to-time with various legal matters arising in the ordinary course of business. These claims and legal proceedings are of a nature we believe are normal and incidental to a pharmaceutical business, and may include product liability, intellectual property, employment matters, and other general claims.

We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions are assessed at least quarterly and adjusted to reflect the impact of any settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. Although the ultimate resolution of these various matters cannot be determined at this time, we do not believe that such matters, individually or in the aggregate, will have a material adverse effect on our consolidated results of operations, cash flows, or financial condition.

We are presently responding to Abbreviated New Drug Applications (“ANDAs”) filed by companies seeking to market generic forms of FOLOTYN. We are also responding to certain stockholder suits that purportedly stem from our March 12, 2013 press release, in which we announced anticipated changes in customer ordering patterns of FUSILEV. These complaints allege that, as a result of this press release, our stock price declined.

FUSILEV ANDA Litigation

On June 18, 2014, January 23, 2015, July 17, 2015 and September 3, 2015 respectively, we filed suit against Ben Venue Laboratories, Inc., Amneal Pharmaceuticals, Inc., and Actavis LLC. respectively, following Paragraph IV

certifications in connection with their filing separate ANDAs, to manufacture a generic version of FUSILEV. We filed the lawsuits in the U.S.

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Notes to Condensed Consolidated Financial Statements
(all tabular amounts presented in thousands, except share, per share, per unit, and number of years)
(Unaudited)

District Court for the Districts of Nevada seeking to enjoin the approval of their ANDAs plus recovery of our litigation fees and costs incurred in such matters. On November 24, 2014 the complaint in the Ben Venue case was amended to substitute the original defendant Ben Venue Laboratories, Inc. with successors West-Ward Pharmaceutical Corp. and Eurohealth International SARL. The foregoing matters remain stayed, but unless the Company pursues and is successful in the further appeal of a related case, we anticipate judgment will be entered in favor of the defendants pursuant to stay agreements with such defendants.
On April 27, 2015, we filed suit in the U.S. District Court for the District of Columbia against the FDA seeking a temporary restraining order or preliminary injunction to suspend FDA approval of Sandoz’s ANDA. The Company contends that Sandoz’s ANDA should not have been approved until the expiry of the Company’s Orphan Drug Exclusivity on April 29, 2018. On April 29, 2015, the court denied the temporary restraining order and on May 27, 2015, the court entered summary judgment in favor of the FDA et al. On June 5, 2015, we filed our Notice of Appeal. Oral argument was held October 22, 2015. The ultimate outcome of this proceeding is uncertain.
FOLOTYN ANDA Litigation
On June 19, 2014, we filed a lawsuit against five parties resulting from Paragraph IV certifications in connection with four separate ANDAs to manufacture a generic version of FOLOTYN: (1)Teva Pharmaceuticals USA, Inc., (2) Sandoz Inc., (3) Fresenius Kabi USA, LLC, (4) Dr. Reddy’s Laboratories, Ltd., and (5) Dr. Reddy’s Laboratories, Inc. We filed the lawsuit in the U.S. District Court for the District of Delaware seeking to enjoin the approval of their ANDAs plus recovery of our litigation fees and costs. The litigation is stayed with respect to the Dr. Reddy's entities pending resolution of the case against the other FOLOTYN ANDA filers. A trial date of September 12, 2016 has been set in the FOLOTYN lawsuit in the U.S. District Court for the District of Delaware. While we believe our patent rights are strong, the ultimate outcome of such action is uncertain.
Stockholder Litigation
John Perry v. Spectrum Pharmaceuticals, Inc. et al. (Filed March 14, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00433-LDG-CWH). This putative consolidated class action raises substantially identical claims and allegations against defendants Spectrum Pharmaceuticals, Inc., Dr. Rajesh C. Shrotriya, Brett L. Scott, and Joseph Kenneth Keller. The alleged class period is August 8, 2012 to March 12, 2013. The lawsuits allege a violation of Section 10(b) of the Securities Exchange Act of 1934 against all defendants and control person liability, as a violation of Section 20(b) of the Securities Exchange Act of 1934, against the individual defendants. The claims purportedly stem from the Company’s March 12, 2013 press release, in which it announced that it anticipated a change in ordering patterns of FUSILEV. The complaints allege that, as a result of the March 12, 2013 press release, the Company’s stock price declined. The complaints further allege that during the putative class period certain defendants made misleadingly optimistic statements about FUSILEV sales, which inflated the trading price of Company stock. The lawsuits seek relief in the form of monetary damages, costs and fees, and any other equitable or injunctive relief that the court deems appropriate. On March 21, 2014, the Court entered an order appointing Arkansas Teacher Retirement System as lead plaintiff. On May 20, 2014, Arkansas Teacher Retirement System filed a consolidated amended class action complaint. On July 18, 2014, we filed a motion to dismiss the consolidated amended class action complaint. On March 26, 2015, the court denied the motion to dismiss. On June 15, 2015, the Court ordered a stay of the proceedings pending the outcome of mediation between the parties. On October 27, 2015, we reached a $7 million settlement in principle with the lead plaintiff (which involved our insurance carrier, as the reimbursing party in full), subject to preliminary and final court approval. We have included this settlement amount, along with $0.2 million of reimbursable legal expenses for this matter, on our accompanying Condensed Consolidated Balance Sheets as of March 31, 2016 within "other receivables" and "accounts payable and other accrued liabilities." On January 26, 2016, the Court preliminarily approved the settlement. The Court has scheduled a hearing on final approval of the settlement for June 13, 2016.

Timothy Fik v. Rajesh C. Shrotriya, et al. (Filed April 11, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00624-JCM-CWH); Christopher J. Watkins v. Rajesh C. Shrotriya, et al. (Filed April 22, 2013 in United States District Court, District of Nevada; Case Number 2:2013-cv-00684-JCM-VCF); and Stefan Muenchhagen v. Rajesh C. Shrotriya, et al. (Filed May 28, 2013; Case Number 2:2013-cv-00942-APG-PAL). These derivative complaints are brought by the respective purported stockholders on behalf of nominal plaintiff Spectrum against certain current and former directors and officers. The complaints generally allege breaches of fiduciary based on conduct relating to the events alleged in the consolidated Perry action. The complaints seek compensatory damages, corporate governance reforms, restitution and disgorgement of defendants' alleged profits, and costs and fees. These actions are stayed pending resolution of the federal securities class action. Settlement discussions are ongoing, and accordingly, no agreement has yet been reached to resolve these

derivative complaints. If a settlement were reached, it would be reimbursable by our insurance carrier. However, the value of a potential settlement cannot be reasonably estimated given its highly uncertain nature.

Hardik Kakadia v. Rajesh C. Shrotriya, et al. (Filed April 23, 2013 in the Eighth Judicial District Court of the State of Nevada in and for Clark County; Case Number A-13-680643-B); and Joel Besner v. Rajesh C. Shrotriya, et al. (Filed May 31, 2013; Case Number A-13-682668-C) (collectively the "State Derivative Actions"). These consolidated State Derivative Actions are brought by the respective purported stockholders on behalf of nominal plaintiff Spectrum Pharmaceuticals, Inc. and are substantially similar to the consolidated federal derivative actions. These actions are stayed pending resolution of the federal securities class action. Settlement discussions are ongoing, and accordingly, no agreement has yet been reached to resolve these derivative complaints. If a settlement were reached, it would be reimbursable by our insurance carrier. However, the value of a potential settlement cannot be reasonably estimated given its highly uncertain nature.

17. INCOME TAXES

We apply an estimated annual effective tax rate ("ETR") approach for calculating a tax provision for interim periods, as required under GAAP. We recorded a benefit for income taxes of $0.1 million and a provision for income taxes of $0.1 million for the three months ended March 31, 2016 and 2015, respectively. Our ETR differs from the U.S. federal statutory tax rate of 35% primarily as a result of nondeductible expenses, state income taxes, foreign income taxes, and the impact of a valuation allowance on our deferred tax assets.

Our provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax loss and credit carryforwards.

Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction by jurisdiction basis, and includes a review of all available positive and negative evidence.

We recognize excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, we follow the with-and-without approach, excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based compensation are not deemed to be realized until after the utilization of all other tax benefits available to us. We recognize the impact of a tax position in our financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense.

ITEM 2.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, statements regarding our future product development activities and costs, the revenue potential (licensing, royalty and sales) of our products and product candidates, the success, safety and efficacy of our drug products, revenues, development timelines, product

acquisitions, liquidity and capital resources and trends, and other statements containing forward-looking words, such as, “believes,” “may,” “could,” “will,” “expects,” “intends,” “estimates,” “anticipates,” “plans,” “seeks,” “continues,” or the ne or variation thereon or similar terminology (although not all forward-looking statements contain these words). Such forward-looking statements are based on the reasonable beliefs of our management as well as assumptions made by and information currently available to our management. Readers should not put undue reliance on these forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified; therefore, our actual results may differ materially from those described in any forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in our periodic reports filed with the Securities and Exchange Commission, or the SEC, including our

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Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as well as those discussed elsewhere in this Quarterly Report on Form 10-Q, and the following factors:

- our ability to successfully develop, obtain regulatory approval for and market our products;
- our ability to continue to grow sales revenue of our marketed products;
- risks associated with doing business internationally;
- our ability to generate and maintain sufficient cash resources to fund our business;
- our ability to enter into strategic alliances with partners for manufacturing, development and commercialization;
- efforts of our development partners;
- the ability of our manufacturing partners to meet our timelines;
- the ability to timely deliver product supplies to our customers;
- our ability to identify new product candidates and to successfully integrate those product candidates into our operations;
- the timing and/or results of pending or future clinical trials, and our reliance on contract research organizations;
- our ability to protect our intellectual property rights;
- competition in the marketplace for our drugs;
- delay in approval of our products or new indications for our products by the FDA;
- actions by the FDA and other regulatory agencies, including international agencies;
- securing positive reimbursement for our products;
- the impact of any product liability, or other litigation to which we are, or may become a party;
- the impact of legislative or regulatory reform of the healthcare industry and the impact of recently enacted healthcare reform legislation;
- the availability and price of acceptable raw materials and components from third-party suppliers, and their ability to meet our demands;
- our ability, and that of our suppliers, development partners, and manufacturing partners, to comply with laws, regulations and standards, and the application and interpretation of those laws, regulations and standards, that govern or affect the pharmaceutical and biotechnology industries, the non-compliance with which may delay or prevent the development, manufacturing, regulatory approvals and sale of our products;
- defending against claims relating to improper handling, storage or disposal of hazardous chemical, radioactive or biological materials which could be time consuming and expensive;
- our ability to maintain the services of our key executives and technical and sales and marketing personnel;
- the difficulty in predicting the timing or outcome of product development efforts and regulatory approvals; and
- demand and market acceptance for our approved products.

All subsequent written and oral forward-looking statements attributable to us or by persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. We expressly disclaim any intent or obligation to update information contained in any forward-looking statement after the date thereof to conform such information to actual results or to changes in our opinions or expectations.

Company Overview

Spectrum Pharmaceuticals, Inc. (“Spectrum”, the “Company”, “we”, “our”, or “us”) is a biotechnology company, with a prima strategy comprised of acquiring, developing, and commercializing a broad and diverse pipeline of late-stage clinical and commercial products. In addition to an in-house clinical development organization with regulatory and data management

capabilities, we have established a commercial infrastructure for our marketed products. Currently, we have six approved oncology/hematology products that target different types of NHL, advanced metastatic colorectal cancer, ALL, and MM.

We also have three drugs in late stage development:

- SPI-2012 for chemotherapy-induced neutropenia in patients with breast cancer.
- APAZIQUONE for immediate intravesical instillation in post-transurethral resection of bladder tumors in patients with non-muscle invasive bladder cancer.
- POZIOTINIB, a novel pan-HER inhibitor used in the treatment of patients with breast cancer.

See Item 1. of our Annual Report on Form 10-K for the year ended December 31, 2015, “Business” section for a discussion of our:

- Company Overview
- Cancer Background and Market Size
- Product Portfolio
- Manufacturing
- Sales and Marketing
- Customers
- Competition
- Research and Development

Recent Highlights in Our Business, Product Development Initiatives, and Regulatory Approvals

During the three months ended March 31, 2016 and through the filing date of this quarterly report, we accomplished various critical business objectives, which included:

- SPI-2012: During January 2016, we initiated our Phase III ADVANCE trial of SPI-2012, being conducted under a Special Protocol Assessment ("SPA") agreement with the FDA. Enrollment in this study is progressing and we have designated more than 100 sites for the study.

- APAZIQUONE: In August 2015, we reached agreement with the FDA on the SPA of the planned Phase 3 clinical trial of APAZIQUONE. This trial commenced with its first patient dosing in October 2015, and is designed to evaluate the intravesical use of this drug for the treatment of patients with non-muscle invasive bladder cancer ("NMIBC") as one or two instillations, immediately following transurethral resection of bladder tumor ("TURBT"). Due to the high rate of recurrence for NMIBC, there is a significant unmet medical need and the overall cost of bladder cancer treatment in the U.S. is $3.4 billion annually, most of which is related to the direct treatment of this disease. Accordingly, this drug represents much-needed therapy for patients and provides a meaningful opportunity to reduce overall medical costs. In December 2015, we submitted our NDA for APAZIQUONE with the FDA, and in February 2016, the FDA communicated its acceptance of this NDA with a target decision date of December 11, 2016.

- POZIOTINIB: In November 2015, we submitted an Investigational New Drug ("IND") application with the FDA. In March 2016, we initiated our Phase 2 breast cancer trial. The Phase 2 study is an open-label study that will enroll approximately 70 patients with HER-2 positive metastatic breast cancer, who have failed at least two HER-2 directed therapies. The dose and schedule of oral POZIOTINIB will be based on clinical experience from the studies in Korea, and in addition include the use of prophylactic therapies to help minimize known side-effects of HER-2 directed therapies.

- EVOMELA (formerly referred to as Captisol-Enabled MELPHALAN): On October 23, 2015, we received a Complete Response Letter ("CRL") from the FDA for our EVOMELA NDA. A CRL is a standard communication from the FDA that informs companies that an application cannot be approved in its present form. Nonclinical deficiencies were identified, however, the FDA did not identify any clinical deficiencies for this drug in the CRL, and we subsequently resubmitted our NDA. On March 10, 2016, the FDA communicated its NDA approval for EVOMELA as a high-dose conditioning treatment prior to hematopoietic progenitor (stem) cell transplantation in

patients with MM, and for the

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palliative treatment of patients with MM for whom oral therapy is not appropriate. In April 2016, we launched EVOMELA, our sixth anti-cancer drug, with our existing sales force.

- Out-license with Servier Canada: On January 8, 2016, we entered into a strategic partnership with Servier Canada, Inc. for the out-licenses of ZEVALIN, FOLOTYN, BELEODAQ, and MARQIBO. We received $6 million in upfront payments in the first quarter of 2016 which was recognized within "license fees and service revenue" in the accompanying Condensed Consolidated Statement of Operations. We will also receive development milestone payments if/when achieved, and a high single-digit royalty on their sales of these products.

CHARACTERISTICS OF OUR REVENUE AND EXPENSES

See Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015, Characteristics of Our Revenue and Expenses for a discussion of the nature of our revenue and operating expense line items within our accompanying Condensed Consolidated Statements of Operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

See Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015, Critical Accounting Policies and Estimates for a discussion of significant estimates and assumptions as part of the preparation of our accompanying Condensed Consolidated Financial Statements. These critical accounting policies and estimates arise in conjunction with the following accounts:

- Revenue recognition
- Inventories – lower of cost or market
- Fair value of acquired assets and assumed liabilities
- Goodwill and intangible assets – impairment evaluations
- Income taxes
- Stock-based compensation
- Litigation accruals

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RESULTS OF OPERATIONS
Operations Overview – Three months ended March 31, 2016 and 2015

	Three Months Ended March 31,			
	2016		2015	
	($ in thousands)			
Total revenues	$43,866	100.0 %	$38,618	100.0 %
Operating costs and expenses:				
Cost of product sales (excludes amortization and impairment charges of intangible assets)	5,604	12.8 %	7,071	18.3 %
Cost of service revenue	1,282	2.9 %	—	— %
Selling, general and administrative	21,962	50.1 %	23,335	60.4 %
Research and development	15,462	35.2 %	15,851	41.0 %
Amortization and impairment charges of intangible assets	5,839	13.3 %	14,022	36.3 %
Total operating costs and expenses	50,149	114.3 %	60,279	156.1 %
Loss from operations	(6,283)	(14.3)%	(21,661)	(56.1)%
Interest expense, net	(2,340)	(5.3)%	(2,228)	(5.8)%
Change in fair value of contingent consideration related to acquisitions	(1,042)	(2.4)%	(500)	(1.3)%
Other income (expense), net	278	0.6 %	(1,035)	(2.7)%
Loss before income taxes	(9,387)	(21.4)%	(25,424)	(65.8)%
Benefit (provision) for income taxes	66	0.2 %	(138)	(0.4)%
Net loss	$(9,321)	(21.2)%	$(25,562)	(66.2)%

THREE MONTHS ENDED MARCH 31, 2016 VERSUS 2015
Total Revenues

	Three months ended March 31,			
	2016	2015	$ Change	% Change
	($ in millions)			
Product sales, net:				
FUSILEV	$15.2	$20.2	$ (5.0)	(24.8)%
FOLOTYN	13.3	9.3	4.0	43.0 %
ZEVALIN	2.8	4.2	(1.4)	(33.3)%
MARQIBO	0.9	1.9	(1.0)	(52.6)%
BELEODAQ	3.0	2.8	0.2	7.1 %
	$35.2	$38.4	$ (3.2)	(8.3)%
License fees and service revenue	8.6	0.2	8.4	>100.0 %
Total revenues	$43.8	$38.6	$ 5.2	13.5 %

Product sales, net. To derive net product sales, gross product revenues in each period are reduced by management's latest estimated provisions for (i) product returns, (ii) government chargebacks, (iii) prompt pay discounts, (iv) commercial rebates, (v) Medicaid rebates, and (vi) distribution, data, and GPO administrative fees. Management considers various factors in the determination of these provisions, which are described in more detail within "Critical Accounting Policies and Estimates" of our 2015 Form 10-K.

FUSILEV revenue decrease is attributable to a significant decline in our unit sales due to the competitive launch in April 2015 of generic levo-leucovorin product - see Note 3(f), and to a lesser extent, a moderate decrease in our net average sales price per unit. Our reported revenue in the current period is inclusive of previously deferred revenue of

$6.1 million as of December 31, 2015 - see Note 3(i).

FOLOTYN revenue increase is due to a significant increase in units sold in the current period, and to a lesser extent, a moderate increase in our net average sales price per unit.
ZEVALIN revenue decrease is due to a large decline in units sold in the current period in the U.S. and ex-U.S. territories. In November 2015, we entered into an out-license agreement for ZEVALIN within various ex-U.S. territories that contributed to our product revenue decline, particularly in Japan (see Note 11).
MARQIBO revenue decrease is due to a significant decline units sold during the period, and to a lesser extent, a moderate decrease in our net average sales price per unit.
BELEODAQ revenue increased as a result a small increase in the average net sales price per unit, partially offset by a small decrease in the units sold during the period.
License fees and service revenue. Our license fees and service revenue in the current period includes the following: (i) $6.0 million in upfront fees related to the out-license of ZEVALIN, FOLOTYN, MARQIBO, and BELEODAQ to Servier in the Canada territory (see Note 12), (ii) $1.9 million in fees from our co-promotion with Eagle Pharmaceuticals (see Note 13), and (iii) $0.7 million from out-license royalties. The prior period amount is solely attributable to out-license royalties.
Operating Expenses

	Three months ended March 31,			
	2016	2015	$ Change	% Change
	($ in millions)			
Operating costs and expenses:				
Cost of product sales (excludes amortization of intangible assets)	$5.6	$7.1	$ (1.5)	(21.1)%
Cost of service revenue	1.3	—	1.3	100.0 %
Selling, general and administrative	22.0	23.3	(1.3)	(5.6)%
Research and development	15.5	15.9	(0.4)	(2.5)%
Amortization and impairment of intangible assets	5.8	14.0	(8.2)	(58.6)%
Total operating costs and expenses	$50.2	$60.3	$ (10.1)	(16.7)%

Cost of Product Sales. Cost of product sales declined with the decrease in sales in the current period, as well as the impact of product sales mix between the periods.
Cost of Service Revenue. Cost of service revenue exclusively relates to our allocated commercial and marketing expenses for the promotion and sale of Eagle's products (see Note 13).
Selling, General and Administrative. Selling, general and administrative expenses decreased by $1.3 million, largely driven by the allocation of employee costs for Eagle's products to "cost of service revenue," offset by increases in legal expenses related to ongoing FOLOTYN patent litigation.

Research and Development. Research and development expenses remained consistent in the first quarter of 2016 as compared to the prior year period.
Amortization and Impairment of Intangible Assets. Amortization expense decreased $8.2 million in the current year due to (i) $7.2 million impairment charge (non-cash) in the first quarter of 2015 for our FUSILEV distribution rights (see Note 3(f)), and (ii) the sale of certain ex-U.S. ZEVALIN rights to Mundipharma in November 2015 (see Note 11).
Total Other Expenses

	Three months ended March 31,			
	2016	2015	$ Change	% Change

	($ in millions)				
Total other expenses	$(3.1)	$(3.8)	$ 0.7	18.4	%

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Total other expenses decreased by $0.7 million primarily due to $1.4 million decrease in foreign exchange adjustments on the value of intercompany loans. Beginning April 1, 2015, these adjustments are now recorded in "accumulated other comprehensive loss" in the Condensed Consolidated Balance Sheets (see Note 2(ix)). This decrease was partially offset by a $0.5 million increase in the contingent consideration valuation related to our MARQIBO and EVOMELA products (see Note 9), and a $0.1 million increase in interest expense.

Benefit (Provision) for Income Taxes

	Three months ended March 31,			
	2016	2015	$ Change	% Change
	($ in millions)			
Benefit (provision) for income taxes	$0.1	$(0.1)	$ 0.2	200.0 %

Our current period benefit for income taxes of $0.1 million is primarily due to our expected 2016 taxable income and an unrealized investment gain recognized in "accumulated other comprehensive loss." Our prior period provision for income taxes primarily represents minimum tax obligations.

LIQUIDITY AND CAPITAL RESOURCES

	March 31, 2016	December 31, 2015	March 31, 2015
	(in thousands, except financial metrics data)		
Cash, cash equivalents and marketable securities	$ 132,552	$ 139,986	$ 126,673
Accounts receivable, net	$ 19,248	$ 30,384	$ 68,755
Total current assets	$ 172,482	$ 190,625	$ 215,966
Total current liabilities	$ 59,526	$ 76,343	$ 109,808
Working capital surplus (a)	$ 112,956	$ 114,282	$ 106,158
Current ratio (b)	2.9	2.5	2.0

(a) Total current assets at period end minus total current liabilities at period end.

(b) Total current assets at period end divided by total current liabilities at period end.

Net Cash Used In Operating Activities

Net cash used in operating activities was $7.1 million for the three months ended March 31, 2016, as compared to cash used in operating activities of $5.3 million in the prior year period.

For the three months ended March 31, 2016 and 2015, our cash collections from customers totaled $47.6 million and $74.0 million, respectively, representing 108.4% and 191.5% of reported net revenue for the same years.

For the three months ended March 31, 2016 and 2015, cash payments to our employees, vendors, and end-users for products, services, chargebacks, and rebates totaled $55.5 million and $82.2 million, respectively.

Net Cash Used In Investing Activities

Net cash used in investing activities of $0.1 million for the three months ended March 31, 2016 primarily relates to $0.1 million of property, plant and equipment purchases. This remains consistent with our cash used in investing activities of $0.1 million in the prior year period.

Net Cash (Used In) Provided by Financing Activities

Net cash used in financing activities was $0.3 million for the three months ended March 31, 2016, as compared to cash provided by financing activities of $0.1 million in the prior year period. Our cash used in financing activities during the first quarter of 2016, relates to $0.4 million for the purchase and retirement of restricted stock at our employees' election, in order to fund their corresponding minimum employee tax obligations at the time of vesting, partially offset by $0.1 million of proceeds from the issuance of common stock as a result of the exercise of employee stock options.

Convertible Senior Notes Due 2018

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On December 17, 2013, we entered into an agreement for the sale of $120 million aggregate principal amount of 2.75% Convertible Senior Notes due December 2018 (the "2018 Convertible Notes"). The 2018 Convertible Notes are convertible into shares of our common stock at a conversion rate of 95 shares per $1,000 principal amount of the 2018 Convertible Notes, totaling 11.4 million common shares if fully converted. The in-the-money conversion price is equivalent to $10.53 per common share. The conversion rate and conversion price are subject to adjustment under certain limited circumstances. As of March 31, 2016, we may settle conversions of the 2018 Convertible Notes by paying or delivering, as the case may be, cash, shares of our common stock, or a combination of cash and shares, at our election.

The 2018 Convertible Notes bear interest at a rate of 2.75% per year, payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2014. The 2018 Convertible Notes will mature and become payable on December 15, 2018, subject to earlier conversion into common stock at the holders' option.

The sale of the 2018 Convertible Notes closed on December 23, 2013 and our net proceeds were $115.4 million, after deducting banker and professional fees of $4.6 million. We used a portion of these proceeds to simultaneously enter into "bought call" and "sold warrant" transactions with Royal Bank of Canada (collectively, the "Note Hedge"). We recorded the Note Hedge on a net cost basis of $13.1 million, as a reduction to "additional paid-in capital" in our accompanying Condensed Consolidated Balance Sheets. Under applicable GAAP, the Note Hedge transaction is not expected to be marked-to-market through earnings or comprehensive income in future reporting periods.

Future Capital Requirements

We believe that the future growth of our business will depend on our ability to successfully develop and acquire new drugs for the treatment of cancer and successfully bring these drugs to market.

The timing and amount of our future capital requirements will depend on many factors, including:

- the need for additional capital to fund future development programs;
- the need for additional capital to fund strategic acquisitions;
- the need for additional capital to fund licensing arrangements;
- our requirement for additional information technology infrastructure and systems; and
- adverse outcomes from potential litigation and the cost to defend such litigation.

We believe that our $133 million in aggregate cash and equivalents, and marketable securities as of March 31, 2016 will allow us to fund our current and planned operations for at least the next twelve months. However, we may seek additional capital through the sale of debt or equity securities, if necessary, especially in conjunction with opportunistic acquisitions or licensing arrangements. We may be unable to obtain such additional capital when needed, or on terms favorable to us or our current stockholders and convertible senior note holders.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements (except for operating leases) that provide financing, liquidity, market or credit risk support, or involve derivatives. In addition, we have no arrangements that may expose us to liability that are not expressly reflected in the accompanying Condensed Consolidated Financial Statements and/or notes thereto.

As of March 31, 2016, we did not have any relationships with unconsolidated entities or financial partnerships, often referred to as "structured finance" or "special purpose entities," established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not subject to any material financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, our operations are exposed to risks associated with fluctuations in interest rates and foreign currency exchange rates.

The primary objective of our investment activities is to preserve principal, while at the same time maximizing yields without significantly increasing risk. We do not utilize hedging contracts or similar instruments. Because of our ability to generally redeem these investments at par at short notice and without penalty, changes in interest rates would have an immaterial effect on the fair value of these investments. If a 10% change in interest rates were to have occurred on March 31, 2016, any decline in the fair value of our investments would not be material in the context of our

accompanying Condensed Consolidated Financial Statements. In addition, we are exposed to certain market risks associated with credit ratings of corporations whose corporate bonds we may purchase from time to time. If these companies were to experience a significant detrimental change in their credit ratings, the fair market value of such corporate bonds may significantly decrease. If these companies were to default on these corporate bonds, we may lose part, or all, of our principal. We believe that we effectively manage this market risk by diversifying our investments, and investing in highly rated securities.
We are exposed to foreign currency exchange rate fluctuations relating to payments we make to vendors, suppliers and license partners using foreign currencies. In particular, some of our obligations are incurred in Euros and Yen. We mitigate such risk by maintaining a limited portion of our cash in Euros and Yen.
ITEM 4. CONTROLS AND PROCEDURES
Evaluation of Disclosure Controls and Procedures
Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2016. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are

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designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. These include controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.
Based on the evaluation of our disclosure controls and procedures as of March 31, 2016, our chief executive officer and chief financial officer concluded that, as of that date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting
There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the first quarter of 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.
Limitations of the Effectiveness of Internal Controls
A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of inherent limitations in any control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. We are continuously seeking to improve the efficiency and effectiveness of our operations and of our internal controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
We are involved with various legal matters arising in the ordinary course of business. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions are reviewed at least quarterly and adjusted to reflect the impact of any settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. Although the ultimate resolution of these various matters cannot be determined at this time, we do not believe that such matters, individually or in the aggregate, will have a material adverse effect on our condensed consolidated results of operations, cash flows or financial condition.

Certain of the legal proceedings in which we are involved are discussed in Note 16, "Commitments and Contingencies," to our accompanying Condensed Consolidated Financial Statements, and are hereby incorporated by reference.

ITEM 1A. RISK FACTORS
As of the date of this filing, there have been no material changes to the RISK FACTORS included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission on March 14, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 18, 2016, pursuant to the terms of a letter agreement dated October 9, 2008, and as a result of a milestone payment obligation triggered by the U.S. Food and Drug Administration's acceptance of the EOquin® (apaziquone for intravesical instillation) New Drug Application for review, we issued an aggregate of 25,000 shares of our common stock to three non-U.S. investors who were licensors (including their successors) under letter agreement. We received no cash proceeds in connection with this issuance. We issued such shares of common stock without registration under the Securities Act in reliance upon the exemption from registration provided under Section 4(2) of the Securities Act. The foregoing transaction did not involve any public offering; we made no solicitation in connection with the issuance; we obtained representations from the investors regarding their investment intent, experience, "accredited

investor” status and sophistication; and the investors either received or had access to adequate information about us in order to make an informed investment decision. Additionally, at the time of the issuance, the shares of common stock were deemed to be restricted securities under the Securities Act and the certificates evidencing such shares bear a legend to that effect. No underwriting discounts or commissions were paid in conjunction with the issuance.

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ITEM 6. EXHIBITS

Exhibit Number	Description
2.1+	Amendment to License and Asset Purchase Agreement by and between Spectrum Pharmaceuticals Cayman, L.P. and Bayer Pharma AG, dated February 29, 2016. Confidential portions omitted and filed separately with the U.S. Securities and Exchange Commission pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.
31.1+	Certification of Principal Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934.
31.2+	Certification of Principal Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a) promulgated under the Securities Exchange Act of 1934.
32.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(b)/15d-14(b) promulgated under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
32.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) promulgated under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350.
101.INS+	XBRL Instance Document.
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.

+ Filed herewith.

* Furnished herewith.

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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.

SPECTRUM PHARMACEUTICALS, INC.

Date: May 6, 2016 By: /s/ Kurt A. Gustafson
Kurt A. Gustafson
Executive Vice President and Chief Financial Officer
(Authorized Signatory and Principal Financial and Accounting Officer)