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BANK ONE CORP
Form 10-Q
May 15, 2002

BANK ONE CORPORATION
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FIVE QUARTER SUMMARY OF SELECTED FINANCIAL INFORMATION
BANK ONE CORPORATION AND SUBSIDIARIES

(In millions, except ratios and per share data)	Three Months		
	March 31 2002 / (3) /	December 31 2001	September 30 2001
<hr/>			
INCOME STATEMENT DATA			
Total revenue, net of interest expense	\$ 4,152	\$ 4,207	\$
Net interest income-			
fully taxable-equivalent ("FTE") basis	2,235	2,273	
Noninterest income	1,952	1,972	
Provision for credit losses	665	765	
Noninterest expense	2,345	2,706	
Income before cumulative effect of change			

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in accounting principle	787	541
Net income	787	541

PER COMMON SHARE DATA

Income before cumulative effect of change

in accounting principle:			
Basic	\$ 0.67	\$ 0.46	\$
Diluted	0.67	0.46	
Net income:			
Basic	\$ 0.67	\$ 0.46	\$
Diluted	0.67	0.46	
Cash dividends declared	0.21	0.21	
Book value	17.81	17.33	

BALANCE SHEET DATA-ENDING BALANCES

Loans:			
Managed	\$ 209,519	\$ 218,102	\$
Reported	152,126	156,733	
Deposits	158,803	167,530	
Long-term debt/(1)/	44,194	43,418	
Total assets:			
Managed	297,998	306,304	
Reported	262,947	268,954	
Common stockholders' equity	20,913	20,226	
Total stockholders' equity	20,913	20,226	

CREDIT QUALITY RATIOS

Net charge-offs to average loans-managed/(2)/	2.82%	2.84%
Allowance for credit losses to period end loans	2.97	2.89
Nonperforming assets to related assets	2.58	2.35

FINANCIAL PERFORMANCE:

Return on average assets	1.21%	0.80%
Return on average common equity	15.3	10.5
Net interest margin:		
Managed	5.35	5.20
Reported	3.91	3.84
Efficiency ratio:		
Managed	46.6	53.5
Reported	56.0	63.7
Employees	73,864/(4)/	73,519

FIVE QUARTER SUMMARY OF SELECTED FINANCIAL INFORMATION-CONTINUED
BANK ONE CORPORATION AND SUBSIDIARIES

	Three Mon		
	March 31	December 31	Septem
(In millions, except ratios and per share data)	2002/(3)/	2001	

CAPITAL RATIOS

Risk-based capital:

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Tier 1	9.0%	8.6%
Total	12.7	12.2
Tangible common equity/tangible managed assets	6.2	5.9

COMMON STOCK DATA

Average shares outstanding:

Basic	1,170	1,166	
Diluted	1,179	1,174	
Stock price, quarter-end	\$ 41.78	\$ 39.05	\$

- /(1)/ Includes trust preferred capital securities.
- /(2)/ Quarterly results include \$1 million, \$14 million, \$14 million, \$24 million, and \$40 million, respectively, of charge-offs which are not so classified in the Corporation's GAAP financials because they are part of a portfolio which has been accounted for as loans held at a discount. The inclusion of these amounts in charge-offs more accurately reflects the performance of the portfolio. In the Corporation's financial statements, these items result in a higher provision in excess of net charge-offs.
- /(3)/ Results include the effects of the consolidation of Paymentech, Inc. and Anexsys, LLC.
- /(4)/ Includes the addition of 1,627 employees due to the consolidation of Paymentech and Anexsys.

FIVE QUARTER SUMMARY OF OTHER FINANCIAL DATA

The Corporation's consolidated operating financial results and ratios are as follows:

(In millions, except ratios and per share data)	Three Months		
	March 31 2002/(1)/	December 31 2001	September 30 2001
Operating income	\$ 787	\$ 765	\$
Operating earnings per share-diluted	\$ 0.67	\$ 0.65	\$
Return on average assets	1.21%	1.14%	
Return on average common equity	15.3	14.9	
Net interest margin:			
Managed	5.35	5.20	
Reported	3.91	3.84	
Efficiency ratio:			
Managed	46.6	46.5	
Reported	56.0	55.4	

- /(1)/ Results include the effects of the consolidation of Paymentech and Anexsys.
- /(2)/ These results and ratios exclude restructuring-related charges for all periods and June 30, 2001 excludes the cumulative effect of change in accounting principle.

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BUSINESS SEGMENT RESULTS AND OTHER DATA

BANK ONE CORPORATION and its subsidiaries ("Bank One" or the "Corporation") are managed on a line of business basis. The business segments' financial results presented reflects the current organization of the Corporation. For a detailed discussion of the various business activities of Bank One's business segments, see pages 27-40 of the Corporation's 2001 Annual Report.

The following table summarizes certain financial information by line of business for the periods indicated:

Three Months Ended March 31	Operating Income (Loss) (In millions)		Average Managed (In billions)	
	2002	2001	2002	2001
Retail	\$ 343	\$ 341	\$ 73	\$ 73
Commercial Banking	143	196	99	99
Credit Card	239	148	71	71
Investment Management	114	82	8	8
Corporate	(52)	(88)	48	48
Total business segment operating income, net of tax	\$ 787	\$ 679	\$ 300	\$ 300

The information provided in the line of business tables beginning with the caption entitled "Financial Performance" are included herein for analytical purposes only and are based on management information systems, assumptions and methodologies that are under continual review.

RETAIL

Retail provides a broad range of financial products and services, including deposits, investments, loans, insurance, and interactive banking to consumers and small business customers.

Three Months Ended March 31/(1)/	2002	2001	Change	
			Amount	Percent
(Dollars in millions)				
Net Interest income-FTE	\$ 1,255	\$ 1,299	\$ (44)	(3)%
Banking fees and commissions/(2)/	118	122	(4)	(3)
Credit card revenue/(3)/	40	36	4	11
Service charges on deposits/(4)/	201	185	16	9
Trading/(5)/	(1)	-	(1)	-
Other income	4	16	(12)	(75)
Noninterest income	362	359	3	1
Total revenue	1,617	1,658	(41)	(2)
Provision for credit losses	267	244	23	9

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Salaries and employee benefits	364	363	1	-
Other expense	458	517	(59)	(11)

Noninterest expense	822	880	(58)	(7)

Pretax operating income-FTE	528	534	(6)	(1)
Tax expense and FTE adjustment	185	193	(8)	(4)

Operating income	\$ 343	\$ 341	\$ 2	1

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RETAIL-CONTINUED

Three Months Ended March 31/(1)/	2002	2001	Change	
			Amount	Percent

FINANCIAL PERFORMANCE:				
Return on equity/(6)/	22%	23%	(1)%	
Efficiency ratio/(6)/	51	53	(2)%	
Headcount-full-time	32,746	35,114	(2,368)	(7)%

ENDING BALANCES (in billions):				
Small business commercial	\$ 10.0	\$ 9.3	\$ 0.7	8
Home equity	29.9	30.8	(0.9)	(3)
Vehicles:				
Loans	13.7	14.2	(0.5)	(4)
Leases	5.4	8.0	(2.6)	(33)
Other personal	8.6	11.1	(2.5)	(23)

Total loans	67.6	73.4	(5.8)	(8)

Assets	71.3	76.9	(5.6)	(7)

Demand deposits	26.0	24.2	1.8	7
Savings	37.9	33.3	4.6	14
Time	24.9	31.2	(6.3)	(20)

Total deposits	88.8	88.7	0.1	-

Equity	6.2	6.0	0.2	3

AVERAGE BALANCES (in billions):				
Small business commercial	\$ 10.0	\$ 9.2	\$ 0.8	9
Home equity	30.1	31.1	(1.0)	(3)
Vehicles:				
Loans	13.5	14.2	(0.7)	(5)
Leases	5.7	8.2	(2.5)	(30)
Other personal	9.9	11.3	(1.4)	(12)

Total loans	69.2	74.0	(4.8)	(6)

Assets	72.9	78.2	(5.3)	(7)

Demand deposits	25.1	23.8	1.3	5

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Savings	37.1	32.5	4.6	14
Time	25.4	31.9	(6.5)	(20)

Total deposits	87.6	88.2	(0.6)	(1)
Equity	6.2	5.9	0.3	5
CREDIT QUALITY (in millions):				
Net charge-offs:				
Small business commercial	\$ 14	\$ 10	\$ 4	40
Home equity	130	73	57	78
Vehicles:				
Loans/(7)/	66	61	5	9
Leases	30	28	2	6
Other personal	26	34	(8)	(24)

Total consumer/(7)/	252	196	56	29

Total net charge-offs/(7)/	266	206	60	29

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RETAIL-CONTINUED

Three Months Ended March 31/(1)/	2002	2001

CREDIT QUALITY-continued (in millions):		
Net charge-off ratios:		
Small business commercial	0.56%	0.43%
Home equity	1.73	0.94
Vehicles:		
Loans/(7)/	1.96	1.71
Leases	2.11	1.38
Other personal	1.05	1.20

Total consumer/(7)/	1.70	1.21

Total net charge-offs/(7)/	1.54	1.11

Nonperforming assets:		
Small business commercial	\$ 318	\$ 231
Consumer/(8)/	1,084	728

Total nonperforming loans	1,402	959
Other, including Other Real Estate Owned ("OREO")	159	77

Total nonperforming assets	1,561	1,036

Allowance for credit losses	\$ 1,028	\$ 914
Allowance to period-end loans	1.52%	1.25%
Allowance to nonperforming loans	73%	95%
Nonperforming assets to related assets	2.30%	1.41%

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DISTRIBUTION:

Banking centers	1,776	1,811
ATMs	5,109	5,762
# On-line customers (in thousands)	1,248	931
# Households (in thousands)	7,159	7,586
# Business customers (in thousands)	494	513
# Debit cards issued (in thousands)	4,404	4,293

INVESTMENTS:

Investment sales volume (in millions)	\$ 1,377	\$ 1,138
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N/M-Not meaningful

- /(1)/ During the first quarter of 2002 the Dealer Commercial Services business was transferred from Retail to Commercial Banking. All results for prior periods conform to the current line of business organization.
- /(2)/ Banking fees and commissions include insurance fees, documentary fees, loan servicing fees, commitment fees, mutual fund commissions, syndicated management fees, leasing fees, safe deposit fees, official checks fees, ATM interchange and miscellaneous other fee revenue.
- /(3)/ Credit card revenue includes credit card fees, merchant fees and interchange fees.
- /(4)/ Service charges on deposits include service charges on deposits, deficient balance fees, non-sufficient funds/overdraft fees and waived fees.
- /(5)/ Trading includes trading and foreign exchange.
- /(6)/ Ratios are based on operating income.
- /(7)/ First quarter 2002 and 2001 results include \$1 million and \$40 million, respectively, of charge-offs which are not so classified in the Corporation's GAAP financials because they are part of a portfolio which has been accounted for as loans held at a discount. The inclusion of these amounts in charge-offs more accurately reflects the credit performance of the portfolio. In the Corporation's financial statements, these items results in a higher provision in excess of net charge-offs.
- /(8)/ Includes consumer balances that are placed on nonaccrual status when the collection of contractual principal or interest becomes 90 days past due

Retail reported first quarter operating income of \$343 million, up 1% from the year-ago quarter. Lower operating expenses were offset by a decline in net interest income, driven by intentional reductions in certain lending portfolios, and an increase in the provision. Operating income increased 19% from the previous quarter, reflecting the seasonal impact of tax refund anticipation lending.

Net interest income decreased 3% from the first quarter of 2001, primarily due to the intentional reductions of the auto lease and brokered home equity portfolios. Noninterest income rose 1% from the year-ago quarter, with higher deposit fees and investment commissions in part offset by lower loan fees.

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Noninterest expense was \$822 million, a 7% decline from last year's first quarter, driven by improved efficiencies in operations and technology, the absence of goodwill amortization, and reductions in operating losses and headcount.

The provision for credit losses was \$267 million, up \$23 million from the year-ago quarter, reflecting increased net charge-offs in the home equity

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portfolio, partially offset by the absence of reserve build. Compared to the fourth quarter of 2001, the provision decreased \$49 million due to the absence of reserve build and lower net charge-offs in the small business and auto lending portfolios.

Nonperforming assets were \$1.561 billion, up \$525 million from the first quarter of 2001 and \$113 million from the fourth quarter, with both increases primarily driven by brokered home equity loans.

COMMERCIAL BANKING

Commercial Banking offers a broad array of products, including global cash management, capital markets, commercial cards, investment management, and lending, to Corporate Banking and Middle Market Banking customers.

Three Months Ended March 31/(1)/	2002/(9)/	2001
<hr/>		
(Dollars in millions)		
Net interest income-FTE	\$ 655	\$ 715
Banking fees and commissions	175	163
Credit card revenue	14	22
Service charges on deposits	184	132
Fiduciary and investment management fees/(10)/	(1)	(1)
Trading	26	77
Other income (loss)	(27)	(6)
<hr/>		
Noninterest income	371	387
<hr/>		
Total revenue	1,026	1,102
Provision for credit losses	281	264
Salaries and employee benefits	269	274
Other expense	291	291
<hr/>		
Noninterest expense	560	565
<hr/>		
Pretax operating income-FTE	185	273
Tax expense and FTE adjustment	42	77
<hr/>		
Operating income	\$ 143	\$ 196
<hr/>		
Memo: Revenue by activity/(11)/		
Lending-related revenue	412	539
Global Treasury Services	429	383
Capital markets/(12)/	168	164
Other	17	16
<hr/>		
FINANCIAL PERFORMANCE:		
Return on equity/(6)/	8%	11%
Efficiency ratio/(6)/	55	51
<hr/>		
Headcount-full-time/(13)/		
Corporate Banking (including Capital Markets)	2,306	2,921
Middle Market	3,064	3,492
Global Treasury Services	4,731	4,457
Operations, Technology, and other Admin	2,203	2,167

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Total headcount-full-time	12,304	13,037
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COMMERCIAL BANKING - CONTINUED

Three Months Ended March 31/(1)/	2002/(9)/	2001
ENDING BALANCES (in billions):		
Loans	\$ 69.0	\$ 84.9
Assets	96.3	108.5
Demand deposits	22.4	20.3
Savings	2.9	2.6
Time	11.1	6.0
Foreign offices	7.0	6.6
Total deposits	43.4	35.5
Equity	7.4	7.2
AVERAGE BALANCES (in billions):		
Loans	\$ 71.1	\$ 87.0
Assets	99.3	110.1
Demand deposits	22.7	20.6
Savings	3.0	2.6
Time	17.2	5.9
Foreign offices	8.2	7.1
Total deposits	51.1	36.2
Equity	7.4	7.2
CREDIT QUALITY (in millions):		
Net Commercial Banking charge-offs	\$ 281	\$ 249
Net Commercial Banking charge-off ratio	1.58%	1.14%
Nonperforming assets:		
Commercial Banking nonperforming loans	\$ 2,257	\$ 1,544
Other, including OREO	33	19
Total nonperforming assets	2,290	1,563
Allowance for credit losses	\$ 3,071	\$ 3,068
Allowance to period-end loans	4.45%	3.61%
Allowance to nonperforming loans	136	199
Nonperforming assets to related assets	3.32	1.84
CORPORATE BANKING (in billions):		
Loans-ending balance	\$ 34.7	\$ 47.8
-average balance	36.0	49.9
Deposits-ending balance	\$ 21.5	\$ 17.4
-average balance	29.1	18.0

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Credit Quality (in millions):			
Net charge-offs	\$	163	\$ 186
Net charge-off ratio		1.81%	1.49
Nonperforming loans	\$	1,170	\$ 952
Nonperforming loans to total loans		3.37%	1.99
SYNDICATIONS:			
Lead Arranger Deals:			
Volume (in billions)	\$	14.9	\$ 14.5
Number of transactions		45	49
League table standing-rank		4	4
League table standing-market share		9%	6

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COMMERCIAL BANKING - CONTINUED

Three Months Ended March 31/(1)/	2002/(9)/	2001	

MIDDLE MARKET BANKING (in billions):			
Loans—ending balance	\$	34.3	\$ 37.1
-average balance		35.1	37.1
Deposits—ending balance		21.9	18.1
-average balance		22.0	18.2
Credit Quality (in millions):			
Net charge-offs	\$	118	\$ 63
Net charge-off ratio		1.34%	0.68
Nonperforming loans	\$	1,087	\$ 592
Nonperforming loans to total loans		3.17%	1.60

For additional footnote detail see page 5.

- /(9)/ Results include the effect of consolidating Anexsys, which had an immaterial impact on revenue and expense and no impact on operating income. Headcount increased by 276.
- /(10)/ Fiduciary and investment management fees include asset management fees, personal trust fees, other trust fees and advisory fees.
- /(11)/ Prior periods have been adjusted to conform to the current organization.
- /(12)/ Capital markets includes trading revenues and underwriting, syndicated lending and advisory fees.
- /(13)/ Prior period headcount data has been adjusted for the transfer of the Cash Vault Services business from Commercial to Corporate.

Commercial Banking reported first quarter operating income of \$143 million, down \$53 million from the year-ago quarter, primarily due to lower net interest income driven by the intentional reduction of Corporate Banking credit exposure. Operating income declined 3% from the previous quarter, reflecting lower revenue, partially offset by lower provision and noninterest expense.

Net interest income of \$655 million declined 8% from the year-ago quarter, driven by a reduction of \$15.9 billion, or 18% in average loans.

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Partially offsetting this decline, net interest income benefited from higher average deposit levels.

Noninterest income was \$371 million, down 4% from the first quarter of 2001. Banking fees and commissions increased 7%, primarily due to growth in the asset backed finance and investment grade bond underwriting businesses. Service charges on deposits increased 39%, reflecting improvement in Global-Treasury Services ("GTS") volumes and pricing as well as a shift in the payment of services to fees from net interest income due to the lower value of customers' compensating deposit balances. Trading revenue decreased 66%, reflecting a decline in the fair value of credit derivatives used to manage credit risk as well as lower foreign exchange and fixed income revenue.

Noninterest expense was \$560 million, down 1% from the year-ago quarter.

Corporate Banking net charge-offs were \$163 million, or 1.81% of average loans, up from 1.49% a year ago and 1.72% in the fourth quarter. First quarter charge-offs included \$63 million of loans sold and held for sale, compared to \$89 million in the year-ago quarter and \$26 million in the fourth quarter. Middle Market net charge-offs were \$118 million, or 1.34% of average loans, up from 0.68% in the year-ago quarter and down from 1.75% in the fourth quarter.

The allowance for credit losses at March 31, 2002, was \$3.071 billion, essentially unchanged from the fourth quarter and first quarter 2001, and represented 4.45% of period-end loans. Nonperforming loans at March 31, 2002, were \$2.257 billion, up 6% from the fourth quarter, driven primarily by a 12% increase in Middle Market nonperforming loans.

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CREDIT CARD

Credit Card is the third largest credit card provider in the United States and the largest VISA(R) credit card issuer in the world with \$65 billion in managed credit card receivables.

Three Months Ended March 31	2002/ (14) /	2001
<hr/>		
(Dollars in millions-managed basis)		
Net interest income-FTE	\$ 1,555	\$ 1,39
Banking fees and commissions	25	2
Credit card revenue	395	24
Other income (loss)	(18)	3
<hr/>		
Noninterest income	402	30
<hr/>		
Total revenue	1,957	1,70
<hr/>		
Provision for credit losses	943	95
Salaries and employee benefits	146	12
Other expense	475	38
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Noninterest expense	621	51

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Pretax operating income-FTE	393	23
Tax expense and FTE adjustment	154	8
Operating income	\$ 239	\$ 14
Memo: Net securitization gains (amortization)	(31)	(1)
FINANCIAL PERFORMANCE:		
% of average outstandings:		
Net interest income-FTE	9.51%	8.6
Provision for credit losses	5.77	5.8
Noninterest income	2.46	1.9
Risk adjusted margin	6.20	4.6
Noninterest expense	3.80	3.1
Pretax income-FTE	2.40	1.4
Operating income	1.46	0.9
Return on equity/(6)/	15	1
Efficiency ratio/(6)/	32	3
Headcount-full-time	10,718	11,12
ENDING BALANCES (in billions):		
Owned	\$ 7.4	\$ 5.
Seller's interest	22.3	17.
Loans on balance sheet	29.7	23.
Securitized	35.1	40.
Loans	64.8	64.
Assets	70.0	67.
Equity	6.4	6.

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CREDIT CARD - CONTINUED

Three Months Ended March 31	2002/(14)/	2001	Change	
			Amount	Percent
(Managed basis)				
AVERAGE BALANCES (in billions):				
Owned	\$ 7.2	\$ 5.2	\$ 2.0	38
Seller's interest	22.5	20.6	1.9	9
Loans on balance sheet	29.7	25.8	3.9	15
Securitized	36.6	39.6	(3.0)	(8)
Loans	66.3	65.4	0.9	1
Assets	71.4	68.2	3.2	5
Equity	6.4	6.2	0.2	3

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CREDIT QUALITY (in millions):

Net charge-offs:

Credit card-managed	\$ 943	\$ 950	\$ (7)	
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Net charge-off ratios:

Credit card-managed	5.69%	5.81%	(0.12)%	
12-month lagged/(15)/	5.77	5.66	0.11	

Delinquency ratio:

30+ days	4.27	4.33	(0.06)	
90+ days	1.96	2.02	(0.06)	

Allowance for credit losses	\$ 396	\$ 197	\$ 199	
Allowance to period-end owned loans	5.35%	3.58%	1.77%	N/M

OTHER DATA:

Charge volume (in billions)	\$ 34.0	\$ 32.5	\$ 1.5	
New accounts opened (in thousands)	941	775	166	21
Cards issued (in thousands)	53,965	50,644	3,321	7
Number of FirstUSA.com customers (in millions)	2.3	2.4	(0.1)	(4)

For additional footnote detail see page 5.

/(14)/ Results include the effect of consolidating Paymentech. Headcount increased by 1,351.

/(15)/ 1Q02 ratios include Wachovia net charge-offs but exclude Wachovia 1Q01 loans.

Credit Card reported first quarter operating income of \$239 million, up \$91 million from the year-ago quarter, reflecting higher net interest income. Operating income decreased \$87 million from the fourth quarter due to seasonality, lower volume-related revenue, higher losses and increased marketing expense. First quarter results reflect the consolidation of the Corporation's interest in Paymentech, a leading merchant processor, which was previously recorded under the equity method of accounting. The new consolidated basis increased certain balance sheet categories, net interest income by \$3 million, noninterest income by \$77 million, and noninterest expense by \$70 million, but had no impact on operating income.

Managed loans were \$64.8 billion at March 31, 2002, up \$800 million from the year-ago period, including the addition of the Wachovia portfolio. Managed loans declined \$3.4 billion from December 31, 2001. Credit Card opened 941,000 new accounts during the quarter, a 21% increase from the first quarter of 2001.

Total revenue was \$1.957 billion for the quarter, a 15% improvement from one year ago, driven by the addition of the Wachovia portfolio, the benefit of lower interest rates and the consolidation of Paymentech, partially offset by lower volume-related revenue and no new securitization activity.

Noninterest expense totaled \$621 million, up 21% from the year-ago quarter, reflecting the Paymentech consolidation, the addition of the Wachovia portfolio and higher marketing expense, partially offset by lower processing costs.

The managed provision for credit losses was \$943 million, a 1% decrease from the year-ago quarter, reflecting lower losses, partially offset by the Wachovia portfolio. The managed charge-off rate was 5.69%, compared to 5.81% in the year-ago quarter and 5.59% in the fourth quarter. The managed 30-day delinquency rate was 4.27%, down from 4.33% in the year-ago quarter and 4.46% in the fourth quarter.

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In 2001, the Corporation acquired the Wachovia credit card business, including an agent bank portfolio, which was subsequently sold back to Wachovia and the final settlement was completed in the second quarter 2002.

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INVESTMENT MANAGEMENT

The Investment Management Group (IMG) provides investment, insurance, trust and private banking services to individuals. IMG also provides investment and investment related services, including retirement and custody services, securities lending and corporate trust to institutions.

Three Months Ended March 31	2002	2001	Change	
			Amount	Percent
<hr/>				
(Dollars in millions)				
Net interest income-FTE	\$ 115	\$ 104	\$ 11	11%
Banking fees and commissions	132	110	22	20
Service charges on deposits	5	4	1	25
Fiduciary and investment management fees	190	188	2	1
Other income	2	5	(3)	(60)
<hr/>				
Noninterest income	329	307	22	7
<hr/>				
Total revenue	444	411	33	8
Provision for credit losses	5	3	2	67
Salaries and employee benefits	142	145	(3)	(2)
Other expense	115	132	(17)	(13)
<hr/>				
Noninterest expense	257	277	(20)	(7)
<hr/>				
Pretax operating income-FTE	182	131	51	39
Tax expense and FTE adjustment	68	49	19	39
<hr/>				
Operating income	\$ 114	\$ 82	\$ 32	39
<hr/>				
Memo: Insurance revenues	\$ 123	\$ 101	\$ 22	22
<hr/>				
FINANCIAL PERFORMANCE:				
Return on equity/(6)/	42%	33%	9%	
Efficiency ratio/(6)/	58	67	(9)	
Headcount-full-time	5,993	6,522	(529)	(8)
<hr/>				
ENDING BALANCES (in billions):				
Loans	\$ 7.2	\$ 6.8	\$ 0.4	6
Assets	8.6	8.0	0.6	8
Demand deposits	3.0	1.7	1.3	76
Savings	3.9	2.7	1.2	44
Time	3.5	3.4	0.1	3
Foreign offices	0.2	0.1	0.1	N/M

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Total deposits	10.6	7.9	2.7	34
Equity	1.1	1.0	0.1	10
AVERAGE BALANCES (in billions):				
Loans	\$ 7.0	\$ 6.8	\$ 0.2	3
Assets	8.4	8.0	0.4	5
Demand deposits	2.1	2.0	0.1	5
Savings	3.7	2.7	1.0	37
Time	3.2	3.4	(0.2)	(6)
Foreign offices	0.2	0.1	0.1	N/M
Total deposits	9.2	8.2	1.0	12
Equity	1.1	1.0	0.1	10

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INVESTMENT MANAGEMENT - CONTINUED

Three Months Ended March 31	2002	2001	Amount
CREDIT QUALITY (in millions):			
Net charge-offs:			
Commercial	\$ 2	\$ -	\$ 2
Consumer	3	-	3
Total net charge-offs	5	-	5
Net charge-off ratios:			
Commercial	0.27%	0.10%	0.17%
Consumer	0.29	(0.04)	0.33
Total net charge-off ratio	0.29	-	0.29
Nonperforming assets:			
Commercial	\$ 30	\$ 38	\$ (8)
Consumer	7	4	3
Total nonperforming loans	37	42	(5)
Other, including OREO	-	-	-
Total nonperforming assets	37	42	(5)
Allowance for credit losses	\$ 25	\$ 25	\$ -
Allowance to period-end loans	0.35%	0.37%	(0.02)
Allowance to nonperforming loans	68	60	8
Nonperforming assets to related assets	0.51	0.62	(0.11)
ASSETS UNDER MANAGEMENT ENDING BALANCES (in billions):			
Mutual funds	\$ 89.9	\$ 71.0	\$ 18.9
Other	58.4	60.5	(2.1)

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Total		148.3	131.5	16.8
By type:				
Money market	\$	62.7	\$ 48.0	\$ 14.7
Equity		47.9	47.4	0.5
Fixed income		37.7	36.1	1.6
Total		148.3	131.5	16.8
By channel:				
Private client services	\$	48.0	\$ 55.4	\$ (7.4)
Retail brokerage		9.8	9.2	0.6
Institutional		64.4	51.2	13.2
Commercial cash sweep		10.1	8.4	1.7
All other		16.0	7.3	8.7
Total		148.3	131.5	16.8
Morningstar Rankings:				
Percentage of customer assets in 4 and 5 ranked funds		55%	62%	(7)
Percentage of customer assets in 3+ ranked funds		89	95	(6)
TRUST ASSETS ENDING BALANCES:				
Trust assets under administration (in billions)	\$	347.6	\$ 319.6	\$ 28.0
CORPORATE TRUST SECURITIES ENDING BALANCES:				
Corporate trust securities under administration (in billions)	\$	1,044.1	\$ 848.0	\$ 196.1

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INVESTMENT MANAGEMENT - CONTINUED

Three Months Ended March 31	2002	2001	Amount
RETAIL BROKERAGE:			
Mutual fund sales (in million)	\$ 580	\$ 614	\$ (34)
Annuity sales	797	524	273
Total sales	1,377	1,138	239
Number of accounts-end of period (in thousands)	390	390	-
Market value customer assets-end of period (in billion)	\$ 24.2	\$ 22.1	\$ 2.1
Number of registered sales representatives	737	697	40
Number of licensed retail bankers	3,112	2,848	264
Annuity account value (in billions)	\$ 9.6	\$ 7.0	\$ 2.6
PRIVATE CLIENT SERVICES:			
Number of Private Client advisors	660	714	(54)
Number of Private Client offices	105	104	1
Client Assets:			
Assets under management (in billions)	\$ 48.0	\$ 55.4	\$ (7.4)

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Ending Balances (in billions):

Loans	\$	6.9	\$	6.8	\$	0.1
Deposits		8.2		7.0		1.2

Average Balances (in billions):

Loans	\$	6.9	\$	6.8	\$	0.1
Deposits		8.1		7.0		1.1

For additional footnote detail see page 5.

Investment Management reported first quarter operating income of \$114 million, up 39% from the year-ago quarter, driven by higher revenue and continued cost control. Compared to the fourth quarter, operating income increased 6%, reflecting higher revenue and lower provision.

Assets under management at quarter-end improved to \$148.3 billion, up 13% from a year ago. One Group(R) mutual fund assets increased to \$89.9 billion in the first quarter, up 27% year-over-year. The increase was attributed to significant growth in money market assets.

One Group funds performance remained strong during the first quarter. The percent of client assets in funds rated 4 and 5 by Morningstar at March 31, 2002, was 55%, down from 57% in the fourth quarter, and 89% of assets were in funds rated three stars or higher, up from 88% in the fourth quarter.

Revenue increased 8% year-over-year, contributing to improved operating leverage. Net interest income totaled \$115 million, up 11% from the year-ago period, reflecting a 12% increase in average deposits and wider deposit spreads. Noninterest income was \$329 million, up \$22 million from the year-ago quarter, primarily driven by a 21% increase in the sale of mutual funds and annuities.

Noninterest expense was \$257 million, down 7% from a year ago, driven principally by lower support-related headcount.

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CORPORATE

Corporate includes Treasury, fixed income and principal investment portfolios, unallocated corporate expenses, and any gains or losses from corporate transactions.

Three Months Ended March 31	2002	2001	Change	
			Amount	Percent
(Dollars in millions)				
Net interest income (expense)-FTE/(16)/	\$ (41)	\$ (201)	\$ 160	80%
Banking fees and commissions	(5)	(7)	2	29
Credit card revenue	(1)	1	(2)	N/M
Service charges on deposits	3	1	2	N/M
Investment securities losses	(18)	(97)	79	81

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Trading	(9)	(10)	1	10
Other income	60	143	(83)	(58)

Noninterest income/(17)/	30	31	(1)	(3)

Total revenue (loss)	(11)	(170)	159	94
Provision for credit losses	15	-	15	N/M
Salaries and employee benefits	175	109	66	61
Other expense	(90)	(109)	19	17

Noninterest expense/(18)/	85	-	85	N/M

Pretax operating loss-FTE	(111)	(170)	59	35
Tax expense (benefit) and FTE adjustment	(59)	(82)	23	28

Operating income (loss)	\$ (52)	\$ (88)	\$ 36	41

FINANCIAL PERFORMANCE:				
Headcount-full-time/(13)/	12,103	13,362	(1,259)	(9)
ENDING BALANCES (in billions):				
Loans	\$ 0.9	\$ 0.8	\$ 0.1	13
Assets	51.8	54.6	(2.8)	(5)
Deposits	16.0	31.5	(15.5)	(49)
Equity	(0.2)	(1.5)	1.3	87
AVERAGE BALANCES (in billions):				
Loans	\$ 0.4	\$ 0.7	\$ (0.3)	(43)
Assets	47.9	44.6	3.3	7
Deposits	15.8	28.1	(12.3)	(44)
Equity	(0.2)	(1.5)	1.3	87

For additional footnote detail see page 5.

/(16)/ Net interest income primarily includes Treasury results and interest spread on investment related activities.

/(17)/ Noninterest income primarily includes the gains and losses from investment activities and other corporate transactions.

/(18)/ Noninterest expense primarily includes corporate expense not allocated to the lines of business.

Corporate reported a net loss of \$52 million in the first quarter, compared with a net loss of \$88 million in the 2001 first quarter and a \$106 million operating loss in the fourth quarter.

Net interest expense decreased to \$41 million in the first quarter, compared to \$201 million in the year-ago quarter, driven by lower interest rates that positively impacted the Corporation's funding costs.

Noninterest income was relatively flat from the year-ago quarter. Investment securities losses, which include the corporate fixed income and equity, venture capital and private equity portfolios, were \$18 million, an improvement of \$79 million from the 2001 first quarter. This was mainly due to lower venture fund investment write-downs and higher gains in other corporate investments. The year-over-year variance in other income was driven by the

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inclusion of \$73 million in gains in the 2001 first quarter from the sale of the Corporation's portion of the controlling equity position in EquiServe Limited Partnership and from the sale of the Corporation's investment in Star Systems, an ATM network.

Unallocated corporate expenses were \$85 million compared to zero in the year-ago quarter.

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Provision was \$15 million, reflecting charge-offs against other loan assets.

CONSOLIDATED RESULTS

NET INTEREST INCOME

Net interest income includes spreads on earning assets as well as items such as loan fees, cash interest collections on problem loans, dividend income, interest reversals, and income or expense on derivatives used to manage interest rate risk.

In order to understand fundamental trends in net interest income, average earning assets and net interest margins, it is useful to analyze financial performance on a managed portfolio basis, which adds data on securitized loans to reported data on loans as presented below:

Three Months Ended March 31	2002	2001	Change	
			Amount	Perc
(Dollars in millions)				
Managed:				
Net interest income-FTE basis	\$ 3,539	\$ 3,308	\$ 231	
Average earning assets	268,405	281,921	(13,516)	
Net interest margin	5.35%	4.76%	0.59%	
Reported:				
Net interest income-FTE basis	\$ 2,235	\$ 2,218	\$ 17	
Average earning assets	231,815	242,338	(10,523)	
Net interest margin	3.91%	3.71%	0.20%	

The year-over-year improvement in net interest income and the margin was due to lower interest rates and improved balance sheet profitability. This reflected a reduction in lower margin commercial credits, more disciplined pricing in the consumer loan sector and an increase in the percentage of funding provided by core Retail deposits and net free funds.

NONINTEREST INCOME

The components of managed noninterest income for the periods indicated are:

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Three Months Ended March 31	2002	2001	Change	
			Amount	Perce
(Dollars in millions)				
Banking fees and commissions	\$ 445	\$ 411	\$ 34	
Credit card revenue	448	307	141	
Service charges on deposits	393	331	62	
Fiduciary and investment management fees	189	187	2	
Investment securities losses	(18)	(96)	78	
Trading	16	65	(49)	
Other income	21	188	(167)	
Managed noninterest income	\$ 1,494	\$ 1,393	\$ 101	

In order to provide more meaningful trend analysis, credit card revenue and total noninterest income in the above table are shown on a managed basis. Credit card revenue excludes the net interest revenue associated with securitized credit card receivables. Components of noninterest income that are primarily related to a single business segment are discussed within that business segment rather than the consolidated section.

Banking fees and commissions increased from the year-ago quarter by \$34 million, or 8%, due primarily to increased sales of annuities and mutual funds, as well as from the growth in the asset backed finance and investment grade bond underwriting businesses.

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Managed credit card revenue in the first quarter of 2002 increased \$141 million, or 46%, over the prior year period primarily due to the addition of the Wachovia portfolio and the consolidation of Paymentech.

Service charges on deposits increased \$62 million for the first quarter of 2002 compared to the year-ago period. This 19% increase primarily reflected improvement in GTS volumes and pricing and a shift in the payment of services to fees from net interest income due to the lower value of customers' compensating deposit balances.

Investment securities losses were \$18 million for the first quarter of 2002, compared to a loss of \$96 million in the first quarter of 2001, and were primarily due to lower venture fund investment write-downs and higher gains in other corporate investments.

Trading produced gains of \$16 million compared to \$65 million in the first quarter of 2001. The 75% decrease in trading revenue reflected a decline in the fair value of credit derivatives used to manage credit risk as well as lower foreign exchange and fixed income revenue.

Other income for the first quarter decreased \$167 million, or 89%, compared to the previous year. This decrease was primarily the result of gains in the first quarter of 2001 due to the sale of ownership interests in EquiServe Limited Partnership and Star Systems, and no new securitizations, offset by the first quarter 2002 effects of the consolidation of Paymentech.

NONINTEREST EXPENSE

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The components of noninterest expense for the periods indicated are:

Three Months Ended March 31	2002	2001	Change	
			Amount	Perce
<hr style="border-top: 1px dashed black;"/>				
(Dollars in millions)				
Salaries and employee benefits:				
Salaries	\$ 920	\$ 875	\$ 45	
Employee benefits	176	145	31	
<hr style="border-top: 1px dashed black;"/>				
Total salaries and employee benefits	1,096	1,020	76	
Occupancy	158	167	(9)	
Equipment	103	121	(18)	
Outside service fees and processing	300	256	44	
Marketing and development	258	212	46	
Telecommunication	101	109	(8)	
Other intangible amortization	33	20	13	
Goodwill amortization	-	17	(17)	
Other	296	314	(18)	
<hr style="border-top: 1px dashed black;"/>				
Total noninterest expense	2,345	2,236	109	
<hr style="border-top: 1px dashed black;"/>				
Employees/(1)/	73,864	79,157	(5,293)	
Efficiency ratio-managed basis	46.6%	47.6%	(1.0)%	
<hr style="border-top: 1px dashed black;"/>				

/(1)/ First quarter 2002 includes the addition of 1,627 employees due to the consolidation of Paymentech and Anexsys.

Components of noninterest expense that are primarily related to a single business segment are discussed within that business segment rather than the consolidated section.

Salaries and employee benefits in the first quarter of 2002 increased 7% from the year-ago period due to increased incentive compensation and the consolidation of Paymentech and Anexsys, partially offset by savings from reduced headcount.

Outside service fees and processing expense increased \$44 million, or 17%, in the first quarter of 2002 compared to the year-ago period, primarily due to data processing credits in the first quarter 2001.

Marketing and development expense increased \$46 million, or 22%, in the first quarter of 2002 compared to the prior year quarter primarily due to increased marketing expense for Credit Card and Retail.

Other intangible amortization increased \$13 million in the first quarter of 2002 compared to the prior year quarter primarily due to the amortization of purchased credit card relationships associated with addition of the Wachovia business. Additionally, the Corporation no longer amortizes goodwill in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") and thus did not incur any goodwill amortization expense in the first quarter of 2002.

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Other operating expense in the first quarter of 2002 decreased \$18 million from the year-ago period primarily due to the continuation of the Corporation's waste-reduction initiatives to lower expenses, which was partially offset by system conversion costs. The Corporation is working to complete the Michigan/Florida conversion by around the end of the second quarter of 2002 and to complete the Illinois conversion by around year-end 2002.

APPLICABLE INCOME TAXES

The Corporation's income before income taxes and applicable income tax expense and effective tax rate for each of the periods indicated are:

Three Months Ended March 31	2002	2001

(Dollars in millions)		
Income before income taxes	\$ 1,142	\$ 971
Applicable income taxes	355	292
Effective tax rate	31.1%	30.1%

Applicable income tax expense for both periods included benefits for tax-exempt income, tax-advantaged investments and general business tax credits, offset by the effect of nondeductible expenses.

RISK MANAGEMENT

The Corporation's business activities generate liquidity, market, credit and operational risks:

- .. Liquidity risk is the risk that the Corporation is unable to meet all current and future financial obligations in a timely manner.
- .. Market risk is the risk that changes in future market rates or prices will make the Corporation's positions less valuable
- .. Credit risk is the risk of loss from borrowers' and counterparties' failure to perform according to the terms of a transaction.
- .. Operational risk, among other things, includes the risk of loss due to errors in product and service delivery, failure of internal controls over information systems and accounting records, and internal and external fraud.

The following discussion of the Corporation's risk management processes focuses primarily on developments since December 31, 2001. The Corporation's risk management processes for liquidity, market, credit and operational risks have not substantially changed from year-end and are described in detail in the Corporation's 2001 Annual Report, beginning on page 47.

At March 31, 2002, the Corporation and its principal banks had the following long- and short-term debt ratings:

	Short-Term Debt		Senior Long-Term Debt	
	S&P	Moody's	S&P	Moody's
The Corporation (Parent)	A-1	P-1	A	Aa3
Principal Banks	A-1	P-1	A+	Aa2

MARKET RISK MANAGEMENT

OVERVIEW

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices and commodity prices. The portfolio effect of diverse trading activities helps reduce market risk. Through its trading activities, the Corporation strives to take advantage of profit opportunities available in interest and exchange rate movements. In asset and liability management activities, policies are in place to closely manage structural interest rate and foreign exchange rate risk.

VALUE-AT-RISK-TRADING ACTIVITIES

The Corporation has developed policies and procedures to manage market risk in its trading activities through a value-at-risk measurement and control system, a stress testing process and dollar trading limits. The objective of this process is to quantify and manage market risk in order to limit single and aggregate exposures.

For trading portfolios, value-at-risk measures the maximum fair value the Corporation could lose on a trading position, given a specified confidence level and time horizon. Value-at-risk limits and exposure are monitored daily for each significant trading portfolio. Stress testing is similar to value-at-risk except that the confidence level is geared to capture more extreme, less frequent market events.

The Corporation's value-at-risk calculation measures potential losses in fair value using a 99% confidence level and a one-day time horizon. This equates to 2.33 standard deviations from the mean under a normal distribution. This means that, on average, daily profits and losses are expected to exceed value-at-risk one out of every 100 overnight trading days. Value-at-risk is calculated using a statistical model applicable to cash and derivative positions, including options.

The value-at-risk in the Corporation's trading portfolio for the three months ended March 31, 2002 was as follows:

(In millions)	At March 31, 2002	First Quarter 2002			At December 31, 2001
		Average	High	Low	
Risk Type					
Interest Rate	\$ 12	\$ 12	\$ 13	\$ 10	\$
Currency Exchange Rate	1	-	2	-	
Equity	1	1	2	1	
Diversification benefit	(1)	-	N/A	N/A	
Aggregate portfolio market risk	\$ 13	\$ 13	\$ 15	\$ 12	\$

Interest rate risk was the predominant type of market risk incurred during the first quarter of 2002. At March 31, 2002, approximately 86% of

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primary market risk exposures were related to interest rate risk. Exchange rate, equity and commodity risks accounted for 14% of primary market risk exposures.

STRUCTURAL INTEREST RATE RISK MANAGEMENT

Interest rate risk exposure in the Corporation's core non-trading business activities, i.e., asset/liability management ("ALM") position, is a result of reprice, option and basis risks associated with on- and off-balance sheet positions. The ALM position is measured using sophisticated risk management tools, including earnings simulation modeling and economic value of equity sensitivity analysis, to capture near-term and longer-term interest rate risk exposures.

Earnings simulation analysis, or earnings-at-risk, measures the sensitivity of pretax earnings to various interest rate movements. The base-case scenario is established using current interest rates. The comparative scenarios assume an immediate parallel shock in increments of [plusmn] 100 basis point rate movements. Numerous other scenarios are analyzed, including more gradual rising or declining rate changes and non-parallel rate shifts. Estimated earnings for each scenario are calculated over multiple years. The interest rate scenarios are used for analytical purposes and do not necessarily represent Management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings and economic value of the Corporation.

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The Corporation's 12-month pre-tax earnings sensitivity profile as of March 31, 2002 and December 31, 2001 is as follows:

(In millions)	Immediate Change in Rates	
	-100 bp	+100 bp
March 31, 2002	\$ 1	\$ (152)
December 31, 2001	\$ 174	\$ (341)

Management regularly reviews alternative strategies to manage the Corporation's exposure to interest rate movements under a wide range of market based outcomes, balancing the risks and returns against the cost of incremental strategies. During the quarter, the Corporation reduced its sensitivity to rising interest rates by more than 50%. Although increasing rates would still negatively impact the Corporation's net interest margin, management believes the position is prudent given current interest rate levels. For additional discussion on the Corporation's derivative activities see the section "Derivative Financial Instruments" beginning on page 26.

Modeling the sensitivity of earnings to interest rate risk is highly dependent on the numerous assumptions embedded in the model. While the earnings sensitivity analysis incorporates Management's best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected.

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CREDIT PORTFOLIO COMPOSITION

SELECTED STATISTICAL INFORMATION

The significant components of credit risk and the related ratios, presented on a reported basis, for the periods indicated are as follows:

(Dollars in millions)	March 31 2002	December 31 2001	September 30 2001	June 2001
Loans outstanding	\$ 152,126	\$ 156,733	\$ 164,251	\$ 166,500
Average loans	154,942	160,150	165,416	169,100
Nonperforming loans	3,737	3,551	3,112	2,800
Other, including other real estate owned	197	137	116	100
Nonperforming assets	3,934	3,688	3,228	2,900
Allowance for credit losses	4,520	4,528	4,479	4,200
Net charge-offs	663	717	566	500
Nonperforming assets to related assets	2.58%	2.35%	1.96%	1.90%
Allowance for credit losses/loans outstanding	2.97	2.89	2.73	2.50
Allowance for credit losses/nonperforming loans	121	128	144	100
Net charge-offs/average loans	1.71	1.79	1.37	1.30
Allowance for credit losses/net charge-offs	170	158	198	200

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LOAN COMPOSITION

The Corporation's loan portfolios for the periods indicated are as follows:

(Dollars in millions)	March 31, 2002		December 31, 2001		September 30, 2001		June
	Amount	%/(1)/	Amount	%/(1)/	Amount	%/(1)/	Amount
Retail:							
Small business commercial	\$ 9,992	5%	\$ 9,947	5%	\$ 9,966	4%	\$ 9,900
Home equity	29,891	14	30,268	14	30,712	14	30,000
Vehicles:							
Loans	13,644	7	13,481	6	13,497	6	14,000
Leases	5,431	3	6,155	3	6,855	3	7,000
Other personal	8,604	4	9,779	4	9,941	5	10,000
Total Retail	67,562	33	69,630	32	70,971	32	72,000
Commercial Banking:							
Corporate Banking:							
Commercial and industrial	20,226	10	22,268	10	25,287	11	28,000
Commercial real estate	8,731	4	8,975	4	9,391	4	9,000
Lease financing	4,774	2	4,669	2	4,536	2	4,000

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Other	975	-	731	-	1,279	-	

Total Corporate							
Banking	34,706	16	36,643	16	40,493	17	43
Middle Market:							
Commercial and industrial	29,515	14	31,076	14	32,325	15	32
Commercial real estate	3,516	2	3,472	2	3,233	1	2
Lease financing	1,156	1	1,053	1	1,049	1	
Other	141	-	294	-	300	-	

Total Middle Market	34,328	17	35,895	17	36,907	17	36

Total Commercial							
Banking	69,034	33	72,538	33	77,400	34	80
IMG and Corporate	8,134	4	7,779	4	7,480	3	7
Credit Card:							
On balance sheet	7,396	4	6,786	3	8,400	4	6
Securitized	57,393	26	61,369	28	58,353	27	56

Managed credit card/(2)/	64,789	30	68,155	31	66,753	31	63

Total managed	\$ 209,519	100%	\$ 218,102	100%	\$ 222,604	100%	\$ 223

Total reported	\$ 152,126		\$ 156,733		\$ 164,251		\$ 166

/(1)/ Percentages are determined as a percentage of total managed loans.

/(2)/ See page 28 for the detailed components of managed credit card loans.

Loans held for sale, which are carried at lower of cost or fair value, totaled \$4.5 billion and \$4.2 billion at March 31, 2002 and December 31, 2001, respectively. At March 31, 2002, loans held for sale included Commercial Banking loans of \$165 million, of which approximately \$66 million are included in nonperforming loans, and Credit Card and other Consumer loans of \$4.3 billion.

Commercial and Industrial Loans

Commercial and industrial loans represent commercial loans other than commercial real estate. At March 31, 2002, commercial and industrial loans totaled \$49.7 billion, which represents 72% of the Commercial Banking portfolio.

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The more significant borrower industry concentrations of the Commercial Banking commercial and industrial portfolio for the periods indicated are as follows:

(Dollars in millions)	March 31, 2002		Outsta
	Outstanding	%/(1)/	
Wholesale trade	\$ 4,066	8.2%	\$
Oil and gas	3,474	7.0	
Industrial materials	3,140	6.3	
Consumer staples	2,851	5.7	
Metals and products	2,609	5.2	

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/(1)/ Total outstanding by industry concentration as a percentage of total commercial and industrial loans.

Commercial Real Estate

Commercial real estate loans represent credit extended for real estate related purposes to borrowers or counterparties who are primarily in the real estate development or investment business and for which the ultimate repayment of the loan is dependent on the sale, lease, rental or refinancing of the property. At March 31, 2002, commercial real estate loans totaled \$12.2 billion, which represents 18% of the Commercial Banking portfolio.

Commercial real estate lending is conducted in several lines of business with the majority of these loans originated by Corporate Banking primarily through its specialized National Commercial Real Estate Group. This group's focus is lending to targeted regional and national real estate developers, homebuilders and REITs/REOCs.

The commercial real estate loan portfolio by both collateral location and property type for the periods indicated are as follows:

(Dollars in millions)	March 31, 2002		December 31, 2001
By Collateral Location:	Amount	% of Portfolio	Amount
Illinois	\$ 1,668	14%	\$ 1,682
Michigan	1,361	11	1,348
Texas	1,048	8	1,004
California	985	8	960
Arizona	937	8	958
Ohio	835	7	839
Indiana	496	4	504
Louisiana	439	4	487
Kentucky	352	3	326
Colorado	322	3	356
Other areas	1,877	15	1,806
Unsecured	1,397	11	1,670
Secured by other than real estate	530	4	507
Total	\$ 12,247	100%	\$ 12,447
By Property Type:			
Retail	\$ 1,862	15%	\$ 1,913
Apartment	1,825	15	1,770
Office	1,730	14	1,804
REIT/diversified	1,312	11	1,297
Single family residential development	1,299	11	1,273
Industrial/warehouse	1,230	10	1,230
Hotels	486	4	625
Residential lots	420	3	472
Miscellaneous commercial income producing	1,918	16	1,864
Miscellaneous residential developments	165	1	199
Total	\$ 12,247	100%	\$ 12,447

ASSET QUALITY

NONPERFORMING ASSETS

The Corporation places loans on nonaccrual status as follows:

- . Retail consumer loans are placed on nonaccrual status when the collection of contractual principal or interest becomes 90 days past due.
- . Commercial Banking and Retail small business commercial loans are placed on nonaccrual status when the collection of contractual principal or interest is deemed doubtful, or it becomes 90 days or more past due and is not both well-secured and in the process of collection.
- . Credit card receivables are charged-off rather than placed on nonaccrual status.

The Corporation's nonperforming assets for the periods indicated are as follows:

(Dollars in millions)	March 31 2002	December 31 2001	September 30 2001	
<hr/>				
Nonperforming Loans:				
Retail	\$ 1,402	\$ 1,344	\$ 1,155	\$
Commercial Banking:				
Corporate Banking	1,170	1,154	1,051	
Middle Market Banking	1,087	973	853	
<hr/>				
Total Commercial Banking/(1)/	2,257	2,127	1,904	
IMG and Corporate	78	80	53	
<hr/>				
Total	3,737	3,551	3,112	
Other, primarily other real estate owned	197	137	116	
<hr/>				
Total nonperforming assets	\$ 3,934	\$ 3,688	\$ 3,228	\$
<hr/>				
Nonperforming assets/related assets:	2.58%	2.35%	1.96%	
Loans 90-days or more past due and accruing interest:				
Credit Card	\$ 100	\$ 96	\$ 114	\$
Other	2	1	9	
<hr/>				
Total	\$ 102	\$ 97	\$ 123	\$
<hr/>				

/(1)/ Commercial Banking nonperforming loans at March 31, 2002 include \$66 million of Loans Held for Sale.

The Corporation has experienced credit quality deterioration in a number of distinct Commercial Banking market segments, and although this deterioration has slowed in the first quarter of 2002 it is not expected to improve credit costs in the near term. The Corporation has established processes for identifying potential problem areas of the portfolio, which currently include

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exposure to leveraged lending and acquisition finance activities, healthcare, automotive parts and manufacturing, business finance and leasing, professional services, miscellaneous transportation services, telecommunications and selected utilities. The Corporation will continue to monitor and manage these potential risks.

Nonperforming loans within Retail at March 31, 2002 were \$1.402 billion, an increase of \$58 million from fourth quarter 2001. This increase was primarily driven by brokered home equity loans. Home equity loans are written down to net realizable value once a loan reaches 120 days delinquency. However, due to the nature of the timeline necessary to complete foreclosure and gain title, real estate loans remain in nonperforming status for an extended period.

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CHARGE-OFFS

The Corporation records charge-offs as follows:

- . Commercial loans are charged-off in the reporting period in which either an event occurs that confirms the existence of a loss or it is determined that a loan or a portion of a loan is uncollectible.
- . A credit card loan is charged-off in the month it becomes contractually 180 days past due and remains unpaid at the end of that month, or 60 days after receipt of bankruptcy notification.
- . Retail loans are generally charged-off following a delinquency period of 120 days, or within 60 days after receipt of notification in case of bankruptcy. Closed-end consumer loans, such as auto loans and leases and home mortgage loans, are typically written down to the extent of loss after considering the net realizable value of the collateral.

The timing and amount of the charge-off on consumer loans will depend on the type of loan, giving consideration to available collateral, as well as the circumstances giving rise to the delinquency. The Corporation adheres to uniform guidelines published by the FFIEC in charging off consumer loans.

The Corporation's net charge-offs by line of business for the periods indicated are as follows:

(Dollars in millions)	March 31, 2002			December 31, 2001		
	Net charge-offs	Average balance	Net charge-off rate	Net charge-offs	Average balance	Net charge-off rate
Retail/(1)/	\$ 265	\$ 69,228	1.53%	\$ 268	\$ 70,049	1.53%
Commercial Banking:						
Corporate Banking	163	36,040	1.81	164	38,065	1.72
Middle Market Banking	118	35,075	1.34	158	36,185	1.75
Total Commercial Banking	281	71,115	1.58	322	74,250	1.73
Credit Card	943	66,324	5.69	930	66,505	5.59
IMG and Corporate	20	7,382	-	14	7,493	-
Total-Managed	1,509	214,049	2.82%	1,534	218,297	2.81%

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Securitized	(846)	(59,107)		(817)	(58,147)	
Total-Reported	\$ 663	\$ 154,942	1.71%	\$ 717	\$ 160,150	1.79%

June 30, 2001

	Net charge-offs	Average balance	Net charge-off rate
Retail/(1)/	\$ 177	\$ 72,679	0.97%
Commercial Banking:			
Corporate Banking	155	45,736	1.36
Middle Market Banking	84	36,995	0.91
Total Commercial Banking	239	82,731	1.16
Credit Card	962	63,179	6.09
IMG and Corporate	13	7,763	-
Total-Managed	1,391	226,352	2.46%
Securitized	(875)	(57,212)	
Total-Reported	\$ 516	\$ 169,140	1.22%

/(1)/ Quarter results exclude \$1 million, \$14 million, \$14 million, \$24 million and \$40 million, respectively, of charge-offs which are not so classified in the Corporation's GAAP financials because they are part of a portfolio that has been accounted for as loans held at a discount. The inclusion of these amounts in charge-offs more accurately reflects the performance of the portfolio. In the Corporation's financial statements, these items result in a higher provision in excess of net charge-offs.

Managed net charge-offs decreased 2% during the first quarter of 2002 to \$1.509 billion from the fourth quarter 2001, primarily reflecting lower charge-offs in the Commercial Banking portfolios, however, the managed net charge-off rate remained essentially unchanged.

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LOAN SALES

A summary of the Corporation's Commercial Banking loan sales for the periods indicated are as follows:

(In millions)	March 31 2002	December 31 2001	September 30 2001	Jun
---------------	------------------	---------------------	----------------------	-----

Loans Sold and Loans Transferred
to Loans Held For Sale:/(1)/

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Nonperforming loans	\$	99	\$	18	\$	42	\$
Other credit related loans		160		93		86	
Other loans		343		179		438	

Total	\$	602	\$	290	\$	566	\$

Losses on Sale:							
Charge-offs:/(2)/							
Nonperforming loans	\$	48	\$	8	\$	11	\$
Other credit related loans		19		18		22	

Total charge-offs	\$	67	\$	26	\$	33	\$
Losses on other loans sold		4		12		18	

Total	\$	71	\$	38	\$	51	\$

/(1)/ Includes loans transferred to Loans Held For Sale of approximately \$66 million, \$36 million and \$20 million in nonperforming, other credit related loans and other loans, respectively.

/(2)/ Charge-offs on loans held for sale of approximately \$17 million and \$6 million are included in nonperforming and other credit related loans, respectively.

The Corporation sells Commercial Banking loans in the normal course of its business activities. These loans are subject to the Corporation's overall risk management practices and are one alternative the Corporation uses to manage credit risk. When a loan is sold, the gain or loss is evaluated to determine whether it resulted from credit deterioration or other conditions. Based upon this evaluation, the losses on other loans sold were deemed to be caused by other than credit deterioration. The sale of nonperforming and other credit related loans were primarily recorded as charge-offs as the losses on sale were attributable to credit deterioration.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level that in Management's judgment is adequate to provide for estimated probable credit losses inherent in various on- and off-balance sheet financial instruments. This process includes deriving probable loss estimates that are based on historical loss ratios, portfolio stress testing and Management's judgment. The allowance is based on ranges of probable loss estimates and is intended to be adequate but not excessive.

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The change in the Corporation's allowance for credit losses for the periods indicated are as follows:

(in million)	March 31 2002	December 31 2001	September 30 2001	Jun
Balance, beginning of period	\$ 4,528	\$ 4,479	\$ 4,229	\$ 4,
Charge-offs:				
Retail:				
Small business commercial	18	29	24	

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Home equity	138	131	91
Vehicles:			
Loans	82	75	61
Leases	34	33	31
Other personal	41	39	39

Total Retail	313	307	246
Commercial Banking:			
Corporate Banking:			
Commercial and industrial	182	158	147
Commercial real estate	2	8	1
Lease financing	2	17	-

Total Corporate Banking	186	183	148
Middle Market:			
Commercial and industrial	126	165	96
Commercial real estate	4	4	1
Lease financing	5	19	11

Total Middle Market	135	188	108

Total Commercial Banking	321	371	256
Credit Card	111	120	123
IMG and Corporate	22	14	11

Total charge-offs	\$ 767	\$ 812	\$ 636

Recoveries:			
Retail:			
Small business commercial	\$ 4	\$ 6	\$ 4
Home equity	8	6	7
Vehicles:			
Loans	17	15	16
Leases	4	7	6
Other personal	15	5	4

Total Retail	48	39	37
Commercial Banking:			
Corporate Banking:			
Commercial and industrial	21	17	14
Commercial real estate	2	2	3
Lease financing	-	-	-

Total Corporate Banking	23	19	17
Middle Market:			
Commercial and industrial	14	24	8
Commercial real estate	2	-	-
Lease financing	1	6	1

Total Middle Market	17	30	9

Total Commercial Banking	40	49	26
Credit Card	14	7	5
IMG and Corporate	2	-	2
Total recoveries	\$ 104	\$ 95	\$ 70

Net charge-offs:			
Retail	\$ 265	\$ 268	\$ 209
Commercial Banking	281	322	230
Credit Card	97	113	118
IMG and Corporate	20	14	9

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Total net charge-off	\$	663	\$	717	\$	566	\$	
Provision for credit losses		665		765		620		
Transfers		(10)		1		196		
Balance, end of year	\$	4,520	\$	4,528	\$	4,479	\$	4,

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Composition of Allowance for Credit Losses

While the allowance for credit losses is available to absorb credit losses in the entire portfolio, allocations of the allowance for credit losses by line of business for the periods indicated are as follows:

(Dollars in millions)	March 31 2002		December 31 2001		September 30 2001		A
	Amount	%	Amount	%	Amount	%	
Retail	\$ 1,028	23%	\$ 1,027	23%	\$ 979	22%	\$
Commercial Banking:							
Corporate Banking	1,706	38	1,714	38	1,714	38	
Middle Market	1,365	30	1,365	30	1,364	30	
Total Commercial Banking	3,071	68	3,079	68	3,078	68	
Credit Card	396	9	396	8	397	9	
IMG and Corporate	25	-	26	1	25	1	
Total	\$ 4,520	100%	\$ 4,528	100%	\$ 4,479	100%	\$

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses a variety of derivative financial instruments in its trading activity, asset and liability management, and mortgage operations, as well as to manage certain currency translation exposures of foreign entities. These instruments include interest rate, currency, equity and commodity swaps, forwards, spot, futures, options, caps, floors, forward rate agreements, and other conditional or exchange contracts, and include both exchange-traded and over-the-counter contracts. A detailed discussion of accounting policies for trading and hedging derivative instruments is presented in the Corporation's 2001 Annual Report beginning on page 61.

INCOME RESULTING FROM DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses interest rate derivative financial instruments in asset and liability management activities to reduce structural interest rate risk, and the volatility of pre-tax income (see Structural Interest Rate Risk Management section on page 18). Pre-tax income reflects the effective use of these derivatives. Without their use, pre-tax income for the three months ended March 31, 2002 and 2001, would have been lower by \$5 million and \$7 million, respectively.

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For cash flow hedges, the effective portion of the change in fair value of the hedging derivative is recorded in Accumulated Other Adjustments to Stockholders Equity ("AOASE"), which is reclassified into earnings in a manner consistent with the earnings pattern of the underlying hedged instrument or transaction. At March 31, 2002, the total amount of such reclassification into earnings is projected to be a decrease in income of \$193 million after-tax (\$294 million pre-tax) over the next twelve months. These projections involve the use of currently forecasted interest rates over the next twelve months. These rates, and the resulting reclassifications into earnings, are subject to change.

The maximum length of time exposure to the variability of future cash flows for forecasted transactions hedged is 36 months. There were no events in 2002 with an effect on earnings from the discontinuance of cash flow hedges due to the determination that a forecasted transaction is no longer likely to occur.

CREDIT EXPOSURE RESULTING FROM DERIVATIVE FINANCIAL INSTRUMENTS

Credit exposure from derivative financial instruments arises from the risk of a counterparty default on the derivative contract. The amount of loss created by the default is the replacement cost or current fair value of the defaulted contract. The Corporation utilizes master netting agreements whenever possible to reduce its credit exposure from counterparty defaults. These agreements allow the netting of contracts with unrealized losses against contracts with unrealized gains to the same counterparty, in the event of a counterparty default.

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The impact of these master netting agreements for the periods indicated are as follows:

(In millions)	March 31, 2002	December 31,
Gross replacement cost	\$ 10,736	\$ 12
Less: Adjustment due to master netting agreements	8,072	9
Balance sheet credit exposure	\$ 2,664	\$ 3

ASSET AND LIABILITY MANAGEMENT DERIVATIVES

Access to the derivatives market is an important element in maintaining the Corporation's desired interest rate risk position. In general, the assets and liabilities generated through ordinary business activities do not naturally create offsetting positions with respect to repricing, basis or maturity characteristics. Using derivative instruments, principally plain vanilla interest rate swaps (ALM swaps), interest rate sensitivity is adjusted to maintain the desired interest rate risk profile.

At March 31, 2002, the notional value of ALM interest rate swaps linked to specific assets, liabilities or forecasted transactions was as follows:

Receive Fixed	Pay Fixed
Pay Floating	Receive Floating

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(In millions)	Fair Value Hedge	Fair Value Hedge	Cash Flow Hedge
Interest rate swaps associated with:			
Interest-bearing assets	\$ -	\$ 50	\$ 3,000
Interest-bearing liabilities	5,739	-	15,992
Total	\$ 5,739	\$ 50	\$ 18,992

Interest rate swaps used to adjust the interest rate sensitivity of certain interest-bearing assets and liabilities will not need to be replaced at maturity, since the corresponding asset or liability will mature along with the interest rate swap. The notional amount of such swaps totaled \$17.8 billion at March 31, 2002.

No non-derivative instruments are designated as a hedge.

LOAN SECURITIZATIONS AND OFF-BALANCE SHEET ACTIVITIES

LOAN SECURITIZATIONS

Investors in the beneficial interests of the securitized loans have no recourse against the Corporation if cash flows generated from the securitized loans are inadequate to service the obligations of the special purpose entity. To help ensure that adequate funds are available in the event of a shortfall, the Corporation is required to deposit funds into cash spread accounts if excess spread falls below certain minimum levels. Spread accounts are funded from excess spread that would normally be returned to the Corporation. In addition, various forms of other credit enhancements are provided to protect more senior investor interests from loss. Credit enhancements associated with credit card securitizations, such as cash collateral or spread accounts, totaled \$141 million and \$533 million at March 31, 2002 and 2001, respectively, and are classified on the balance sheet as other assets.

For further discussion of Bank One's loan securitization process and other related disclosures, see pages 64-65 and 81-82 of the Corporation's 2001 Annual Report.

The Corporation's managed credit card loans are comprised of the following:

(In millions)	March 31, 2002
Owned credit card loans-held in portfolio	\$ 4,777
Owned credit card loans-held for future securitization	2,619
Seller's interest in credit card loans (investment securities)	22,343
Total credit card loans and seller's interest reflected on balance sheet	29,739
Securities sold to investors and removed from balance sheet	35,050
Managed credit card loans	\$ 64,789

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At March 31, 2002, the estimated fair values of seller's interest and interest-only strip from credit card securitizations were \$22.2 billion and \$184 million, respectively.

For analytical purposes only, income statement line items adjusted for the net impact of securitization of credit card receivables for the periods indicated are as follows:

(Dollars in millions)	Three Months Ended March 31, 2002			Three
	Reported	Credit Card Securitizations	Managed	Reported
Net interest income-FTE basis	\$ 2,235	\$ 1,304	\$ 3,539	\$ 2,218
Provision for credit losses	665	846	1,511	585
Noninterest income	1,952	(458)	1,494	1,607
Noninterest expense	2,345	-	2,345	2,236
Net income	787	-	787	679
Total average loans	\$ 154,942	\$ 59,107	\$ 214,049	\$ 173,677
Total average earning assets	231,815	36,590	268,405	242,338
Total average assets	263,354	36,590	299,944	269,514
Net interest margin	3.91%	14.45%	5.35%	3.71%
Credit Card delinquency ratios:				
30+ days	2.99%	4.43%	4.27%	2.56%
90+ days	1.36	2.04	1.96	1.13
Net credit card charge-off ratio	5.38	5.73	5.69	5.65

OTHER OFF-BALANCE SHEET ACTIVITIES

In the normal course of business, the Corporation is a party to a number of activities that contain credit, market and operational risk that are not reflected in whole or in part in the Corporation's consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments; commitments under capital and operating leases and long-term debt; credit enhancement associated with asset-backed securities business; and joint venture activities.

The Corporation provides customers with off-balance sheet credit support through loan commitments, standby letters of credit and guarantees, as well as commercial letters of credit. Summarized credit-related financial instruments at March 31, 2002 are as follows:

(In billions)	Amount of Commitment Expi		
	Total	Less Than 1 Year	1-3 Years
Unused credit card lines	\$ 309.4	\$ 309.4	\$ -
Unused loan commitments	136.0	100.2	21.9
Standby letters of credit and foreign office guarantees	19.4	10.9	5.8
Commercial letters of credit	0.6	0.6	-

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Since many of the unused commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

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In addition to owned banking facilities, the Corporation has entered into a number of long-term leasing arrangements to support the ongoing activities of the Corporation. The required payments under such commitments and long-term debt at March 31, 2002 are as follows:

(In millions)	2002	2003	2004	2005	2006
Operating leases	\$ 183	\$ 240	\$ 208	\$ 169	\$ 152
Trust preferred capital securities	-	-	-	-	-
Long-term debt, including capital leases	6,447	7,684	6,006	5,135	6,927
Total	\$ 6,630	\$ 7,924	\$ 6,214	\$ 5,304	\$ 7,079

The Corporation assists its customers in obtaining sources of liquidity, by structuring financing transactions to sell customer's trade receivables or other financial assets to specialized financing entities that issue commercial paper. The Corporation provides liquidity facilities and subordinated loans to the specialized financing entity, which totaled \$37.9 billion and \$1.1 billion, respectively, at March 31, 2002.

In addition to customer financing transactions, these specialized financing entities fund, through the issuance of asset-backed commercial paper, other selected portfolios of marketable investments that are not reflected on the Corporation's balance sheet. Off-balance sheet liquidity lines provided by the Corporation associated with these transactions were \$2.9 billion at March 31, 2002.

The Corporation also provides liquidity lines to commercial paper issuing specialized financing entities not sponsored by Bank One, which approximated \$1.8 billion at March 31, 2002.

The Corporation is a participant in several operating joint venture initiatives where the Corporation has a majority equity interest in the entity; however, based on the terms of the joint venture arrangement, the ventures are jointly controlled and managed. The Corporation consolidated two joint ventures beginning the first quarter of 2002 as Management has exerted additional influence over these joint ventures. These consolidations did not have a net impact to the Corporation's consolidated net income. The Corporation's investment in the remaining joint ventures totaled \$263 million at March 31, 2002.

CAPITAL MANAGEMENT

ECONOMIC CAPITAL

An important aspect of risk management and performance measurement is the ability to evaluate the risk and return of a business unit, product or customer

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consistently across all lines of business. The Corporation's economic capital framework facilitates this standard measure of risk and return. Business units are assigned capital consistent with the underlying risks of their product set, customer base and delivery channels. For a more detailed discussion of Bank One's economic capital framework, see page 67 of the Corporation's 2001 Annual Report.

SELECTED CAPITAL RATIOS

The Corporation aims to maintain regulatory capital ratios, including those of the principal banking subsidiaries, in excess of the well-capitalized guidelines under federal banking regulations. The Corporation maintains a well-capitalized regulatory position. The tangible common equity to tangible managed assets ratio is also monitored. This ratio adds securitized credit card loans to reported total assets and is calculated net of total intangible assets.

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The Corporation's capital ratios follow:

	March 31 2002	December 31 2001	September 30 2001	June 2

Risk-based capital ratios:				
Tier 1	9.0%	8.6%	8.4%	
Total	12.7	12.2	11.7	1
Common equity/managed assets	7.0	6.6	6.5	
Tangible common equity/tangible managed assets	6.2	5.9	5.8	
Double leverage ratio	103	103	102	
Dividend payout ratio	31	38	35	

The components of the Corporation's regulatory risk-based capital and risk-weighted assets are as follows:

	March 31 2002	December 31 2001	September 3 200
(In millions)			

Regulatory risk-based capital:			
Tier 1 capital	\$ 22,513	\$ 21,749	\$ 21,330
Tier 2 capital	9,115	9,091	8,547

Total capital	31,628	30,840	29,877

Total risk weighted assets	\$ 249,128	\$ 253,330	\$ 254,94

In deriving Tier 1 and total capital, goodwill and other nonqualifying intangible assets are deducted for the periods indicated:

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(In millions)	March 31 2002	December 31 2001	September 3 2001
Goodwill	\$ 1,840	\$ 1,560	\$ 1,57
Other nonqualifying intangibles	251	207	28
Subtotal	2,091	1,767	1,86
Qualifying intangibles	422	414	44
Total intangibles	\$ 2,513	\$ 2,181	\$ 2,30

Goodwill and other intangibles increased in the first quarter 2002 primarily due to the consolidation of Paymentech.

In November 2001, the U.S. banking regulators revised the risk based capital rules for the treatment of recourse arrangements, direct credit substitutes, asset and mortgage backed securities, and residual interest in securitization structures. Certain provisions of these rules became effective in the first quarter 2002, and the March 31, 2002 ratio includes the impact of these changes. The Corporation will implement the remaining provisions of these rules beginning December 31, 2002, when they become effective, and does not anticipate that the remaining new rules will have a material impact on the Corporation's risk based capital ratios.

In the second quarter of 2002, the Corporation will implement the U.S. banking regulators risk based capital rules related to the treatment of certain equity investments made in nonfinancial companies, which were issued in January 2002. Additionally, in April 2002, the U.S. banking regulators revised the risk based capital rules to reduce the risk-weight applied to certain claims on, or guarantees by, qualifying securities firms from 100% to 20%. This rule is effective in the third quarter of 2002 with early adoption permissible. The Corporation plans to adopt these rules in the second quarter of 2002. It is anticipated the implementation of these rules will not have a material impact on the Corporation's risk based capital ratios.

DIVIDEND POLICY

The Corporation's common stock dividend policy reflects its earnings outlooks, desired payout ratios, the need to maintain an adequate capital level and alternative investment opportunities. The common stock dividend payout ratio is targeted in the range of 25%-30% of earnings over time. On January 15, 2002, the Corporation declared its quarterly common cash dividend of 21 cents per share, payable on April 1, 2002.

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DOUBLE LEVERAGE

Double leverage is the extent to which the Corporation's resources are used to finance investments in subsidiaries. Double leverage was 103% at March 31, 2002 and December 31, 2001. Trust Preferred Capital Securities of \$3.315 billion at March 31, 2002 and December 31, 2001 were included in capital for purposes of this calculation.

STOCK REPURCHASE PROGRAM

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On September 17, 2001, the Corporation's Board of Directors approved the repurchase of up to \$500 million of the Corporation's common stock. This buyback is part of the remaining 28.4 million share buyback program authorized in May 1999. The timing of the purchases and the exact number of shares to be repurchased will depend on market conditions. The share repurchase program does not include specific price targets or timetables and may be suspended at any time. The Corporation did not repurchase any shares under this program in the first quarter of 2002.

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis included herein contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, Bank One may make or approve certain statements in future filings with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with Bank One's approval that are not statements of historical fact and may constitute forward-looking statements. Forward-looking statements may relate to, without limitation, Bank One's financial condition, results of operations, plans, objectives, future performance or business.

Words such as "believes", "anticipates", "expects", "intends", "plans", "estimates", "targeted" and similar expressions are intended to identify forward-looking statements but are not the only means to identify these statements.

Forward-looking statements involve risks and uncertainties. Actual conditions, events or results may differ materially from those contemplated by a forward-looking statement. Factors that could cause this difference—many of which are beyond Bank One's control—include the following, without limitation:

- .. Local, regional and international business or economic conditions may differ from those expected.
- .. The effects of and changes in trade, monetary and fiscal policies and laws, including the Federal Reserve Board's interest rate policies, may adversely affect Bank One's business.
- .. The timely development and acceptance of new products and services may be different than anticipated.
- .. Technological changes instituted by Bank One and by persons who may affect Bank One's business may be more difficult to accomplish or more expensive than anticipated or may have unforeseen consequences.
- .. Acquisitions and integration of acquired businesses may be more difficult or expensive than expected.
- .. The ability to increase market share and control expenses may be more difficult than anticipated.
- .. Competitive pressures among financial services companies may increase significantly.
- .. Changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) may adversely affect Bank One or its business.
- .. Changes in accounting policies and practices, as may be adopted by regulatory agencies and the Financial Accounting Standards Board, may affect expected financial reporting.
- .. The costs, effects and outcomes of litigation may adversely affect Bank One or its business.
- .. Bank One may not manage the risks involved in the foregoing as well as anticipated.

Forward-looking statements speak only as of the date they are made. Bank One undertakes no obligation to update any forward-looking statement to reflect subsequent circumstances or events.

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CONSOLIDATED BALANCE SHEETS
BANK ONE CORPORATION AND SUBSIDIARIES

(Dollars in millions)	March 31 2002	December 31 2001	Mar
Assets			
Cash and due from banks	\$ 12,683	\$ 17,383	\$ 15
Interest-bearing due from banks	1,532	1,030	1
Federal funds sold and securities under resale agreements	9,211	9,347	11
Trading assets	6,974	6,167	5
Derivative product assets	2,664	3,225	3
Investment securities	58,657	60,883	52
Loans	152,126	156,733	171
Allowance for credit losses	(4,520)	(4,528)	(4
Loans, net	147,606	152,205	167
Other assets	23,620	18,714	16
Total assets	\$ 262,947	\$ 268,954	\$ 274
Liabilities			
Deposits:			
Demand	\$ 29,098	\$ 32,179	\$ 29
Savings	80,149	80,599	63
Time:			
Under \$ 100,000	19,766	20,106	24
\$100,000 and over	16,462	18,071	21
Foreign offices	13,328	16,575	24
Total deposits	158,803	167,530	163
Federal funds purchased and securities sold under repurchase agreements	15,154	13,728	14
Other short-term borrowings	5,503	10,255	16
Long-term debt	40,879	40,103	39
Guaranteed preferred beneficial interest in the Corporation's junior subordinated debt	3,315	3,315	2
Derivative product liabilities	2,071	2,574	3
Other liabilities	16,309	11,223	14
Total liabilities	242,034	248,728	255
Stockholders' Equity			
Preferred stock	-	-	
Common stock (\$0.01 par value; authorized 4,000,000,000 at 3/31/02 and 12/31/01 and 2,500,000,000 at 3/31/01; issued 1,181,382,304)	12	12	
Surplus	10,239	10,311	10
Retained earnings	11,250	10,707	9
Accumulated other adjustments to stockholders' equity	(46)	(65)	
Deferred compensation	(217)	(121)	
Treasury stock, at cost (7,624,025, 14,415,873, and 16,051,793 shares, respectively)	(325)	(618)	

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Total stockholders' equity	20,913	20,226	19
Total liabilities and stockholders' equity	\$ 262,947	\$ 268,954	\$ 274

The accompanying notes are an integral part of this statement

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CONSOLIDATED INCOME STATEMENTS
BANK ONE CORPORATION AND SUBSIDIARIES

Three Months Ended March 31	2002	2001
(In millions, except per share data)		
Net Interest Income:		
Interest income	\$ 3,540	\$ 4,900
Interest expense	1,340	2,700
Total net interest income	2,200	2,200
Noninterest Income:		
Banking fees and commissions	445	400
Credit card revenue	906	500
Service charges on deposits	393	300
Fiduciary and investment management fees	189	100
Investment securities losses	(18)	(100)
Trading	16	100
Other income	21	100
Total noninterest income	1,952	1,600
Total revenue, net of interest expense	4,152	3,800
Provision for credit losses	665	500
Noninterest Expense:		
Salaries and employee benefits	1,096	1,000
Occupancy	158	100
Equipment	103	100
Outside service fees and processing	300	200
Marketing and development	258	200
Telecommunication	101	100
Other intangible amortization	33	100
Goodwill amortization	-	100
Other expense	296	300
Total noninterest expense	2,345	2,200
Income before income taxes	1,142	900
Applicable income taxes	355	200
Net income	\$ 787	\$ 600
Net income attributable to common stockholders' equity	\$ 787	\$ 600

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Earnings per share:

Basic

\$ 0.67 \$ 0.

Dilluted

\$ 0.67 \$ 0.

The accompanying notes are an integral part of this statement.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
BANK ONE CORPORATION AND SUBSIDIARIES

(In millions)	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Adjustments to Stockholders' Equity	Com
Balance-December 31, 2000	\$ 190	\$ 12	\$ 10,487	\$ 9,060	\$ (5)	\$
Net income				679		
Change in fair value, investment securities-available for sale, net of taxes					47	
Change in fair value of cash-flow hedge derivative securities, net of taxes					(149)	
Translation loss, net of hedge results and taxes					2	
Net income and changes in accumulated other adjustments to stockholders' equity				679	(100)	
Cash dividends declared:						
Common stock				(245)		
Preferred stock				(3)		
Issuance of common stock			(93)			
Awards granted, net of forfeitures and amortization						
Balance-March 31, 2001	\$ 190	\$ 12	\$ 10,394	\$ 9,491	\$ (105)	\$
Balance-December 31, 2001	\$ -	\$ 12	\$ 10,311	\$ 10,707	\$ (65)	\$
Net income				787		
Change in fair value, investment securities-available for sale, net of taxes					(118)	
Change in fair value of cash-flow hedge derivative securities, net of taxes					137	
Net income and changes in accumulated other adjustments						

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to stockholders' equity				787		19
Cash dividends declared on						
Common stock				(244)		
Issuance of common stock			(88)			
Awards granted, net of						
forfeitures and amortization						
Other			16			

Balance-March 31, 2002	\$	-	\$ 12	\$ 10,239	\$ 11,250	\$ (46) \$

The accompanying notes are an integral part of this statement.

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Consolidated Statements of Cash Flows
Bank One Corporation and Subsidiaries

Three Months Ended March 31	2002	2001

(In millions)		
Cash Flows from Operating Activities:		
Net Income	\$ 787	\$ 679
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Depreciation and amortization	129	135
Provision for credit losses	665	585
Investment securities losses, net	18	96
Net increase in net derivative product assets	(14)	(140)
Net increase in trading assets	(805)	(2,401)
Net increase in other assets	(4,111)	(353)
Net increase in other liabilities	4,349	4,020
Other operating adjustments	114	(99)

Net cash provided by operating activities	1,132	2,522
Cash Flows from Investing Activities:		
Net (increase) decrease in federal funds sold and		
securities under resale agreements	135	(6,396)
Securities available for sale:		
Purchases	(10,486)	(16,967)
Maturities	1,486	7,585
Sales	10,253	2,308
Credit card receivables securitized	-	3,131
Net decrease in loans	5,536	3,770
Loan recoveries	104	97
Additions to premises and equipment	(93)	-
Proceeds from sales of premises and equipment	16	-
All other investing activities, net	(993)	7

Net cash provided by (used in) investing activities	5,958	(6,465)
Cash Flows from Financing Activities:		
Net decrease in deposits	(8,723)	(3,524)
Net increase in federal funds purchased and securities		
under repurchase agreements	1,426	2,668
Net decrease in other short-term borrowings	(4,745)	(1,033)
Proceeds from issuance of long-term debt	3,227	3,818

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Repayment of long-term debt	(2,354)	(3,254)
Cash dividends paid	(245)	(247)
Proceeds from issuance of trust preferred capital securities	-	300
Proceeds from issuance of common and treasury stock	97	80
All other financing activities, net	14	4

Net cash used in financing activities	(11,303)	(1,188)
Effect of exchange rate changes on cash and cash equivalents	15	3

Net Decrease in Cash and Cash Equivalents	(4,198)	(5,128)
Cash and Cash Equivalents at Beginning of Period	18,413	22,501

Cash and Cash Equivalents at End of Period	\$ 14,215	\$ 17,373

The accompanying notes are an integral part of this statement.

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Notes to Consolidated Financial Statements Bank One Corporation and Subsidiaries

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements of Bank One have been prepared in conformity with generally accepted accounting principles, and certain prior-quarter financial statement information has been reclassified to conform to the current quarter presentation. The preparation of the consolidated financial statements require Management to make estimates and assumptions that affect the amounts reported and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Although the interim amounts are unaudited, they do reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations for the interim periods. All such adjustments are of a normal, recurring nature. Because the results from commercial banking operations are so closely related and responsive to changes in economic conditions, fiscal policy and monetary policy, and because the results for the investment securities and trading portfolios are largely market-driven, the results for any interim period are not necessarily indicative of the results that can be expected for the entire year.

These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Corporation's 2001 Annual Report.

NOTE 2-NEW AND PENDING ACCOUNTING PRONOUNCEMENTS

Business Combinations and Goodwill and Other Intangible Assets

Effective January 1, 2002, the Corporation adopted SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142") resulting in no goodwill impairment. In accordance with the new standard, goodwill and intangible assets with indefinite lives are no longer amortized, but are subject to impairment tests at least annually. Intangible assets with finite lives continue to be amortized over the period the Corporation expects to benefit from such assets and are periodically reviewed for other than temporary impairment.

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NOTE 3-EARNINGS PER SHARE

Basic EPS is computed by dividing income available to common stockholders by the average number of common shares outstanding for the period. Except when the effect would be antidilutive, the diluted EPS calculation includes shares that could be issued under outstanding stock options and the employee stock purchase plan, and common shares that would result from the conversion of convertible preferred stock.

Three Months Ended March 31	2002	2001

(In millions except per share data)		
Net income	\$ 787	\$ 679
Preferred stock dividends	-	(3)

Net income available to common stockholders for basic and diluted EPS	\$ 787	\$ 676

Average shares outstanding	1,170	1,163
Stock options	9	10

Average shares outstanding assuming full dilution	1,179	1,173

Earnings per share:		
Basic	\$ 0.67	\$ 0.58
Diluted	\$ 0.67	\$ 0.58

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NOTE 4-RESTRUCTURING-RELATED CHARGES

a) Fourth Quarter 2001 Restructuring-Related Charges

The Corporation recorded restructuring-related charges in the fourth quarter of 2001 for additional real estate and severance costs to accomplish more rapid expense reductions, accelerated systems conversions and other consolidations. Summarized below are the details of these restructuring-related charges:

(in millions)	Personnel- Related Costs	Contractual Obligations and Asset Writedowns	Total

December 31, 2001 Reserve Balance	\$ 76	\$ 278	\$ 354

Amounts utilized	(2)	(134)	(136)

March 31, 2002 Reserve Balance	\$ 74	\$ 144	\$ 218

Personnel-related costs consisted primarily of severance costs related to identified staff reductions in the lines of business totaling approximately 6,900 positions. Contractual obligations included the estimated costs associated with the lease and other contract termination costs incorporated in the business restructuring plans. Asset writedowns included leasehold write-offs related to leased properties following the decision to abandon such

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facilities, as well as in the case of fixed assets and capitalized software for which similar decisions were made. Actions under this overall restructuring plan are expected to be completed by December 31, 2002. Certain contractual payments associated with these actions, as required, will extend beyond this time frame.

b) Second Quarter 2000 Restructuring-Related Charges

Actions under this restructuring plan have been completed, with only payments of identified obligations remaining, which consist primarily of lease obligations. Unpaid amounts totaled \$53 million as of March 31, 2002 and will be paid as required over the remaining contractual period.

NOTE 5-BUSINESS SEGMENTS

The information presented on page 3 is consistent with the content of business segment data provided to the Corporation's management, which does not use product group revenues to assess consolidated results. Aside from investment management and insurance products, product offerings are tailored to specific customer segments. As a result, the aggregation of product revenues and related profit measures across lines of business is not available.

Aside from the United States, no single country or geographic region generates a significant portion of the Corporation's revenues or assets. In addition, there are no single customer concentrations of revenue or profitability.

For additional disclosures regarding the Corporation's operating segments see the "Business Segment Results and Other Data" section beginning on page 3. The data presented in tables beginning with the section entitled "Financial Performance" in the "Retail" through "Corporate" segments on page 3-15 are included for analytical purposes only.

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NOTE 6-INTEREST INCOME AND INTEREST EXPENSE

Details of interest income and expense are as follows:

Three Months Ended March 31	2002	2001

(In millions)		
Interest Income		
Loans, including fees	\$ 2,569	\$ 3,802
Bank balances	15	70
Federal funds sold and securities under resale agreements	43	115
Trading assets	60	83
Investment securities	853	851

Total	3,540	4,921
Interest Expense		
Deposits	724	1,520
Federal funds purchased and securities sold under repurchase agreements	62	231
Other short-term borrowings	40	283
Long-term debt	514	702

Total	1,340	2,736

Net Interest Income	2,200	2,185

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Provision for credit losses	665	585

Net Interest Income After Provision for Credit Losses	\$ 1,535	\$ 1,600

Note 7-Fair Value of Financial Instruments

The carrying values and estimated fair values of financial instruments as of March 31, 2002 have not materially changed on a relative basis from the carrying values and estimated fair values of financial instruments disclosed as of December 31, 2001.

Note 8-Guaranteed Preferred Beneficial Interest in the Corporation's Junior Subordinated Debt

At March 31, 2002 the Corporation sponsored ten trusts with a total aggregate issuance of \$3.315 billion in trust preferred securities as follows:

			Trust Preferred	
(Dollars in millions)	Issuance Date	Initial Liquidation Value	Distribution Rate	

Capital VI	September 28, 2001	\$ 525	7.20%	
Capital V	January 30, 2001	300	8.00%	
Capital IV	August 30, 2000	160	3-mo LIBOR plus 1.50%	
Capital III	August 30, 2000	475	8.75%	
Capital II	August 8, 2000	280	8.50%	
Capital I	September 20, 1999	575	8.00%	
First Chicago NBD Capital I	January 31, 1997	250	3-mo LIBOR plus 0.55%	
First USA				
Capital Trust I/(2)/	December 20, 1996	200	9.33%	
First Chicago				
NBD Institutional				
Capital A	December 3, 1996	500	7.95%	
First Chicago				
NBD Institutional				
Capital B	December 5, 1996	250	7.75%	

Junior Subordinated Debt Owned by Trust

Initial Principal Amount	Maturity	Redeemable Beginning

\$ 541.2	October 12, 2031	October 15, 2006
309.3	January 30, 2031	January 30, 2006
164.9	September 1, 2030	September 1, 2005
489.7	September 1, 2030	See/(1)/ below
288.7	August 15, 2030	August 15, 2005
593.0	September 12, 2029	September 20, 2004
258.0	February 1, 2027	February 1, 2007
206.2	January 15, 2027	January 15, 2007

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515.0	December 1, 2026	December 1, 2006
258.0	December 1, 2026	December 1, 2006

- /(1)/ Redeemable at any time subject to approval by the Federal Reserve Board.
/(2)/ The Corporation paid a premium of \$36 million to repurchase \$193 million of these securities in 1997.

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These trust preferred securities are tax-advantaged issues that qualify for Tier 1 capital treatment. Distributions on these securities are included in interest expense on long-term debt. Each of the trusts is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds thereof in junior subordinated debentures of the Corporation, the sole asset of each trust. The preferred trust securities of each trust represent preferred beneficial interests in the assets of the respective trusts and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the trust. The common securities of each trust are wholly-owned by the Corporation. Each trust's ability to pay amounts due on the trust preferred securities is solely dependent upon the Corporation making payment on the related junior subordinated debentures. The Corporation's obligations under the junior subordinated securities and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Corporation of each respective trust's obligations under the trust securities issued by such trust

Note 9-Supplemental Disclosures for Accumulated Other Adjustments to Stockholders' Equity

Accumulated other adjustments to stockholders' equity are as follows:

Three Months Ended March 31	2002	2001

(In millions)		
Fair value adjustment on investment securities-available for sale		
Balance, beginning of period	\$ 78	\$ (15)
Change in fair value, net of taxes of \$(55) and \$28 for the three months ended March 31, 2002 and 2001, respectively	(95)	48
Reclassification adjustment, net of taxes of \$(13) and \$0, for the three months ended March 31, 2002 and 2001, respectively	(23)	(1)

Balance, end-of-period	(40)	32
Fair value adjustment on derivative instruments-cash flow type hedges:		
Balance, beginning of period	(146)	-
Transition adjustment at January 1, 2001, net of taxes of \$(56)	-	(98)
Net change in fair value associated with current period hedging activities, net of taxes of \$49 and \$(35) for the three months ended March 31, 2002 and 2001, respectively	82	(62)
Net reclassification into earnings, net of taxes of \$29		

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and \$6 for the three months ended March 31, 2002 and 2001, respectively	55	11

Balance, end-of-period	(9)	(149)
Accumulated translation adjustment:		
Balance, beginning of period	3	10
Translation gain, net of hedge results and taxes	-	2

Balance end-of-period	3	12
Total accumulated other adjustments to stockholders' equity		
	\$ (46)	\$ (105)

Note 10-Contingent Liabilities

The Corporation and certain of its subsidiaries have been named as defendants in various legal proceedings, including certain class actions, arising out of the normal course of business or operations. In certain of these proceedings, which are based on alleged violations of consumer protection, securities, banking, insurance and other laws, rules or principles, substantial money damages are asserted against the Corporation and its subsidiaries. Since the Corporation and certain of its subsidiaries, which are regulated by one or more federal and state regulatory authorities, are the subject of numerous examinations and reviews by such authorities, the Corporation also is and will be, from time to time, normally engaged in various disagreements with regulators, related primarily to its financial services businesses. The Corporation has also received certain tax deficiency assessments. In view of the inherent difficulty of predicting the outcome of such matters, the Corporation cannot state what the eventual outcome of pending matters will be; however, based on current knowledge and after consultation with counsel, Management does not believe that liabilities arising from these matters, if any, will have a material adverse effect on the consolidated financial position of the Corporation.

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Note 11-Investment Securities

The summary of the Corporation's investment portfolio follows:

March 31, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unre

(In millions)			
U.S. Treasury	\$ 1,561	\$ 18	\$
U.S. government agencies	24,609	41	
States and political subdivisions	1,205	25	
Interests in credit card securitized receivables	22,297	96	
Other debt securities	3,421	19	
Equity securities/(1)/	4,068	5	

Total available for sale securities	\$ 57,161	\$ 204	\$

Principal and other investments/(2)/			

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Total investment securities

/(1)/ The fair values of certain securities for which market quotations were not available were estimated.

/(2)/ The fair values of certain securities reflect liquidity and other market-related factors, and includes investments accounted for at fair value consistent with specialized industry practice.

For the three months ended March 31, 2002, gross recognized gains and losses on the sale of investment securities were \$150 million and \$167 million, respectively. For the three months ended March 31, 2001, gross recognized gains and losses on the sale of investment securities were \$126 million and \$222 million, respectively.

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SELECTED STATISTICAL INFORMATION
BANK ONE CORPORATION AND SUBSIDIARIES

Average Balances/Net Interest Margin/Rates

(Dollars in millions)	March 31, 2002			December 31, 2001	
	Average Balance	Interest	Average Rate	Average Balance	Interest
Assets					
Short-term investments	\$ 12,560	\$ 58	1.87%	\$ 14,442	\$ 2
Trading assets/(1)/	6,239	60	3.90	6,487	
Investment securities:/(1)/					
U.S. government and federal agency States and political subdivisions	25,883	352	5.52	23,317	
Other	1,287	23	7.25	1,327	
Other	30,904	501	6.57	29,201	
Total investment securities	58,074	876	6.12	53,845	
Loans/(1)/	154,942	2,581	6.76	160,150	2,
Total earning assets/(2)/	231,815	3,575	6.25	234,924	3,
Allowance for credit losses	(4,563)			(4,516)	
Other assets-nonearning	36,102			36,348	
Total assets	\$ 263,354			\$ 266,756	
Liabilities and Stockholders' Equity					
Deposits - interest-bearing:					
Savings	\$ 12,731	\$ 43	1.37%	\$ 15,509	\$
Money market	70,387	168	0.97	60,333	2
Time	37,387	445	4.83	39,456	5
Foreign offices/(3)/	14,064	68	1.96	17,979	1
Total deposits-interest-bearing	134,569	724	2.18	133,277	9
Federal funds purchased and securities under repurchase agreements	14,531	62	1.73	15,611	
Other short-term borrowings	7,376	40	2.20	9,657	
Long-term debt/(4)/	43,022	514	4.85	44,282	5

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Total interest-bearing liabilities	199,498	1,340	2.72	202,827	1,5
Demand deposits	29,165			29,983	
Other liabilities	13,828			13,443	
Preferred stock	-			64	
Common stockholders' equity	20,863			20,439	
<hr/>					
Total liabilities and equity	\$ 263,354			\$ 266,756	
Interest income/earning assets		\$ 3,575	6.25%		\$ 3,8
Interest expense/earning assets		1,340	2.34		1,5
<hr/>					
Net interest income/margin		\$ 2,235	3.91%		\$ 2,2

/(1)/ Includes tax-equivalent adjustments based on federal income tax rate of 35%.

/(2)/ Nonperforming loans are included in average balances used to determine average rate.

/(3)/ Includes international banking facilities' deposit balances in domestic offices and balances of Edge Act and oversees offices.

/(4)/ Includes trust preferred capital securities.

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September 30, 2001			June 30, 2001			March 31,	
Average Balance	Interest	Average Rates	Average Balance	Interest	Average Rate	Average Balance	Interest
\$ 12,704	\$ 117	3.65%	\$ 15,050	\$ 172	4.58%	\$ 12,221	\$ 185
6,982	78	4.43	7,276	85	4.69	5,703	83
21,655	312	5.72	20,013	282	5.65	19,327	274
1,303	25	7.61	1,265	23	7.29	1,269	24
27,292	473	6.88	26,227	445	6.81	30,141	572
50,250	810	6.40	47,505	750	6.33	50,737	870
165,416	3,204	7.68	169,140	3,408	8.08	173,677	3,816
235,352	4,209	7.10	238,971	4,415	7.41	242,338	4,954
(4,499)			(4,255)			(4,216)	
34,993			33,543			31,392	
\$ 265,846			\$ 268,259			\$ 269,514	
\$ 14,969	\$ 42	1.11%	\$ 15,888	\$ 45	1.14%	\$ 15,491	\$ 51
53,189	305	2.28	48,914	330	2.71	47,006	384
42,891	621	5.74	45,649	688	6.05	47,267	743
21,817	195	3.55	22,782	249	4.38	24,081	342
132,866	1,163	3.47	133,233	1,312	3.95	133,845	1,520
17,038	145	3.38	16,890	177	4.20	17,129	231
11,217	113	4.00	15,024	198	5.29	18,252	283
42,862	595	5.51	42,191	643	6.11	41,781	702

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203,983	2,016	3.92	207,338	2,330	4.51	211,007	2,736
28,576			28,575			26,827	
13,203			13,039			12,675	
190			190			190	
19,894			19,117			18,815	
\$ 265,846			\$ 268,259			\$ 269,514	
	\$ 4,209	7.10%		\$ 4,415	7.41%		\$ 4,954
	2,016	3.40		2,330	3.91		2,736
	\$ 2,193	3.70%		\$ 2,085	3.50%		\$ 2,218

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2002

OR

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 001-15323

BANK ONE CORPORATION

(exact name of registrant as specified in its charter)

DELAWARE

31-0738296

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

1 BANK ONE PLAZA CHICAGO, ILLINOIS 60670

(Address of principal executive offices)
(Zip Code)

312-732-4000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
--- --

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 30, 2002.

Class	Number of Shares Outstanding
----- Common Stock \$0.01 par value	----- 1,174,761,865

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Form 10-Q Cross-Reference Index

PART I-FINANCIAL INFORMATION

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PART II-OTHER INFORMATION

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None	
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None	
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Not applicable	
ITEM 4. Submission of Matters to a Vote of Security Holders	
None	
ITEM 5. Other Information	
None	
ITEM 6. Exhibits and Reports on Form 8-K	
(a) Exhibit 12-Statement re computation of ratios.	
(b) The Registrant filed the following Current Reports on Form 8-K during the quarter ended March 31, 2002.	
Date	Item Reported

Three months ended
December 31, 2005

\$ 000s

Cash flows from operating activities

Net income

\$

2,318

\$

3,310

Adjustments to reconcile net income to net cash used in operating activities

Minority interest

26

Depreciation and amortization

23,571

14,130

(Gain) on disposal of property, plant and equipment

(12

)

(Gains)/losses on derivate instruments

(491

)

275

Foreign currency transactions (gain)/loss

(7,066

)

5,257

Accreted interest on long term debt

2,182

4,651

Deferred income taxes

(9,801

)

(2,994

)

Amortization of debt issuance cost

616

2,428

Loss on debt extinguishment

19,964

Compensation expense from stock options

3,076

Changes in assets and liabilities

Accounts receivable

(29,986

)

(11,183

)

Inventories

(4,959

)

442

Prepaid expenses and other current assets

(1,568

)

17,897

Restricted Cash

(10

)

59

Other non-current assets

(829

)

(933

)

Trade accounts payable

(187

)

(2,184

)

Accrued liabilities and deferred income

(896

)

(7,721

)

Other non-current liabilities

(7,084

)

(6,938

)

Income taxes payable

7,448

4,446

Net cash (used in)/provided by operating activities

(3,676

)

20,930

Cash flows from investing activities

Investment in property, plant and equipment

(4,754

)

(2,389

)

Proceeds from sale of property, plant and equipment

352

6

Restricted short term investments/securities

246

Purchase of intangible assets

(40

)

(92

)

Purchase of long-term investments

(250

)

Net cash used in investing activities

(4,692

)

(2,229

)

Cash flows from financing activities

Repayments of long-term debt

(547,324

)

(36,153

)

Proceeds from borrowings

529,747

Debt issuance cost

(4,571

)

Common shares issued on share based compensation plans

540

Net cash used in financing activities

(21,608

)

(36,153

)

Change in cash and cash equivalents

(29,976

)

(17,452

)

Effect of exchange rate change on cash and cash equivalents

2,039

623

Cash and cash equivalents at beginning of period

80,560

65,941

Cash and cash equivalents at end of period

\$

52,623

\$

49,112

Supplemental information

Interest paid

\$

16,525

\$

8,478

thereof accreted interest paid on repayment of long-term debt

8,594

Interest capitalized

122

19

Income taxes paid

1,900

1,048

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

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SIRONA DENTAL SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. General

The Company and its Operations

Sirona Dental Systems, Inc. and its subsidiaries manufacture high quality, technologically advanced dental equipment and systems solutions for the global dental equipment market. We offer a broad range of products across all major segments of the dental equipment market, including CEREC, CAD/CAM systems, digital and film based intra-oral and panoramic imaging systems, treatment centers and instruments. We recently acquired Schick Technologies Inc. (Schick), a Delaware corporation, further expanding our global presence and product offerings and strengthened our research and development capabilities. Sirona has served equipment dealers and dentists worldwide for more than 125 years. Sirona's headquarters are located in Long Island City, New York with a significant facility located in Bensheim, Germany. We maintain manufacturing and assembling facilities in the U.S. and Germany as well as sales and service facilities throughout the world.

Basis of Presentation

These unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Preparation of the interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the reporting date and the reported amounts of revenues and expenses for the interim period. Actual results could differ from those estimates. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information not misleading. The year-end condensed consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

In the opinion of management, all adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position as of December 31, 2006 and September 30, 2006 and the results of operations, and cash flows for the three months ended December 31, 2006 and December 31, 2005 as applicable to interim periods have been made. The results of operations for the three months ended December 31, 2006 are not necessarily indicative of the operating results for the full fiscal year or future periods.

All amounts are reported in thousands of U.S. dollars (\$), except per share amounts or as otherwise disclosed.

Fiscal year

The Company's fiscal year is October 1 to September 30.

Principles of consolidation

The consolidated financial statements include, after eliminating inter-company transactions and balances, the accounts of Sirona Dental Systems, Inc. and its subsidiaries.

Certain prior period amounts have been reclassified to conform to current period presentation.

2. Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. Among other requirements, SFAS 157 defines fair value and establishes a framework for measuring fair value and also expands disclosure about the use of fair value to measure assets and liabilities. SFAS 157 prescribes a single definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective beginning the first fiscal year that begins after November 15, 2007. The Company is evaluating the impact of SFAS 157 but does not believe this pronouncement will have a material effect on its consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) . SFAS 158 requires an employer to: (a) recognize in its statement of financial position an asset for a plan s overfunded status or a liability for a plan s under-funded status; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions); (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity and in changes in net assets of a not-for-profit organization. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective for the Company for the fiscal year ending on September 30, 2007. The Company already measures plan assets and benefit obligations as of the date of fiscal year-end. The Company will initially recognize the funded status of its defined benefit plans and provide the required disclosures as of the end of the fiscal year 2007. The Company does not expect that the adoption of SFAS No. 158 will have a material impact on its consolidated financial position or results of operations

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN) No. 48, Accounting for Uncertainty in Income Taxes which is an interpretation of FASB Statement 109, Accounting for Income Taxes. FIN 48 requires managements to perform a two-step evaluation of all tax positions, ensuring that these tax return positions meet the more-likely than not recognition threshold and can be measured with sufficient precision to determine the benefit recognized in the financial statements. These evaluations provide management with a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements certain tax positions that the Company has taken or expects to take on income tax returns. FIN 48 is effective for the Company s fiscal year ending September 30, 2008. The Company is still determining the effect FIN 48 will have on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. Management is in the process of assessing the impact of adopting SAB 108, but does not expect that it will have a material impact on its consolidated financial statements.

3. The Exchange

On September 25, 2005, Schick, which on June 20, 2006 was renamed Sirona Dental Systems, Inc., entered into an Exchange Agreement with Sirona Holdings Luxco S.C.A. (Luxco) and Sirona Holding GmbH (Sirona Holding) providing for the issuance of 36,972,480 shares of Schick common stock to Luxco in exchange for Luxco's entire economic interest in Sirona Holding (the Exchange), which consisted of all of the issued and outstanding share capital of Sirona Holding and the existing indebtedness of Sirona Holding owed to Luxco in the amount of \$205.6 million as of June 20, 2006. It was also agreed that Schick shareholders would receive a special \$2.50 per share cash dividend.

The Exchange was completed on June 20, 2006. Schick has been included in the Company's consolidated statement of operations since such date. The cash dividend was paid on June 23, 2006. Sirona Holding is deemed to be the acquiring company under U.S. GAAP because Luxco, Sirona Holding's shareholder, has a controlling ownership interest in the combined company, Sirona Holding's designees to the board represent a majority of the directors and Sirona Holding's senior management represents a majority of management.

The transaction was accounted for as a purchase business combination in accordance with FASB Statement No. 141, Business Combinations (SFAS 141). The carrying values of Schick's assets and liabilities were adjusted to their fair values on June 20, 2006, and the difference between the purchase price and the fair value of the net assets and liabilities was recorded as goodwill.

The purchase price was comprised of 17,615,660 Schick shares outstanding on June 20, 2006. Based on the average of the closing prices for a range of trading days (September 22, 2005 through September 28, 2005, inclusive) around the announcement date of September 26, 2005 of the Exchange Agreement, the fair value is \$24.96 per share, or approximately \$439,687. The purchase price also includes the estimated fair value of 862,220 vested stock options which were not exercised prior to the Exchange (\$15,363), 458,179 unvested stock options (\$8,111), reduced by the unvested options relating to services to be provided in the future (\$7,638), and direct acquisition costs of \$7,338. The fair value of the vested and unvested options was estimated using the Black-Scholes model and assumptions as follows: the relevant exercise price, a market price of \$24.96 (average of closing prices around the Exchange announcement date), volatility of 34.0%, estimated life of five years, and a risk free rate of 3.73%. The cost of the acquired business is reduced by the unearned portion of the unvested options relating to services to be provided in the future.

The total purchase price of Schick in the Exchange was as follows:

\$ 000s

Purchase price	
Schick common stock	\$ 439,687
Schick restricted vested options	15,363
Schick unvested options	8,111
Schick unvested options relating to services to be provided in the future	(7,638)
Sirona direct transaction costs	7,338
	\$ 462,861

The allocation of the purchase price was finalized in the quarter ended December 31, 2006 as follows:

\$ 000s	
Current assets	\$ 41,431
Property, plant and equipment	1,335
Intangible assets subject to amortization	132,300
Trade name not subject to amortization	24,000
In process research and development	6,000
Goodwill	124,302
Receivable from Luxco	205,566
Other assets	1,060
Total assets	535,994
Current liabilities	(12,445)
Deferred taxes	(60,688)
Total liabilities assumed	(73,133)
Purchase Price	\$ 462,861

The Company believes the acquisition will strengthen its competitive position in the technology-driven Imaging Systems segment by uniting research and development capabilities to accelerate product development and expanding its global presence, particularly in the significant U.S. market, and is also expected to provide certain synergies.

For further discussion of the Exchange please refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

4. Employee Share-Based Compensation

The total stock compensation expense for the Company's stock option plans amounted to \$3,076 for the three months ended December 31, 2006. These expenses include the impact of the new stock option plan discussed below.

On December 13, 2006 the Company granted 525,000 stock options under a new Equity Incentive Plan (the new Plan). The stock options vest over a period of 4 years and expire ten years after the date of the grant. The new plan provides for granting in total up to 2,275,000 stock options to employees and is subject to stockholder approval.

The fair values of the stock options granted under the new plan were estimated using the Black-Scholes option pricing model using the assumptions in the following table. The exercise price is equal to the fair market value of our stock at the grant date. The expected volatility is based on our historical stock volatility. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant and has a term equal to the expected life of the options. The expected life represents the period of time the options are expected to be outstanding based on anticipated employee behavior. The expected dividend yield is based on the Company's history of not paying regular dividends in the past and the Company's current intention not to pay dividends in the foreseeable future.

Exercise price	\$39.46
Expected volatility	44%
Risk-free rate	4.47%
Expected life	6.25 years
Expected dividends	
Grant date fair value	\$19.70

5. Comprehensive Income

Comprehensive income for the three months ended December 31, 2006 was \$12,726 comprising net income of \$2,318 and other comprehensive income in the form of a cumulative translation adjustment of \$10,408. The cumulative translation adjustment includes gains on intercompany foreign currency transactions of a long-term investment nature between entities consolidated in these financial statements in the amount of \$8,076.

Comprehensive income for the three months ended December 31, 2005 was \$2,989. This amount comprised net income of \$3,310 and other comprehensive income (cumulative translation adjustment losses) of \$(321).

6. Inventories, Net

	December 31, 2006 \$ 000s	September 30, 2006
Finished goods	\$ 31,036	\$ 28,382
Work in progress	13,141	11,688
Raw materials	29,387	25,630
	73,564	65,700
Inventory reserve	(9,160)	(8,397)
	\$ 64,404	\$ 57,303

7. Intangible Assets and Goodwill

	Gross	Accumulated amortization \$ 000s	Net
As of December 31, 2006			
Patents & Licenses	\$ 138,083	\$ 21,598	\$ 116,485
Trademarks	128,254	53	128,201
Technologies and dealer relationships	440,256	67,369	372,887
	706,593	89,020	617,573
Goodwill	630,547		630,547
Total intangible assets	\$ 1,337,140	\$ 89,020	\$ 1,248,120

	Gross	Accumulated amortization \$ 000s	Net
As of September 30, 2006			
Patents & Licenses	\$ 132,736	\$ 17,168	115,568
Trademarks	124,282	28	124,254
Technologies and dealer relationships	428,217	49,046	379,171
	685,235	66,242	618,993
Goodwill	613,549		613,549
Total intangible assets	\$ 1,298,784	\$ 66,242	1,232,542

The change in the value of goodwill from September 30, 2006 to December 31, 2006 is related to changes as a result of the finalization of the purchase price allocation of (\$2,446) as well as differences in exchange rates of \$19,444.

8. Short-Term Debt and Current Portion of Long-Term Debt

Short-term debt relates to the revolving credit facility made available under the Company's new senior credit facility (discussed below) utilized to the amount of Euro 15 million (\$19.8 million) as well as the current portion of other long-term debt and accrued interest on long-term debt (\$1.6 million).

9. Long-Term Debt

	December 31, 2006 \$ 000s	September 30, 2006
Senior syndicated loan, Tranche A	\$	\$ 118,013
Senior syndicated loan, Tranche B		158,587
Senior syndicated loan, Tranche C		139,574
Mezzanine loan		115,344
Senior term loan, Tranche A1, variable rate repayable in annual installments starting November 2009 through November 2011	150,102	
Senior term loan, Tranche A2, variable rate repayable in annual installments starting November 2009 through November 2011	362,088	
Other debt	1,853	1,854
	514,043	533,372
Less current portion	1,565	14,738
	\$ 512,478	\$ 518,634

Senior Term Loans

On November 22, 2006, Sirona Dental Systems, Inc. entered into a new senior credit facility (the "Senior Facilities Agreement") as original guarantor, with Schick Technologies, Inc., a New York company and wholly owned subsidiary of Sirona ("Schick NY"), as original borrower and original guarantor, with Sirona Dental Systems GmbH, as original borrower and original guarantor, with Sirona Dental Services GmbH, as original borrower and original guarantor and with Sirona Dental Systems LLC, Sirona Holding GmbH and with Sirona Immobilien GmbH as original guarantors. Initial borrowings under the Senior Facilities Agreement plus excess cash were used to retire the outstanding borrowings under the Company's previous credit facilities.

The Senior Facilities Agreement, includes: (1) a term loan A1 in an aggregate principal amount of \$150 million (the "tranche A1 term loan") available to Sirona's subsidiary, Schick NY, as borrower; (2) a term loan A2 in an aggregate principal amount of Euro 275 million (the "tranche A2 term loan") available to Sirona's subsidiary, Sirona Dental Services GmbH, as borrower; and (3) a \$150 million revolving credit facility available to Sirona Dental Systems GmbH, Schick NY and Sirona Dental Services GmbH, as initial borrowers. The revolving credit facility is available for borrowing in Euro, U.S.\$, Yen or any other freely available currency agreed to by the facility agent. The facilities are made available on an unsecured basis. Subject to certain limitations, each European guarantor guarantees the performance of each European borrower, except itself, and each U.S. guarantor guarantees the performance of each U.S. borrower, except itself. There are no cross-border guarantees since all guarantees are by entities that have the same functional currency as the currency in which the respective guaranteed borrowing is denominated.

Each of the senior term loans has a five year maturity and is to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 70% is due on November 24, 2011. At the Company's current leverage multiples, the new facilities bear interest at a margin of 75 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR.

The Senior Facilities Agreement contains a margin ratchet. Pursuant to this provision, which applies from November 24, 2007 onwards, the applicable margin will vary between 90 basis points and 45 basis points per annum according to our leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the Senior Facilities Agreement).

The Senior Facilities Agreement contains restrictive covenants that limit Sirona's ability to make loans, make investments, including in joint ventures, incur additional indebtedness, make acquisitions or pay dividends, subject to agreed upon exceptions. The Company has agreed to certain financial debt covenants in relation to the financing. The covenants stipulate that the Company must maintain certain ratios in respect of interest payments and defined earnings measures. If the Company breaches any of the covenants, the loans will become repayable on demand.

Debt issuance costs of \$4.6 million were incurred in relation to the new financing and were capitalized as deferred charges.

Debt Extinguishment

The retirement of the borrowings under the Company's previous credit facilities, the senior syndicated loan tranches A, B and C and the mezzanine loan facility, was accounted for as a debt extinguishment in accordance with SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. The unscheduled repayment of the mezzanine facility by the Company resulted in a prepayment fee of Euro 0.9 million (\$1.2 million). In addition, \$19.9 million of unamortized debt issuance costs relating to the previous credit facilities were written off in the period. As a result, a loss on debt extinguishment totaling \$21.1 million was recognized in the period.

10. Income Taxes

For fiscal year 2007 an estimated effective tax rate of 35% has been applied, which is positively impacted by structural changes as a result of the refinancing. This compares to an effective tax rate of 88.3% for fiscal year 2006, which was adversely impacted by foreign income for which no foreign tax credit was available and the non-tax deductible charge related to the write-off of IPR&D in connection with the Exchange.

11. Income Per Share

The computation of basic and diluted income per share is as follows:

	Three months ended December 31, 2006	Three months ended December 31, 2005
	\$ 000s (except for per share amounts)	
Net income	\$ 2,318	\$ 3,310
Weighted average shares outstanding - basic	54,621,818	36,972,480
Dilutive effect of stock options	226,695	
Weighted average shares outstanding - diluted	54,848,513	36,972,480
Income per share		
Basic	\$ 0.04	\$ 0.09
Diluted	\$ 0.04	\$ 0.09

Income per share information for the three-month period ended December 31, 2005 is based on the number of shares which were issued in connection with the Exchange. Because the Company did not grant stock options prior to the Exchange, basic and diluted income per share for periods prior to the Exchange is the same. Options to acquire 570,000 shares of common stock have been excluded from the computation of diluted income per share because the option price exceeds the average share price during the period.

12. Product Warranty

The following table provides the changes in the product warranty accrual for the three months ended December 31, 2006 and December 31, 2005

	Three months ended December 31, 2006 \$ 000s	Three months ended December 31, 2005
Balance at beginning of the period	\$ 10,879	\$ 9,276
Accruals for warranties issued during the period	4,035	3,493
Warranty settlements made during the period	(3,412)	(2,530)
Translation adjustment	432	(164)
Balance at the end of the period	\$ 11,934	\$ 10,075

13. Interest

	Three months ended December 31, 2006 \$ 000s	Three months ended December 31, 2005
Interest expense	\$ 9,545	\$ 12,784
Interest expense from related parties		3,480
Interest income	(586)	(809)
Net interest expense	\$ 8,959	\$ 15,455

14. Pension Plans

Components of net periodic benefit costs are as follows:

	Three months ended December 31, 2006 \$ 000s	Three months ended December 31, 2005
Service cost	\$ 95	\$ 81
Interest cost	536	460
Net periodic benefit cost	\$ 631	\$ 541

15. Segment Reporting

The following tables reflect the results of the Company's reportable segments under the Company's management reporting system. The segment performance measure used to monitor segment performance is gross profit excluding the impact of the MDP Transaction (as defined in Item 2, Transactions Accounted for as Business Combinations) and the Exchange because this measure is considered to better reflect the performance of each segment as it eliminates the need to allocate centrally incurred costs and

significant purchase accounting impacts that the Company does not believe are representative of the performance of the segments. Furthermore, the Company monitors performance geographically by region. As the Company manages its business on both a product and a geographical basis, U.S. GAAP requires segmental disclosure based on product information.

	Three months ended December 31, 2006 \$ 000s	Three months ended December 31, 2005
Revenue External		
Dental CAD/CAM Systems	\$ 52,475	\$ 58,672
Imaging Systems	58,879	29,619
Treatment Centers	40,572	29,393
Instruments	22,868	16,552
Total	\$ 174,794	\$ 134,236
Revenue Internal		
Dental CAD/CAM Systems	\$	\$
Imaging Systems	52	18
Treatment Centers	2	12
Instruments	3,490	2,737
Intercompany elimination	(3,544)	(2,767)
Total	\$	\$
Revenue Total		
Dental CAD/CAM Systems	\$ 52,475	\$ 58,672
Imaging Systems	58,931	29,637
Treatment Centers	40,574	29,405
Instruments	26,358	19,289
Total	\$ 178,338	\$ 137,003
Segment Performance Measure		
Dental CAD/CAM Systems	\$ 38,521	\$ 44,003
Imaging Systems	34,840	13,652
Treatment Centers	16,879	10,664
Instruments	11,047	8,506
Total	\$ 101,287	\$ 76,825
Depreciation and Amortization Expense		
Dental CAD/CAM Systems	\$ 579	\$ 474
Imaging Systems	1,036	641
Treatment Centers	645	570
Instruments	699	606
Total	\$ 2,959	\$ 2,291

Reconciliation of the results of the segment performance measure to the consolidated statements of operations

The following table and discussion provide a reconciliation of the total results of operations of the Company's business segments under management reporting to the consolidated financial statements. As of October 1, 2006 the Company changed the basis of accounting for its management reporting from statutory German accounting standards to U.S. GAAP, the basis used to prepare the consolidated financial statements. As a result, the differences shown between management reporting and U.S. GAAP for the three months ended December 31, 2006, have been reduced to the impacts of purchase accounting. Purchase accounting effects are not included in the segment performance measure as the Company does not believe these to be representative of the performance of each segment.

Inter-segment transactions are based on amounts which management believes are approximate to the amounts of transactions with unrelated third parties.

	Three months ended December 31, 2006 \$ 000s	Three months ended December 31, 2005
Revenue		
Total segments	\$ 174,794	\$ 134,236
Electronic center	5	19
Differences management reporting vs U.S. GAAP		1,627
Consolidated revenue	174,799	135,882
Depreciation and Amortization		
Total segments	2,959	2,291
Electronic center and corporate	361	426
Differences management reporting vs. U.S. GAAP	20,251	11,413
Consolidated depreciation and amortization	23,571	14,130
Segment Performance Measure		
Total segments	101,287	76,825
Electronic center and corporate	844	(137)
Differences management reporting vs. U.S. GAAP	(18,059)	(10,470)
Consolidated gross profit	84,072	66,218
Selling, general and administrative expense	47,501	32,303
Research and development	10,280	6,947
Provision for doubtful accounts and notes receivable	301	(140)
Net other operating (income) / loss	(150)	308
Foreign currency transaction (gain) / loss	(7,066)	5,257
(Gain) / loss on derivative instruments	(491)	275
Interest expense, net	8,959	15,455
Loss on debt extinguishment	21,145	
Income Before Income Taxes and Minority Interest	\$ 3,593	\$ 5,813

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

The Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes included elsewhere in this Quarterly Report and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

This report contains forward-looking statements that involve risk and uncertainties. All statements, other than statements of historical facts, included in this report regarding the Company, its financial position, products, business strategy and plans and objectives of management of the Company for future operations, are forward-looking statements. When used in this report, words such as anticipate, believe, estimate, expect, intend, objectives, plans and similar expressions, or the negatives thereof or variations thereon or comparable terminology as they relate to the Company, its products or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of various factors, including, but not limited to, those contained in the Risk Factors Section of our Annual Report on Form 10-K for the fiscal year ended September 30, 2006. All forward looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. We undertake no obligation to update or revise forward-looking statements which maybe made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events other than required by law.

Except as otherwise disclosed all amounts are reported in U.S. dollars (\$).

Overview

Sirona is a leading manufacturer of high-tech dental equipment. Sirona focuses on developing innovative systems and solutions for dentists globally. Sirona has served equipment dealers and dentists worldwide for more than 125 years. The Company has its headquarters in Long Island City, New York and in addition the Company has a significant facility in Bensheim, Germany. Sirona manages its business on both a product and geographic basis and has four reporting segments: Dental CAD/CAM Systems, Imaging Systems, Treatment Centers and Instruments. Products from each category are marketed in all geographical sales regions.

Significant Factors That Affect Sirona's Results of Operations

Increased Focus on Sirona's Position in the U.S. Market and Further Global Expansion

From October 1, 2003 to September 30, 2006, Sirona experienced strong revenue growth, with U.S. dollar revenue increasing on average by 31% annually. Bolstered by the Schick acquisition, this trend continued in the first quarter of fiscal year 2007. Several products have generated significant interest in the U.S. market, including, but not limited to, CEREC, inLab, inEos, the ORTHOPHOS XG line, C8 + and electrical Handpieces and SIROLaser.

Sirona works together with large distributors, including Patterson Dental and Henry Schein, accounting for 34% and 16%, respectively, of Sirona's global revenue for the three month period ended December 31, 2006.

In addition to increased U.S. market penetration, Sirona has pursued expansion in the rest of the world. Over the last three years, sales in the rest of the world grew on average by 15% annually, which also shows in the year-over-year comparison for the first fiscal year 2007 quarter. To support this growth, Sirona expanded its local presence and distribution channels by establishing new sales and service locations in Spain, France and the United Kingdom in 2004, in Japan and Australia in 2005 and in China in 2006. This expansion has resulted in increased sales, gross profit and selling, general and administrative (SG&A) expense.

Transactions Accounted for as Business Combinations

The change in control of the Sirona business to Luxco, a Luxembourg-based holding entity owned by the funds managed by Madison Dearborn Partners, Beecken Petty O'Keefe and management of Sirona, through a leveraged buy-out transaction on June 30, 2005 (MDP Transaction) and the Exchange,

completed on June 20, 2006 (see Note 3 to the unaudited consolidated financial statements), were accounted for as business combinations.

As a result of these transactions, Sirona's cost of goods sold, research and development, SG&A expense and operating results have been and will continue to be materially affected by higher depreciation and amortization costs arising from the step-up to fair value of Sirona's assets and liabilities. Taxes, interest and net income have also been and will continue to be substantially impacted by the structural changes resulting from these business combinations.

IPR&D projects acquired in connection with the Exchange and the MDP Transaction, with fair values of \$6.0 million and \$33.8 million, respectively, were appraised and charged to the income statement at the respective dates of acquisition. The projects primarily related to (i) 3D-Imaging, (ii) enhancements to the CAD/CAM system's hardware and software, (iii) the new treatment center platform and (iv) intra-oral digital imaging. The fair value of \$6.0 million in connection with the Exchange related primarily to the intra-oral digital imaging projects. As of December 31, 2006, the 3D-Imaging and the majority of the CAD/CAM system's enhancements have been completed.

The remaining estimated costs to complete the significant projects at December 31, 2006 were (i) \$1.0 million for an outstanding enhancement to the CAD/CAM system, (ii) \$13.3 million for the new treatment center platform, and (iii) \$1.3 million for the intra-oral digital imaging projects. The estimated percentages of completion of the significant projects as of December 31, 2006 were (i) 50%, (ii) 30% and (iii) 30%.

As of December 31, 2006 (i) the enhancements to the CAD/CAM system's hardware and software project was in the approximately half way through the product development phase with the remaining steps prior to the project release phase being the finalization of project development including working models, beta testing and regulatory approvals, (ii) the new treatment center platform was at the end of the concept development phase with the remaining steps prior to the product release phase being the remaining product development phase including working models, beta testing and regulatory approvals, and (iii) the intra-oral digital imaging projects are in product development phases with the remaining steps prior to the project release phase being the finalization of project development including working models, beta testing and regulatory approvals.

It is anticipated that the projects will be completed in fiscal year 2008 and begin to generate cash in the fiscal year following their completion. There are no specific risks and uncertainties associated with these projects; however the general risks relating to the Company as discussed under "Risk Factors" as set forth in our Form 10-K for the fiscal year ended September 30, 2006 may apply.

Fluctuations in U.S. Dollar/Euro Exchange Rate

Although the U.S. dollar is Sirona's reporting currency, its functional currency varies depending on the country of operation. For the three months ended December 31, 2006, approximately 49% of Sirona's revenue and approximately 78% of its expenses were in Euros. During the periods under review, the U.S. dollar/Euro exchange rate has fluctuated significantly, thereby impacting Sirona's financial results. Between October 1, 2005 and December 31, 2006, the U.S. dollar/Euro exchange rate used to calculate items included in Sirona's financial statements varied from a low of 1.177 to a high of 1.332 and as of December 31, 2006 and September 30, 2006 the exchange rates were 1.2669 and 1.3181, respectively. To manage this variability in its operating results, Sirona has entered into foreign exchange forward contracts. As of December 31, 2006, these contracts had notional amounts totaling \$20.9 million. As these agreements are relatively short-term (generally six months), continued fluctuation in the U.S. dollar could materially affect Sirona's results of operations.

Loans made to Sirona under the new senior credit facility entered into November 22, 2006 are denominated in the functional currency of the respective borrowers. See "Liquidity and Capital Resources" for a discussion of our new senior credit facility. However, intercompany loans are denominated in the functional currency of only one of the parties to the loan agreements. Where

intercompany loans are of a long-term investment nature, the potential non-cash fluctuations in currency exchange rates are reflected within other comprehensive income. These fluctuations may be significant in any period due to changes in the exchange rates between the Euro and the U.S. dollar.

Fluctuations in Quarterly Operating Results

Sirona's quarterly operating results have varied in the past and are likely to vary in the future. These variations result from a number of factors, many of which are substantially outside its control, including:

- the timing of new product introductions by Sirona or its competitors;
- the timing of industry trade shows;
- developments in government reimbursement policies;
- changes in product mix;
- Sirona's ability to supply products to meet customer demand;
- fluctuations in manufacturing costs;
- income tax incentives; and
- currency fluctuation.

Due to the variations which Sirona has experienced in its quarterly operating results, it does not believe that period-to-period comparisons of results of operations of Sirona are necessarily meaningful or reliable as indicators of future performance.

Taxes

The German tax authority is currently examining the Company's tax returns for the years 2001 to 2004. The Company does not believe the results of the examination will have an adverse material effect on the Company's financial position, results of operations or liquidity.

Results of Operations

Three Months Ended December 31, 2006 Compared to Three Months Ended December 31, 2005

Revenue for the three months ended December 31, 2006 was \$174.8 million, an increase of \$38.9 million, or 28.6%, as compared with the three months ended December 31, 2005. On a constant currency basis, adjusting for the fluctuations in the \$/Euro rate, total revenue increased by 22.0%. On a reported basis (constant-currency basis), growth rates for the Imaging Systems segment are 99% (up 86% constant currency), the Instruments segment are 38% (up 28% constant currency), the Treatment Center Segment 38% (up 28% constant currency), whereas the Dental CAD/CAM Systems segment revenue decreased by 11% (down 14% constant currency). The positive Imaging Systems segment development in the three month period that ended December 31, 2006 was attributable to the inclusion of the Schick operations. The Instrument segment revenue increase was driven by new products, such as the SIROlaser and SIROpure instruments. The Treatment Center revenue particularly benefited from strong sales in Germany, China and the Middle-East. The Dental CAD/CAM Systems segment faced a challenging year-over-year comparison as revenues in the first quarter of fiscal year 2006 were very strong. CAD/CAM revenues were also impacted by investment caution awaiting the launch of our new products. Revenue changes were volume driven, while prices in general remained stable.

Revenue in the United States for the three months ended December 31, 2006 increased by 31.5% compared to the same period last year. This development was attributable to the inclusion of the Schick operations. Revenue growth in the rest of the world was 27.1%. On a constant currency basis, revenue in the rest of the world increased by 17.3%. The revenue growth in the rest of the world was primarily due to strong sales in Germany, Spain, China and Canada and the Middle East. The German economy was solid in the first quarter, driven by the announced VAT-increase which became effective January 1, 2007.

Cost of Sales

Cost of sales for the three months ended December 31, 2006 was \$90.7 million, an increase of \$21.1 million, or 30.2%, as compared with the three months ended December 31, 2005. Cost of sales included amortization and depreciation expense resulting from the step-up to fair values of inventories and tangible and intangible assets, which was \$19.2 million for the three months ended December 31, 2006, compared with \$12.0 million for the three months ended December 31, 2005. The quarter-over-quarter increase in amortization and depreciation expense mainly resulted from the fair value adjustments related to the Exchange. Excluding these amounts, costs of sales as a percentage of revenue decreased to 40.9% for the three months ended December 31, 2006 compared with 42.5% for the three months ended December 31, 2005 and gross profit as a percentage of revenue increased by 1.6 percentage points from 57.5% to 59.1%. The improvement was driven by strong German sales and a favorable product mix in the Treatment Center segment as well as the Schick product lines, which were the main drivers of the positive gross profit margin development in the Imaging Systems segment.

Selling, General and Administrative

For the three months ended December 31, 2006, SG&A expense was \$47.5 million, an increase of \$15.2 million, or 47.0%, as compared with the three months ended December 31, 2005. SG&A expense included amortization and depreciation resulting from the step-up to fair values of tangible and intangible assets as well as non-cash option expense in the amount of \$3.8 million for the three months ended December 31, 2006, compared with \$0.1 million for the three months ended December 31, 2005. The year-over-year increase in amortization and depreciation expense reflects the step-up to the fair values of certain assets resulting from the Exchange. Excluding these amounts, as a percentage of revenue, SG&A expense increased to 25.0% for the three months ended December 31, 2006 as compared with 23.7% for the three months ended December 31, 2005. The increase was primarily due to the inclusion of Schick, increased costs associated with the growth in revenue and with Sirona's expanded presence in various markets, including the United States and China. Furthermore, administration expenses increased year-over-year driven by costs for the preparation and audit of U.S. GAAP accounts and SEC filings as well as with Sarbanes Oxley compliance, which was not applicable in the first quarter ended December 31, 2005.

Research and Development

R&D expense for the three months ended December 31, 2006 was \$10.3 million, an increase of \$3.3 million, or 48.0%, as compared with the three month ended December 31, 2005. The quarter-over-quarter increase was primarily driven by the inclusion of the Schick operations in the first quarter of fiscal year 2007. As a percentage of revenue, R&D expense increased to 5.9% for the three months ended December 31, 2006, compared with 5.1% for the three months ended December 31, 2005.

Gain and Loss on Foreign Currency Transactions

Gain on foreign currency transactions for the three months ended December 31, 2006 amounted to \$7.1 million compared to a loss of \$5.3 million for the three months ended December 31, 2005. For the three months ended December 31, 2006 the gain included foreign currency gains upon the repayment of the U.S. dollar denominated bank debt of \$3.9 million and an unrealized non-cash foreign currency gain of \$4.0 million on the U.S. dollar denominated deferred income, resulting from the translation adjustment of Patterson's exclusivity payment. The loss for the three months ended December 31, 2005 included an unrealized non-cash foreign currency loss resulting from translation adjustments to the carrying value of the U.S. dollar denominated bank debt of \$2.9 million.

Interest Expense

Net interest expense for the three months ended December 31, 2006 was \$9.0 million, compared to \$15.4 million for the three months ended December 31, 2005. This decrease was primarily due to the cessation of interest on a shareholder loan prior to the Exchange, which has been eliminated on consolidation since June 20, 2006 as well as the Company's retirement of its previous credit facilities on November 24, 2006, and refinancing on more favorable terms of interest under the Company's new senior credit facility.

Debt Extinguishment

The retirement of the borrowings under the Company's previous credit facilities, the senior syndicated loan tranches A, B and C and the mezzanine loan facility, was accounted for as a debt extinguishment in accordance with SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. The unscheduled repayment of the mezzanine facility by the Company resulted in a prepayment fee of Euro 0.9 million (\$1.2 million). In addition, \$19.9 million of unamortized debt issue costs relating to the previous credit facilities were written off in the period. As a result, a loss on debt extinguishment totaling \$21.1 million was recognized in the period.

Net Income

Sirona's net income for the three months ended December 31, 2006 was \$2.3 million, a decrease of \$1.0 million, as compared with the three months ended December 31, 2005. As described above, Sirona's net income was significantly impacted by the MDP Transaction, the Exchange and the debt extinguishment. For the three months ended December 31, 2006, amortization and depreciation expense resulting from the step-up of fair values of intangible and tangible assets related to the Exchange and the MDP Transaction was \$13.0 million (net of tax impact of \$7.0 million). In addition, the gain upon the repayment of the Tranche A U.S. dollar denominated bank debt as well as the deferred income from the exclusivity payment was \$5.1 million (net of tax impact of \$2.8 million) and option expenses were \$2.0 million (net of tax impact of \$1.1 million). Furthermore losses of \$13.3 million were recorded on debt extinguishment (net of a tax impact of \$7.8 million). Excluding these items in both periods, net income increased due to higher revenue and improved gross margins, partially offset by higher SG&A and R&D expenses.

Liquidity and Capital Resources

Historically, Sirona's principal uses of cash, apart from operating requirements, including research and development expenses, have been for interest payments, debt repayment and acquisitions. Operating capital expenditures are approximately equal to operating depreciation (excluding any effects from the increased amortization and depreciation expense resulting from the step-up to fair values of Sirona's and Schick's assets and liabilities required under purchase accounting). Sirona's management believes that Sirona's working capital is sufficient for its present requirements.

	Three months ended December 31, 2006	Three months ended December 31, 2005
	\$ 000s	
Net cash (used in)/ provided by operating activities	\$ (3,676)	\$ 20,930
Net cash (used in) investing activities	(4,692)	(2,229)
Net cash (used in) financing activities	(21,608)	(36,153)
Decrease in cash during the period	\$ (29,976)	\$ (17,452)

Net Cash (Used in)/Provided by Operating Activities

Net cash (used in)/provided by operating activities represents net cash from operations, returns on investments, interest and taxation.

Net cash (used in)/provided by operating activities was (\$3.7) million for the three months ended December 31, 2006 compared to \$20.9 million for the three months ended December 31, 2005. The primary contributors were the changes in assets and liabilities in both periods. During the three months ended December 31, 2006 the increase in accounts receivable and inventories was mainly driven by strong revenues, particularly in November and December 2006.

Net Cash Used in Investing Activities

Net cash used in investing activities represents cash used for capital expenditures, financial investments and disposals. The primary contributors to the investing cash outflow in both quarters are capital expenditures in the course of normal operating activities.

Net cash used in investing activities was \$4.7 million for the three months ended December 31, 2006, compared to \$2.3 million for the three months ended December 31, 2005.

Net Cash Used In Financing Activities

Net cash used in financing activities was \$21.6 million for the three months ended December 31, 2006 compared to \$36.2 million for the three months ended December 31, 2005. Net cash used in financing activities in the three months ended December 31, 2006 reflected the refinancing of the Company's prior credit facilities as of November 24, 2006. The cash used in financing activities in the three month period ended December 31, 2005 comprised unscheduled prepayments of the Mezzanine loan (\$15.0 million or \$18.1 million) as well as Tranche C (\$15.0 million or \$18.1 million).

Sirona's management believes that its operating cash flows and available cash (including restricted cash), together with its long-term debt borrowings, will be sufficient to fund its working capital needs, research and development expenses (including but not limited to the acquired in-process research and development) anticipated capital expenditure and debt service requirements.

Capital Resources

Senior term loans

On November 22, 2006, Sirona Dental Systems, Inc. entered into a new senior credit facility (the Senior Facilities Agreement) as original guarantor, with Schick Technologies, Inc., a New York company and wholly owned subsidiary of Sirona (Schick NY), as original borrower and original guarantor, with Sirona Dental Systems GmbH, as original borrower and original guarantor, with Sirona Dental Services GmbH, as original borrower and original guarantor and with Sirona Dental Systems LLC, Sirona Holding GmbH and with Sirona Immobilien GmbH as original guarantors. Initial borrowings under the Senior Facilities Agreement plus excess cash were used to retire the outstanding borrowings under the Company's previous credit facilities.

The Senior Facilities Agreement, includes: (1) a term loan A1 in an aggregate principal amount of \$150 million (the tranche A1 term loan) available to Sirona's subsidiary, Schick NY, as borrower; (2) a term loan A2 in an aggregate principal amount of Euro 275 million (the tranche A2 term loan) available to Sirona's subsidiary, Sirona Dental Services GmbH, as borrower; and (3) a \$150 million revolving credit facility available to Sirona Dental Systems GmbH, Schick NY and Sirona Dental Services GmbH, as initial borrowers. The revolving credit facility is available for borrowing in Euro, U.S.\$, Yen or any other freely available currency agreed to by the facility agent. The facilities are made available on an unsecured basis. Subject to certain limitations, each European guarantor guarantees the performance of each European

borrower, except itself, and each U.S. guarantor guarantees the performance of each U.S. borrower, except itself.

Each of the senior term loans has a five year maturity and is to be repaid in three annual installments beginning on November 24, 2009 and ending on November 24, 2011. Of the amounts borrowed under the term loan facilities, 70% is due on November 24, 2011. At the Company's current leverage multiples, the new facilities bear interest at a margin of 75 basis points plus, in the case of Euro-denominated loans, EURIBOR and, in the case of other loans, LIBOR.

The Senior Facilities Agreement contains a margin ratchet. Pursuant to this provision, which applies from November 24, 2007 onwards, the applicable margin will vary between 90 basis points and 45 basis points per annum according to our leverage multiple (i.e. the ratio of consolidated total net debt to consolidated adjusted EBITDA as defined in the Senior Facilities Agreement).

The Senior Facilities Agreement contains restrictive covenants that limit Sirona's ability to make loans, make investments, including in joint ventures, incur additional indebtedness, make acquisitions or pay dividends, subject to agreed upon exceptions. The Company has agreed to certain financial debt covenants in relation to the financing. The covenants stipulate that the Company must maintain certain ratios in respect of interest payments and defined earnings measures. If the Company breaches any of the covenants, the loans will become repayable on demand.

Other Financial Data (unaudited)

	Three months ended December 31, 2006 \$ 000s	Three months ended December 31, 2005
Net income	\$ 2,318	\$ 3,310
Net interest expense	8,959	15,455
Provision for income taxes	1,249	2,504
Depreciation	3,623	2,946
Amortization	19,948	11,184
EBITDA	\$ 36,097	\$ 35,399

EBITDA is a non-GAAP financial measure that is reconciled to net income, its most directly comparable GAAP measure, in the accompanying financial tables. EBITDA is defined as net earnings before interest, taxes, depreciation, and amortization. Sirona's management utilizes EBITDA as an operating performance measure in conjunction with GAAP measures, such as net income and gross margin calculated in conformity with GAAP. EBITDA should not be considered in isolation or as a substitute for net income prepared in accordance with GAAP. There are material limitations associated with making the adjustments to Sirona's earnings to calculate EBITDA and using this non-GAAP financial measure. For instance, EBITDA does not include:

- interest expense, and because Sirona has borrowed money in order to finance its operations, interest expense is a necessary element of its costs and ability to generate revenue;
- depreciation and amortization expense, and because Sirona uses capital assets, depreciation and amortization expense is a necessary element of its costs and ability to generate revenue; and
- tax expense, and because the payment of taxes is part of Sirona's operations, tax expense is a necessary element of costs and impacts Sirona's ability to operate.

In addition, other companies may define EBITDA differently. EBITDA, as well as the other information in this filing, should be read in conjunction with Sirona's financial statements and footnotes contained in the documents that Sirona files with the U.S. Securities and Exchange Commission.

In addition to EBITDA, the accompanying financial tables also set forth certain supplementary information that Sirona believes is useful for investors in evaluating Sirona's underlying operations. This supplemental information includes gains/losses recorded in the periods presented relating to early extinguishment of debt, stock option grants, revaluation of dollar-denominated exclusivity payment and borrowings where the functional currency is Euro, and the Schick acquisition. Sirona's management believes that these items are either nonrecurring or noncash in nature, and should be considered by investors in assessing Sirona's financial condition, operating performance and underlying strength.

Sirona's management uses EBITDA together with this supplemental information as an integral part of its reporting and planning processes and as one of the primary measures to, among other things:

- (i) monitor and evaluate the performance of Sirona's business operations;
- (ii) facilitate management's internal comparisons of Sirona's historical operating performance of its business operations;
- (iii) facilitate management's external comparisons of the results of its overall business to the historical operating performance of other companies that may have different capital structures and debt levels;
- (iv) analyze and evaluate financial and strategic planning decisions regarding future operating investments; and
- (v) plan for and prepare future annual operating budgets and determine appropriate levels of operating investments.
- (vi) review and assess the operating performance of Sirona's management team and as a measure in evaluating employee compensation and bonuses;

Sirona's management believes that EBITDA and these supplemental information is useful to investors as it provides them with disclosures of Sirona's operating results on the same basis as that used by Sirona's management.

Supplemental Information

	Three months ended December 31, 2006 \$ 000s	Three months ended December 31, 2005
Transaction related costs	\$	\$ 220
Fair value increase in inventory		922
Loss on debt extinguishment	21,145	
Share-based compensation	3,076	
Unrealized, non-cash (gain) on revaluation of the carrying value of the \$-denominated exclusivity fee	(3,954)	
Foreign currency exchange (gain) on the early extinguishment of \$-denominated bank debt	(3,885)	
Unrealized, non-cash (gain)/loss on revaluation of the carrying value of \$-denominated bank loans and short-term shareholder loans	(591)	2,916
	\$ 15,791	\$ 4,058

Recent Accounting Pronouncements Issued

See note 2 to the unaudited consolidated financial statements for discussion of recently issued accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the Company's market risk since September 30, 2006.

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 defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as of December 31, 2006. Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2006, the Company's disclosure controls and procedures were effective. Our disclosure controls and procedures are designed to ensure that information relating to the Company, including our consolidated subsidiaries, that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 are recorded, processed, summarized and reported within the time periods specified in Commission's rules and forms.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II.

ITEM 1. LEGAL PROCEEDINGS

There are currently no material legal proceedings pending.

ITEM 1A. RISK FACTORS

There are no material changes from risk factors as previously disclosed by the Company in its Annual Report on Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 2006.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following Exhibits are included in this report:

Exhibit No.	Item Title
10.1	Senior Facilities Agreement between Sirona Dental Systems, Inc., Schick Technologies, Inc., Sirona Dental Systems GmbH, Sirona Dental Services GmbH, Sirona Dental Systems LLC, Sirona Holding GmbH, Sirona Immobilien GmbH, J.P. Morgan PLC, UBS Limited, JPMorgan Chase Bank, N.A., and J.P. Morgan Europe Limited, dated November 22, 2006 (incorporated by reference to the Annual Report on Form 10-K for the year ended September 30, 2006).
31.1	Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.

SIGNATURE

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.

Date: February 9, 2007

Sirona Dental Systems, Inc.

By: /s/ SIMONE BLANK
Simone Blank, Executive Vice
President and Chief Financial Officer
(Principal Financial and Accounting
Officer)
(Duly authorized signatory)