

OLD SECOND BANCORP INC
Form 11-K
July 13, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 11-K

ANNUAL REPORT

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

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-10537

A. Full title of the plan and the address of the plan if different from that of the issuer named below

Old Second Bancorp, Inc. Employees 401(k) Savings Plan and Trust

B. Name of the issuer of the securities held pursuant to the plan and the address of its principal executive office:

Old Second Bancorp, Inc.

37 South River Street, Aurora, Illinois 60506

(Address of principal executive offices, including zip)

(630) 892-0202

(Registrant's telephone number, including Area Code)

Financial Statements and Supplemental Schedule

**Old Second Bancorp, Inc. Employees
401(k) Savings Plan and Trust**

*Years ended December 31, 2006 and 2005
with Report of Independent Registered Public Accounting Firm*

Employer Identification #36-3143493
Plan #003

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Old Second Bancorp, Inc. Employees
401(k) Savings Plan and Trust

Financial Statements and Supplemental Schedule

Years Ended December 31, 2006 and 2005

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Report of Independent Registered Public Accounting Firm

The Employee Benefits Committee
Old Second Bancorp, Inc. Employees
401(k) Savings Plan and Trust

We have audited the accompanying statement of net assets available for benefits of Old Second Bancorp, Inc. Employees 401(k) Savings Plan and Trust (the Plan) as of December 31, 2006, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2006, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ MCGLADREY & PULLEN, LLP

Deerfield, Illinois
July 13, 2007

Report of Independent Registered Public Accounting Firm

The Employee Benefits Committee
Old Second Bancorp, Inc. Employees
401(k) Savings Plan and Trust

We have audited the accompanying statement of net assets available for benefits of Old Second Bancorp, Inc. Employees 401(k) Savings Plan and Trust (the Plan) as of December 31, 2005, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2005, and the changes in net assets available for benefits for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ ALTSCHULER, MELVOIN AND GLASSER LLP

Deerfield, Illinois
June 20, 2006

Old Second Bancorp, Inc. Employees
401(k) Savings Plan and Trust

Statements of Net Assets Available for Benefits

	December 31	
	2006	2005
Assets		
Investments	\$ 52,605,939	\$ 46,093,214
Participant contribution receivable	73,219	59,242
Employer match contribution receivable	72,470	31,463
Profit-sharing contribution receivable	563,274	581,559
Dividend and interest receivable	8,680	
Other receivables	11,453	504
	53,335,035	46,765,982
Liabilities		
Accrued expenses	27,639	13,490
Net assets available for benefits	\$ 53,307,396	\$ 46,752,492

See accompanying notes.

Old Second Bancorp, Inc. Employees
401(k) Savings Plan and Trust

Statements of Changes in Net Assets Available for Benefits

	Years Ended December 31	
	2006	2005
Additions		
Participant contributions	\$ 1,817,287	\$ 1,593,738
Profit-sharing contributions	563,274	581,559
Employer match contributions	1,321,588	860,488
Rollover contributions	4,960,384	375,299
Dividend and interest income	560,474	489,839
Net realized and unrealized appreciation (depreciation) in fair value of investments	1,693,955	(314,506)
	10,916,962	3,586,417
Deductions		
Benefit payments	4,302,583	5,134,652
Administrative expenses	59,475	53,088
Net increase (decrease)	6,554,904	(1,601,323)
Net assets available for benefits:		
Beginning of year	46,752,492	48,353,815
End of year	\$ 53,307,396	\$ 46,752,492

See accompanying notes.

Old Second Bancorp, Inc. Employees
401(k) Savings Plan and Trust

Notes to Financial Statements

Years ended December 31, 2006 and 2005

1. Description of the Plan

The following is a brief description of the Old Second Bancorp, Inc. Employees 401(k) Savings Plan and Trust (the Plan). Participants should refer to the Plan document or the summary plan description for a more complete description of the Plan's provisions.

General

The Plan is a defined-contribution plan established to provide deferred compensation benefits to eligible employees. Under the Plan, all nonunion employees of Old Second Bancorp, Inc. and certain of its affiliates (collectively, the Company) who have met certain eligibility requirements may elect to participate in the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Effective January 1, 1997, the Plan was amended to permit participation by any employee, both salaried and nonsalaried, who meets the eligibility requirements, other than any employee who is a member of a collective bargaining unit under which retirement benefits were the subject of good faith bargaining. Eligible employees previously excluded from the Plan solely due to having been paid on a hourly basis rather than a salary basis shall, effective January 1, 1997, be credited with eligible service, benefit service, and vesting service (as defined) to the extent the employee would have been credited for such services had his or her employment with an affiliated company (as defined) been as a salaried employee rather than as an employee paid on an hourly basis.

Effective January 1, 2003, the Plan was restated and now permits employees of Old Second Mortgage Company who meet eligibility requirements to become a member of the profit-sharing portion of the Plan. Under the January 1, 2003, restatement, the following employees are excluded from participating in the Plan: union employees, leased employees, intermittent commissioned part-time employees, and temporary employees. Old Second Mortgage Company commissioned sales employees and appraisers and temporary employees are excluded from the profit-sharing portion of the Plan.

Contributions

Under provisions of the Plan, participants enter into agreements wherein each participant may elect an unlimited reduction in compensation (subject to statutory wage limitations).

Maximum contribution limits of compensation may apply for certain highly compensated employees. In addition, prior to January 1, 2003, each participant could elect to make additional voluntary after-tax contributions subject to certain limitations as specified by the Plan. The Company contributes on behalf of each participant an amount equal to 100% of the participant's salary reduction contributions made each pay period (safe harbor enhanced matching contribution), not to exceed 6% of the participant's compensation (4% in 2005). Participants must complete three months of service to be eligible for matching contributions, with the entry date being the first of the quarter coincident with or next following the employee's three-month anniversary.

Profit-sharing contributions are based on amounts determined by the Company's Board of Directors before the end of each year and shall not exceed the maximum amount deductible for federal income tax purposes. Participants must complete one year of service to be eligible for profit-sharing contributions. Forfeitures are first used to pay Plan expenses. Any remaining forfeitures are used to reduce Company contributions. Forfeitures of \$123,148 and \$62,542 were used to reduce the profit-sharing contributions for the years ended December 31, 2006 and 2005, respectively. Remaining forfeitures of \$6,200 are available for use against administrative fees or future profit-sharing contributions.

Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Effective January 1, 2006, the Plan was amended to allow after-tax Roth deferrals. Participants may direct their contributions and any related earnings into fifteen investment options.

Payment of Benefits

Upon termination of service, disability, retirement, or death, each participant or beneficiary may elect to receive accumulated benefits. The benefit may be paid as a lump-sum amount or a series of installment payments, as determined by the participant or beneficiary. Under certain circumstances, participants may receive a hardship distribution prior to termination upon approval of the plan administrator. Upon attaining the age of 65, participants are eligible to receive in-service distributions of all vested balances.

Participant Accounts

Each participant's account is credited with the participant's contributions and allocations of: (a) Company contributions, and (b) Plan earnings (losses). Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

Vesting

Participants are always fully vested in their employee contributions and rollover contributions. Company safe harbor matching contributions, and earnings thereon. Nonsafe harbor matching contributions and earnings thereon become 100% vested after two years of service.

Profit-sharing contributions and earnings thereon become 100%-vested after five years of service under a 5-year cliff vesting schedule, as defined by the Plan.

Participant Loans

Participants may borrow from their accounts a maximum of the lesser of \$50,000 or 50% of their vested account balance. Loan terms range from one to five years, except in the case of a loan for the purpose of acquiring a primary residence. The term of such loan shall be determined by the Company. The loans are secured by the balance in the participant's account and bear a reasonable rate of interest as determined by the Company. Principal and interest are paid ratably through semimonthly payroll deductions.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to provisions of ERISA. Upon Plan termination, all participants become fully vested in their account balances.

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Plan.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits at the dates of the financial statements and the reported changes in net assets available for benefits during the reported periods. Actual results could differ from those estimates.

Valuation of Investments

Investments in the Old Second National Bank of Aurora Common Collective Trust Funds for Corporate Retirement Plans and the Money Market Funds are carried at the quoted market value of the underlying assets held in the funds. The registered investment companies are valued at quoted market prices, which represent the net asset values of shares held by the Plan at year-end. Common stock of Old Second Bancorp, Inc. is valued at the last reported bid price. Participant loans are valued at cost, which approximates fair value. Purchases and sales of investments are reflected on a trade-date basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis.

Administrative Expenses

Certain administrative expenses of the Plan are paid by any available forfeitures and any excess paid by the Company. Forfeitures in the amount of \$49,310 and \$37,713 were used to pay

administrative expenses for the years ended December 31, 2006 and 2005, respectively. The Plan charges participants fees for administrative expenses related to loans and distributions.

Payment of Benefits

Benefits are recorded when paid.

3. Risk and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

4. Investments

The fair value of the Plan's investments (including investments bought, sold, and held during the year) appreciated (depreciated) as follows:

	Years Ended December 31	
	2006	2005
Common collective trust funds	\$ 1,683,443	\$ 490,701
Common stock	(954,816)	(1,108,907)
Registered investment companies	965,328	303,700
	\$ 1,693,955	\$ (314,506)

The following investments represent 5% or more of the fair value of the Plan's net assets:

	December 31	
	2006	2005
Old Second National Bank of Aurora Common Collective Trust Funds for Corporate Retirement Plans:		
OSNB Diversified Equity Portfolio	\$ 6,641,678	\$ 5,412,023
OSNB Government Securities Fund	3,110,189	2,631,772
Dodge & Cox Stock Fund	2,961,068	
Old Second Bancorp, Inc. common stock	21,407,899	25,505,774

All investments are participant directed

5. Income Tax Status

The underlying nonstandardized prototype plan has received an opinion letter from the Internal Revenue Service (IRS) dated August 26, 2002, stating that the form of the Plan is qualified under Section 401 of the Internal Revenue Code (the Code) and, therefore, the related trust is tax-exempt. In accordance with Revenue Procedure 2002-6 and Announcement 2001-77, the Plan Sponsor has determined that it is eligible to and has chosen to rely on the current IRS prototype plan opinion letter. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. Although the Plan has been amended since receiving the determination letter, the plan administrator and Trustees believe the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax-exempt.

6. Related Party Transactions

Certain Plan investments such as the common collective trust funds are managed by Old Second National Bank of Aurora, a subsidiary of the Company. Old Second National Bank of Aurora is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

Old Second National Bank of Aurora provides certain accounting, administrative and investment management services to the Plan for which no fees are charged.

7. Plan Amendments and Subsequent Events

Effective December 31, 2006, the Company amended the Plan, modifying the events that can qualify for a hardship distribution from the Plan.

In compliance with the Pension Protection Act of 2006, effective January 1, 2007, the Company has amended the Plan's vesting schedule for profit sharing contributions made for the plan year beginning January 1, 2007. These contributions will vest under a 6 year graded schedule as follows:

Years of vesting service	Nonforfeitable percentage	
0-1	0	%
2	20	%
3	40	%
4	60	%
5	80	%
6	100	%

Contributions made prior to the 2007 plan year will continue to vest under the 5-year cliff vesting schedule. Effective January 1 2007, the Company amended the Plan to allow certain commissioned employees to be eligible to participate in the Plan.

Supplemental Schedule

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Old Second Bancorp, Inc. Employees
401(k) Savings Plan and TrustSchedule H, Line 4i Schedule of Assets
(Held at End of Year)

EIN #36-3143493 Plan #003

December 31, 2006

Identity of Issuer/Description	Units/ Shares	Current Value
Money Market		
Northern Trust Benchmark Diversified Asset Portfolio	2,325,769	\$ 2,325,769
Common Collective Trust Funds		
The Old Second National Bank of Aurora Common Trust Fund for Corporate Retirement Plans		
Diversified Equity Portfolio*	153,757	6,641,678
Bond Fund*	18,566	2,630,823
Government Securities Fund*	61,444	3,110,189
Conservative Fund*	27,414	336,002
Balanced Fund*	146,343	2,282,383
Growth Fund*	172,298	1,844,387
Aggressive Fund*	98,747	1,645,504
Registered Investment Companies		
American Funds Growth Fund of America R2	48,380	1,557,346
Columbia Acorn Fund Class Z	65,086	1,933,698
Dodge & Cox International Stock Fund	35,653	1,556,596
Dodge & Cox Stock Fund	19,295	2,961,068
Vanguard Index Trust 500 Portfolio	7,391	965,157
Morgan Stanley International Equity	36,006	740,996
T. Rowe Price Science & Technology Fund	14,640	306,848
Common Stock		
Old Second Bancorp, Inc. common stock*	730,645	21,407,899
Participant loans*, interest rates of 4.00% to 8.75%		359,596
		\$ 52,605,939

*Represents a party in interest to the Plan.

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement No. 333-38914 of Old Second Bancorp, Inc. on Form S-8 of our report dated July 13, 2007, appearing in this Annual Report on Form 11-K of the Old Second Bancorp, Inc. Employees 401(k) Savings Plan and Trust for the year ended December 31, 2006.

/s/ MCGLADREY & PULLEN, LLP

Deerfield, Illinois
July 13, 2007

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-38914) under the Securities Act of 1933 of Old Second Bancorp, Inc. of our report dated June 20, 2006, on our audit of the statement of net assets available for benefits of the Old Second Bancorp, Inc. Employees 401(k) Savings Plan and Trust as of December 31, 2005, and the related statement of changes in net assets available for benefits for the year then ended which is included in the annual report on Form 11-K for the year ended December 31, 2006.

/s/ ALTSCHULER, MELVOIN AND GLASSER LLP

Deerfield, Illinois
July 13, 2007

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SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OLD SECOND BANCORP INC.

BY: */s/ William B. Skoglund*
William B. Skoglund

Chairman of the Board, Director
President and Chief Executive Officer
(principal executive officer)

BY: */s/ J. Douglas Cheatham*
J. Douglas Cheatham

Senior Vice-President and
Chief Financial Officer, Director
(principal financial officer)

DATE: July 13, 2007