

SECOND BANCORP INC

Form DEF 14A

March 05, 2002

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**SCHEDULE 14A
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**INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-11c or Section 240.14a-12

Second Bancorp Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11
(set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- Fee paid previously with preliminary materials.

- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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108 Main Avenue, S.W.
Warren, Ohio 44481

March 8, 2002

NOTICE OF ANNUAL SHAREHOLDERS MEETING

TO THE SHAREHOLDERS OF SECOND BANCORP INCORPORATED:

Notice is hereby given that the Annual Meeting of Shareholders of Second Bancorp Incorporated will be held in Room 117 of the Technology Building, Kent State University Trumbull Campus, 4314 Mahoning Ave., N.W., Warren, Ohio on Thursday, April 18, 2002, at 2:00 p.m. **A map indicating the location of the Annual Meeting can be found on the back cover of this combined Notice and Proxy Statement.** The purposes of the Annual Meeting will be:

1. To fix the number of directors at nine (9);
2. To elect three (3) directors of the Corporation to serve until the 2004 Annual Meeting of Shareholders or until resignation or removal;
3. To increase by 450,000 the number of shares authorized for issuance under the Amended Second Bancorp Incorporated 1998 Non-Qualified Stock Option Plan;
4. To ratify the appointment of Ernst & Young LLP as the independent certified public accountants of Second Bancorp Incorporated for 2002; and
5. To transact such other business as may come before the meeting or any adjournment thereof.

The Board of Directors has fixed February 22, 2002 as the record date for the meeting. Only those shareholders of record as of the close of business on that date are entitled to notice of and to vote at the meeting.

WHETHER OR NOT YOU CONTEMPLATE ATTENDING THE ANNUAL SHAREHOLDERS MEETING, THE BOARD OF DIRECTORS URGES YOU TO SIGN AND RETURN THE PROXY CARD IN THE ENCLOSED ENVELOPE AS PROMPTLY AS POSSIBLE.

YOU MAY REVOKE THE PROXY AT ANY TIME PRIOR TO ITS EXERCISE BY NOTICE IN WRITING DELIVERED TO THE SECRETARY OF SECOND BANCORP OR BY EXECUTION OF A LATER DATED PROXY. IF YOU ATTEND THE MEETING, YOU MAY CHOOSE TO WITHDRAW YOUR PROXY AND VOTE IN PERSON AT THE MEETING.

A proxy statement is submitted herewith.

Christopher Stanitz
Secretary of Second Bancorp Incorporated

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108 Main Avenue, S.W.
Warren, Ohio 44481

March 8, 2002

PROXY STATEMENT

The Annual Meeting of Shareholders (the Annual Meeting) of Second Bancorp Incorporated (Second Bancorp, the Company, or the Corporation), will be held Thursday, April 18, 2002, at 2:00 p.m. in Room 117 of the Technology Building, Kent State University Trumbull Campus, 4314 Mahoning Ave., N.W., Warren, Ohio. **A map indicating the location of the Annual Meeting can be found on the back cover of this combined Notice and Proxy Statement.** This Proxy Statement is being mailed on or about March 8, 2002.

Only those shareholders of record at the close of business February 22, 2002 will be entitled to vote.

The solicitation of proxies will be made by mail except for any incidental solicitation by officers and representatives of Second Bancorp by personal interviews or by telephone. Second Bancorp will bear the cost of the solicitation of proxies and it may reimburse brokers and others for their expenses in forwarding solicitation material to beneficial owners of Second Bancorp.

COMMON STOCK OUTSTANDING

As of the record date for the Annual Meeting there were 9,936,971 shares of common stock outstanding of which 9,855,453 shares are entitled to vote. The remaining 81,518 shares are held by Second National Bank, Second Bancorp's wholly owned subsidiary (the Bank), in certain fiduciary capacities and cannot be voted. Trust preferred securities issued by Second Bancorp Capital Trust I in 2001 are non-voting securities and, consequently, not entitled to participate in the Annual Meeting of Shareholders.

The general corporation law of Ohio provides that if written notice is given by a shareholder to the president, a vice president, or secretary of the Corporation not less than 48 hours before the time fixed for holding the meeting, that the shareholder desires the voting at such election to be cumulative, and an announcement of such notice is made upon the convening of the meeting by the chairman of the meeting, or by or on behalf of the shareholder giving such notice, then each shareholder shall have cumulative voting rights in the election of directors. Proxies solicited by the Board of Directors will also be voted cumulatively in that event. For all other purposes, each share is entitled to one vote.

SECURITY OWNERSHIP

As of the record date, the table below identifies persons or groups, as the term is used in section 13(d)(3) of the Securities and Exchange Act of 1934, who own of record or beneficially more than five percent of any class of Second Bancorp voting securities and the number of shares thereof owned directly or beneficially by all Second Bancorp directors and officers as a group as of the record date (unless otherwise indicated). Second Bancorp's common stock, no par is the only class of voting security issued by the Company.

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Title of Class	Name of Record or Beneficial Owner	Shares and Nature of Beneficial Ownership	Percent of Class
Common Stock	Second National Bank of Warren	938,357 (1)	9.44 %
Common Stock	Second Bancorp's officers and directors as a group (2)	1,535,829 (3)	14.94 %

(1) Shares held beneficially as of the record date (as indicated on an SEC Schedule 13G, a copy of which was delivered to the Company) in fiduciary capacity for various trust customers of Second National Bank. None of the beneficial owners through Second National's Trust Department individually owns or controls five percent or more of the voting securities of the Company. (2) Shares directly or beneficially owned as of the record date. The officer and director group comprises 19 individuals, no one of whom owns or controls five percent or more of the voting securities of

the Company.(3) Officer and director shareholdings include outstanding stock options exercisable as of the record date and the indicated percentage is of diluted shares outstanding. Figure includes all directly owned shares and all shares deemed beneficially owned by individuals in the officer and director group, whether or not disclaimed by the officer or director in question. Percent of class is percent of diluted shares outstanding.

SECTION 16(a) BENEFICIAL OWNERSHIP COMPLIANCE

Under Securities laws of the United States, Second Bancorp’s directors, its executive and certain other officers and any persons holding more than ten percent of any class of Second Bancorp security are required to report their ownership of Second Bancorp securities and any changes in that ownership to the Securities and Exchange Commission and to Nasdaq on a timely basis. Second Bancorp is required to report in this Proxy Statement any failure to make the necessary filing as and when due. In making the following statement, Second Bancorp has relied upon the written representations of its incumbent directors and officers and copies of reports known by the Company to have been filed with the SEC. During 2001, all required filings were made on a timely basis.

EXECUTIVE COMPENSATION

Under proxy rules and regulations promulgated by the Securities and Exchange Commission, publicly held corporations are required to disclose to their shareholders certain information concerning, or deemed relevant to, compensation paid to its Named Officers (as defined in the next sentence) and to present that information in tabular and graphic form. The first table contains a summary of annual and long-term compensation for services in all capacities to Second Bancorp and its subsidiary for calendar years 2001, 2000 and 1999 to those persons who were, at December 31, 2001, (i) the chief executive officer and (ii) the four other most highly compensated executive officers of Second Bancorp and its subsidiary (the Named Officers).

SUMMARY COMPENSATION TABLE

	Long Term Compensation
Annual Compensation	<hr style="width: 50%; margin: 0 auto;"/>
	Securities

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Name and Principal	Year	Salary	Bonus (1)	Other Annual Comp. (2)	Underlying Option Awards	All Other Compensation (3)
R. L. (Rick) Blossom, (4) Chairman, President 2000 \$400,000 \$150,000 NA 10,000 \$272,221(5) and Chief Executive 1999 \$28,974 \$12,500 \$10,539 10,000 \$0 Officer of Second Bancorp and Second National Bank	2001	\$420,828	\$219,406	NA	37,500	\$14,841

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Name and Principal Position	Year	Annual Compensation			Long Term Compensation	
		Salary	Bonus (1)	Other Annual Comp. (2)	Securities Underlying Option Awards	All Other Compensation (3)
David L. Kellerman, Treasurer of Second 2000 \$150,065 \$30,800 NA 10,000 \$4,270 Bancorp and Executive 1999 \$121,333 \$50,000 NA 9,800 \$3,462 Vice President, Chief Financial Officer and Director of Second National Bank	2001	\$ 180,833	\$ 89,031	NA	22,500	\$ 3,331
Christopher Stanitz, Executive Vice President 2000 \$129,733 \$25,641 NA 10,000 \$5,575 and Secretary of 1999 \$123,750 \$35,000 NA 9,800 \$651 Second Bancorp and Senior Vice President of Second National Bank						
Myron Filarski, (6) Executive Officer of 2000 \$115,584 \$22,426 \$22,430(7) 8,000 \$875 Second Bancorp and 1999 \$65,333 \$32,284 NA 5,000 \$245 Senior Vice President of Second National Bank						
Diane C. Bastic, Executive Officer of 2000 \$119,033 \$23,331 NA 8,000 \$7,331 Second Bancorp and 1999 \$113,500 \$38,000 NA 9,000 \$7,162 Senior Vice President of Second National Bank						

(1) Includes amounts earned for the indicated year but actually paid during February of the following year. (2) Proxy

Rules require disclosure of Other Annual Compensation if it exceeds, in the aggregate, 10% of the Named Officer's total base salary and bonus for the year in question.(3) Amounts reported for 2001 include the sum of the Company's contributions on behalf of each of the Named Officers under the Company's employee savings plan (\$8,300, \$2,844, \$5,251, \$4,597, and \$6,829 respectively for Blossom, Kellerman, Stanitz, Filarski and Bastic) and executive long term disability plan (\$6,541, \$487, \$651, \$875, and \$558 respectively for Blossom, Kellerman, Stanitz, Filarski and Bastic).(4) Mr. Blossom joined the Company as President on December 6, 1999, assumed the added responsibilities of Chief Executive Officer on May 9, 2000 and Chairman on May 8, 2001. Compensation paid to Mr. Blossom

for 1999 represented the pro rata portion of his contractual base salary and bonus for 2000.(5) Includes for 2000, \$4,700 in Company match under the employee savings plan, \$3,271 in Company contribution under the executive long term disability plan, \$14,250 in moving and relocation expenses and \$250,000 paid to Mr. Blossom in compensation for foregone benefits from his former employment (see the Certain Agreements with Executive Officers section of this proxy statement for additional detail).(6) Mr. Filarski joined the Company on June 1, 1999.(7) Includes \$10,376 in club and social dues and \$9,469 in supplemental executive medical insurance coverage paid on Mr. Filarski's behalf.

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OPTION GRANTS DURING 2001

Second Bancorp's Amended 1998 Non-Qualified Stock Option Plan (the "NQSO Plan") was approved by action of the Company's shareholders at the May 12, 1998 Annual Meeting and amended by action of the Company's board of directors on January 25, 2001. The following table contains information on non-qualified stock options granted during 2001 to the Named Officers and their potential realizable value.

Name	Number of Securities Underlying Options Granted	% of Total Options to Employees	Exercise or Base Price	Expiration Date (4)	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
R. L. Blossom	37,500	20.7%	\$14.4375	2/27/11	\$340,463	\$862,875
D. L. Kellerman	22,500	12.4%	\$14.4375	2/27/11	\$204,278	\$517,725
C. Stanitz	22,500	12.4%	\$14.4375	2/27/11	\$204,278	\$517,725
M. Filarski	15,000	8.3%	\$14.4375	2/27/11	\$136,185	\$345,150
D. C. Bastic	15,000	8.3%	\$14.4375	2/27/11	\$136,185	\$345,150
ALL COMMON SHAREHOLDERS	NA	NA	NA	NA	\$90,217,760	\$228,649,703

(1) The reported stock options were granted February 28, 2001, are for a ten-year term and were not exercisable until February 28, 2002. (2) Options granted to non-employee directors under the NQSO Plan are excluded from the calculation. (3) The exercise or base price of each awarded option is equal to the mean of the bid and ask price of the Corporation's common stock.

on the date the option was granted.(4) Notwithstanding the stated expiration date, all stock options held by an individual terminate if that person ceases to be an employee for any reason other than death, disability or retirement. By terms of the NQSO Plan, in the event of death, disability or retirement options must be exercised by the recipient or, as the case may be, by the recipient's representative no later than the earlier of the expiration date of the option or the third anniversary date of the event.

**AGGREGATE OPTION EXERCISES IN 2001 AND
YEAR-END OPTION VALUES**

The following table contains information on the value realized by the Named Officers during 2001 on their exercise of stock options and the number and value of unexercised stock options at year-end 2001. Except as reported herein, the Named Officers held no other equity-based compensation units outstanding at the end of 2001.

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Name	Shares Acquired on Value		Number of Securities Underlying Unexercised Options at Year-End 2001 (1)		Value of Unexercised In-The-Money Options at Year-End 2001	
	Exercised	Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
R. L. (Rick) Blossom (2)	0	\$0	20,000	37,500	\$0	\$268,969
David L. Kellerman	10,000(3)	\$69,230	27,700	22,500	\$0	\$161,381
Christopher Stanitz	12,000(4)	\$115,974	44,100	22,500	\$131,831	\$161,381
Myron Filarski	0	\$0	13,000	15,000	\$63,624	\$107,588
Diane C. Bastic	0	\$0	41,000	15,000	\$115,925	\$107,588

(1) Where appropriate, the number of options have been adjusted for stock splits. (2) Under the terms of his employment agreement with the Company (as further described in the Certain Agreements with Executive Officers section of this proxy statement), Mr. Blossom is entitled to receive performance restricted shares over a five year period. The number of shares receivable will be determined by the Company's return on assets (ROA) and earnings per share (EPS) performance during that period. (3) 10,000 share stock option with a base price of \$13.657 per share exercised July 30, 2001 on which date the price of the Company's common

stock was \$20.52 per share (\$68,629 value realized).(4) Includes a 6,000 share stock option with a base price of \$10.583 per share exercised June 14, 2001 on which date the price of the Company's common stock was \$19.74 per share (\$54,942 value realized); an additional 3,000 share stock option with a base price of \$10.563 per share exercised June 14, 2001 on which date the price of the Company's common stock was \$19.74 per share (\$27,531 value realized); and a 3,000 share stock option with a base price of \$10.563 per share exercised November 14, 2001 on which date the price of the Company's common stock was \$21.37 per share (\$33,501 value realized).

REPORT OF THE COMPENSATION AND ORGANIZATION COMMITTEE OF THE BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION

The Compensation and Organization Committee of the Board of Directors (the Committee) is a standing committee of Second Bancorp Incorporated and subsidiary Second National Bank (together referred to in this report as the Company), and is composed of independent directors John A. Anderson (Committee Chairman), Cloyd J. Abruzzo, David A. Allen, Jr. and R. J. Wean, III. The Committee reviews and approves all senior executive compensation levels with a view toward attracting and retaining qualified, competent executives to lead the Company in pursuit of its business objectives and to enhance long-term shareholder value.

Executive Officer Compensation

The Company's executive officer compensation program comprises base salaries, cash incentive bonuses and long-term incentives in the form of stock option grants.

Base Salary. Each executive officer's salary level is reviewed annually based upon performance of functional responsibilities, contribution to corporate strategic goals, experience, and demonstrated capabilities. Measurements of performance may be quantitative and/or qualitative depending upon the content of the job under evaluation.

Cash Incentive Bonus. The Company paid cash bonuses to its chief executive officer and its other executive officers under a formal Performance Incentive Compensation Program (PIC) adopted by the Committee in January 2001. Incentive bonuses paid under the PIC were based primarily on objective criteria tied to Second Bancorp's consolidated

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financial performance (75%) and secondarily on discretionary considerations focusing on the executive's demonstrated capabilities, individual contribution to the Company, and experience (25%). Bonuses payable under the PIC range from 0% to 70% of the executive's year-end base salary with a target bonus of 35%. The objective criteria used for determining bonuses under the PIC in 2001 were, on an adjusted operating basis, (i) actual return on assets and return on equity compared to budget, (ii) the rate of earnings per share growth compared to a select group of high performing peer companies, and (iii) actual efficiency ratio compared to budget. Cash incentive bonuses were paid under the PIC during February 2002 for performance in 2001 to nine individuals including the chief executive officer. The PIC has been re-adopted by the Committee for 2002.

Stock Option Grants. To achieve long-term enhancement of shareholder value, the Company has an incentive program under which non-qualified stock options (NQSOs) may be granted to employees of the Company, including executive officers. NQSOs are awarded by the Committee under Second Bancorp's 1998 Non-Qualified Stock Option Plan approved by shareholders on May 12, 1998 as amended from time to time (the Option Plan). NQSOs are awarded under the Option Plan on dates and at exercise prices determined by the Committee, such price to be no less than the mean of the bid and ask prices of Second Bancorp's common shares on the grant date. All options granted under the Option Plan to date have been awarded for ten-year terms and are not exercisable until the first anniversary of their grant.

The Option Plan was amended during 2001 by unanimous action of the Board of Directors. The amendment (i) eliminated the 10,000 option per year limitation on awards to individual employee participants in order to give the Committee and the Board greater flexibility to better align the financial interests of executives and shareholders, and (ii) expanded the pool of potential employee participants in the Option Plan to permit the use of options to incent performance throughout the Company.

Options are awarded subjectively with the Committee taking into consideration the same attributes that are considered in setting salaries and determining the discretionary portion of cash incentive bonuses. During 2001, a total of 181,500 options representing a like number of Second Bancorp shares were awarded to executives under the Option Plan.

Chief Executive Officer Compensation

Measurements employed in determining compensation paid to R. L. (Rick) Blossom, the Company's chief executive officer, are generally similar to those applicable to other executive officers, but also include performance in attracting, developing, retaining and motivating key management members critical to the achievement of the Company's short and long-term growth, earnings and strategic goals. Elements of the chief executive officer's compensation thus set by the Committee are reviewed by the remaining outside members of the Board.

The base salary paid Mr. Blossom in 2001 (as indicated in the Executive Compensation Table in this proxy statement) was a direct and indirect reflection of his contribution to the Company's progress and performance during the year and, to a lesser extent, salaries and bonuses paid to chief executive officers of banking institutions similar to the Company in size and market area. The cash bonus paid to Mr. Blossom for 2001 was determined by calculations under the previously described PIC. Those calculations reflect (i) on-budget operating return on assets and operating return on equity 3% better than budget, (ii) a rate of operating earnings per share growth 66% greater than the median of the designated high performing peer group of financial institutions and (iii) on-budget operating efficiency ratio performance.

Performance Restricted Shares. Pursuant to the terms of an employment agreement between the Company and Mr. Blossom, the Company will award Mr. Blossom shares of Second Bancorp restricted stock upon the attainment of Company-wide return on asset (ROA) and earnings per share (EPS) goals. The Committee believes this incentive serves to align this key executive's interest with the financial interests of the shareholders by focusing on improvement in indicators of financial performance which tend to have a direct impact on the market value of the Company's stock. The terms of Mr. Blossom's employment and related agreements are more fully discussed in the Certain Agreements with Executive Officers section of this proxy statement.

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Since stock option grants depend upon increases in the Company's common stock price to have value to recipients such grants are viewed by the Committee as integral components of Mr. Blossom's (and other key executives') compensation arrangement. The methodology employed by the Committee in determining option awards to the Company's chief executive officer is the same as is used in the granting of options to other executive officers.

John A. Anderson, Chairman
 Cloyd J. Abruzzo
 David A. Allen, Jr.
 R. J. Wean, III

COMMON STOCK PERFORMANCE GRAPH

Supplemental to the executive compensation information presented in this Proxy Statement, the following is a five-year comparison of total return to Second Bancorp common shareholders with appropriate broad-based market indexes and an index of stock performance by a peer group of publicly traded companies. The graph compares year-end total shareholder returns, assuming dividends are reinvested, for the five-year period ending December 31, 2001 for Second Bancorp common stock with the Nasdaq Bank Stocks Index (Nasdaq Banks), and the Nasdaq Stock Market Index (Nasdaq Market). The Nasdaq Bank Stocks Index is an index of total stock return for all domestic banks traded on the Nasdaq National Market. The Nasdaq Stock Market Index is a broad-based index of total stock return for all U.S. companies traded on the Nasdaq National Market.

	<u>YE'96</u>	<u>YE'97</u>	<u>YE'98</u>	<u>YE'99</u>	<u>YE'00</u>	<u>YE'01</u>
Second Bancorp	\$ 100	\$ 165.60	\$ 148.00	\$ 152.30	\$ 102.60	\$ 159.00
Nasdaq Banks	\$100	\$167.40	\$166.30	\$159.90	\$182.40	\$197.40
Nasdaq Market	\$100	\$122.50	\$172.70	\$320.90	\$193.00	\$153.20

**BOARD OF DIRECTORS AND
BOARD COMMITTEES**

During 2001 there were six meetings of the Board of Directors. Each incumbent director was present at more than 75 percent of the meetings except for Director Phyllis J. Izant who attended 50 percent of the meetings.

Standing committees of the Second Bancorp Board of Directors are the Nominating and Governance Committee, the Compensation & Organization Committee and the Audit Committee (a joint committee with the Second National Bank Board). As provided in the Second Bancorp Board Guidelines on Governance, committee membership is limited to independent directors. Currently: the Nominating and Governance Committee comprises Directors R. J. Wean, III (Chairman), David A. Allen, Jr., Norman C. Harbert and John L. Pogue; the Compensation & Organization Committee comprises Directors John A. Anderson (Chairman), Allen, Wean and Bank independent Director Cloyd J. Abruzzo; and the Audit Committee comprises Directors Harbert (Chairman), John C. Gibson, James R. Izant and independent Bank Director Robert K. VanFossan.

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DIRECTOR COMPENSATION

Each non-employee director of Second Bancorp received \$5,000 for services as a member of the Board of Directors in 2001 and \$500 for each board or committee meeting attended. Committee chairmen received an additional \$2,500 annual fee for services performed. In addition, each non-employee director participates in the Company's 1998 Non-Qualified Stock Option Plan approved by the shareholders on May 12, 1998 (the NQSO Plan) as amended from time to time. Under the NQSO Plan, non-employee directors are entitled to receive options to purchase 1,000 shares of Second Bancorp common stock (i) upon initial election or appointment to the Board of Directors, and (ii) on the date of each annual meeting of the Company's shareholders provided, however, that non-employee directors are not eligible to receive more than 1,000 options under the NQSO Plan during any given calendar year. Options granted under the NQSO Plan are for ten-year periods, are not exercisable until the first anniversary date of the grant and are exercisable at a price not less than the mean of the bid and ask price of the Company's stock on the date the options are awarded. On May 8, 2001 each non-employee director received 1,000 options to purchase Company stock at \$20.185 per share under the NQSO Plan.

REPORT OF THE AUDIT COMMITTEE

In accordance with its written charter adopted by the Board of Directors (Board), the Audit Committee of the Board (Committee) assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of Second Bancorp Incorporated (Company).

The Committee obtained a written statement from the independent auditors describing all relationships between the auditors and Second Bancorp that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors' independence. The Committee also discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. During the year ended December 31, 2001, the Committee met five times.

The Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement of Auditing Standards 61.

The Committee reviewed and discussed the audited financial statements of the Company for the year ended December 31, 2001, with management and the independent auditors. Management has the responsibility for the preparation of the financial statements and the independent auditors have the responsibility for the examination of those statements.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board (and the Board approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2001, for filing with the Securities and Exchange Commission. The Committee and the Board have also recommended, subject to shareholder approval, the selection of the Company's independent auditors.

Norman C. Harbert, Audit Committee Chairman
John C. Gibson, Sr., Audit Committee Member
Robert K. VanFossan, Jr., Audit Committee Member
James R. Izant, Audit Committee Me