

FIRST MID ILLINOIS BANCSHARES INC
Form 10-Q
May 08, 2012

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

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 0-13368

FIRST MID-ILLINOIS BANCSHARES, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

37-1103704
(I.R.S. employer identification no.)

1421 Charleston Avenue,
Mattoon, Illinois
(Address of principal executive offices)

61938
(Zip code)

(217) 234-7454
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 7, 2012, 6,022,297 common shares, \$4.00 par value, were outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share data)	March 31, 2012	December 31, 2011
Assets		
Cash and due from banks:		
Non-interest bearing	\$28,111	\$43,356
Interest bearing	14,512	8,749
Federal funds sold	80,995	20,997
Cash and cash equivalents	123,618	73,102
Certificates of deposit investments	12,044	13,231
Investment securities:		
Available-for-sale, at fair value	482,663	478,916
Held-to-maturity, at amortized cost (estimated fair value of \$51 at March 31, 2012 and December 31, 2011)	51	51
Loans held for sale	804	1,046
Loans	840,031	859,028
Less allowance for loan losses	(11,293)	(11,120)
Net loans	828,738	847,908
Interest receivable	6,038	7,052
Other real estate owned	3,293	4,606
Premises and equipment, net	30,471	30,717
Goodwill, net	25,753	25,753
Intangible assets, net	3,689	3,934
Other assets	17,261	14,640
Total assets	\$1,534,423	\$1,500,956
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	\$219,688	\$198,962
Interest bearing	1,013,939	971,772
Total deposits	1,233,627	1,170,734
Securities sold under agreements to repurchase	109,043	132,380
Interest payable	474	510
FHLB borrowings	9,750	19,750
Other borrowings	8,250	8,250
Junior subordinated debentures	20,620	20,620
Other liabilities	9,093	7,745
Total liabilities	1,390,857	1,359,989
Stockholders' Equity		
Convertible preferred stock, no par value; authorized 1,000,000 shares; issued 8,777 shares in 2012 and 2011	43,785	43,785
Common stock, \$4 par value; authorized 18,000,000 shares; issued 7,593,052 shares in 2012 and 7,553,094 shares in 2011	30,372	30,212
Additional paid-in capital	29,935	29,368
Retained earnings	74,190	71,739

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Deferred compensation	2,880	2,904
Accumulated other comprehensive gain	3,176	3,148
Less treasury stock at cost, 1,575,463 shares in 2012 and 1,546,529 shares in 2011	(40,772)	(40,189)
Total stockholders' equity	143,566	140,967
Total liabilities and stockholders' equity	\$1,534,423	\$1,500,956

See accompanying notes to unaudited condensed consolidated financial statements.

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First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Income (unaudited)

(In thousands, except per share data)	Three months ended	
	March 31,	
	2012	2011
Interest income:		
Interest and fees on loans	\$10,960	\$11,463
Interest on investment securities	2,952	2,444
Interest on certificates of deposit investments	18	21
Interest on federal funds sold	12	24
Interest on deposits with other financial institutions	6	77
Total interest income	13,948	14,029
Interest expense:		
Interest on deposits	1,427	1,819
Interest on securities sold under agreements to repurchase	45	33
Interest on FHLB borrowings	113	211
Interest on other borrowings	164	-
Interest on subordinated debentures	146	261
Total interest expense	1,895	2,324
Net interest income	12,053	11,705
Provision for loan losses	615	940
Net interest income after provision for loan losses	11,438	10,765
Other income:		
Trust revenues	860	781
Brokerage commissions	142	155
Insurance commissions	647	608
Service charges	1,101	1,096
Securities gains, net	384	181
Total other-than-temporary impairment losses	-	(185)
Portion of loss recognized in other comprehensive loss	-	-
Other-than-temporary impairment losses recognized in earnings	-	(185)
Mortgage banking revenue, net	236	116
ATM / debit card revenue	879	832
Other	331	421
Total other income	4,580	4,005
Other expense:		
Salaries and employee benefits	5,673	5,434
Net occupancy and equipment expense	2,010	1,967
Net other real estate owned expense	63	120
FDIC insurance	234	434
Amortization of intangible assets	245	286
Stationery and supplies	170	138
Legal and professional	611	567
Marketing and donations	229	201
Other	1,382	1,145
Total other expense	10,617	10,292
Income before income taxes	5,401	4,478

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Income taxes	2,011	1,633
Net income	3,390	2,845
Dividends on preferred shares	939	707
Net income available to common stockholders	\$2,451	\$2,138
Per share data:		
Basic net income per common share available to common stockholders	\$0.41	\$0.35
Diluted net income per common share available to common stockholders	\$0.41	\$0.35
Cash dividends declared per common share	\$-	\$-

See accompanying notes to unaudited condensed consolidated financial statements.

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First Mid-Illinois Bancshares, Inc.

Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)	Three months ended	
	March 31,	
	2012	2011
Net income	\$3,390	\$2,845
Other Comprehensive Income		
Unrealized gains on available-for-sale securities, net of taxes of \$169 and \$492, for 2012 and 2011, respectively	266	770
Less: reclassification adjustment for realized (gains) losses included in net income, net of taxes of \$(150) and \$1, for 2012 and 2011, respectively	(234)	3
Unrealized losses on available-for-sale securities for which a portion of an other-than-temporary		
Impairment has been recognized in income, net of taxes of \$(2) and \$(18), for 2012 and 2011, respectively	(4)	(28)
Other comprehensive income, net of taxes	28	745
Comprehensive income	\$3,418	\$3,590

See accompanying notes to unaudited condensed consolidated financial statements.

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First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited) (In thousands)	Three months ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$3,390	\$2,845
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	615	940
Depreciation, amortization and accretion, net	1,463	1,320
Stock-based compensation expense	55	13
Gains on investment securities, net	(384)	(181)
Other-than-temporary impairment losses recognized in earnings	-	185
Gains on sales of other real property owned, net	(3)	(21)
Loss on write down of fixed assets	1	-
Gains on sale of loans held for sale, net	(239)	(118)
Decrease in accrued interest receivable	1,014	679
Decrease in accrued interest payable	(36)	(69)
Origination of loans held for sale	(17,934)	(10,835)
Proceeds from sale of loans held for sale	18,415	10,505
Increase in other assets	(2,776)	(612)
Increase in other liabilities	1,645	2,198
Net cash provided by operating activities	5,226	6,849
Cash flows from investing activities:		
Proceeds from maturities of certificates of deposit investments	2,428	2,179
Purchases of certificates of deposit investments	(1,241)	(2,179)
Proceeds from sales of securities available-for-sale	11,114	5,606
Proceeds from maturities of securities available-for-sale	82,122	19,578
Purchases of securities available-for-sale	(97,129)	(68,767)
Net decrease in loans	18,555	9,250
Purchases of premises and equipment	(397)	(401)
Proceeds from sales of other real property owned	1,509	357
Net cash provided by (used in) investing activities	16,961	(34,377)
Cash flows from financing activities:		
Net increase in deposits	62,893	3,655
(Decrease) Increase in repurchase agreements	(23,337)	613
Repayment of long term FHLB advances	(10,000)	(3,000)
Proceeds from issuance of common stock	338	51
Proceeds from issuance of preferred stock	-	13,760
Purchase of treasury stock	(617)	(382)
Dividends paid on common stock	(948)	(850)
Net cash provided by financing activities	28,329	13,847
Increase (decrease) in cash and cash equivalents	50,516	(13,681)
Cash and cash equivalents at beginning of period	73,102	231,493
Cash and cash equivalents at end of period	\$123,618	\$217,812

First Mid-Illinois Bancshares, Inc.	Three months ended March 31,	
	2012	2011
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$1,931	\$2,393
Income taxes	2,116	-
Supplemental disclosures of noncash investing and financing activities		
Loans transferred to other real estate owned	195	135
Dividends reinvested in common stock	312	301
Net tax benefit related to option and deferred compensation plans	58	19

See accompanying notes to unaudited condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 -- Basis of Accounting and Consolidation

The unaudited condensed consolidated financial statements include the accounts of First Mid-Illinois Bancshares, Inc. (“Company”) and its wholly-owned subsidiaries: Mid-Illinois Data Services, Inc. (“MIDS”), First Mid-Illinois Bank & Trust, N.A. (“First Mid Bank”) and The Checkley Agency, Inc. doing business as First Mid Insurance Group (“First Mid Insurance”). All significant intercompany balances and transactions have been eliminated in consolidation. The financial information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods ended March 31, 2012 and 2011, and all such adjustments are of a normal recurring nature. Certain amounts in the prior year’s consolidated financial statements have been reclassified to conform to the March 31, 2012 presentation and there was no impact on net income or stockholders’ equity. The results of the interim period ended March 31, 2012 are not necessarily indicative of the results expected for the year ending December 31, 2012. The Company operates as a one-segment entity for financial reporting purposes.

The 2011 year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements and related footnote disclosures although the Company believes that the disclosures made are adequate to make the information not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2011 Annual Report on Form 10-K.

Website

The Company maintains a website at www.firstmid.com. All periodic and current reports of the Company and amendments to these reports filed with the Securities and Exchange Commission (“SEC”) can be accessed, free of charge, through this website as soon as reasonably practicable after these materials are filed with the SEC.

Stock Plans

At the Annual Meeting of Stockholders held May 23, 2007, the stockholders approved the First Mid-Illinois Bancshares, Inc. 2007 Stock Incentive Plan (“SI Plan”). The SI Plan was implemented to succeed the Company’s 1997 Stock Incentive Plan, which had a ten-year term that expired October 21, 2007. The SI Plan is intended to provide a means whereby directors, employees, consultants and advisors of the Company and its subsidiaries may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its subsidiaries, thereby advancing the interests of the Company and its stockholders. Accordingly, directors and selected employees, consultants and advisors may be provided the opportunity to acquire shares of common stock of the Company on the terms and conditions established in the SI Plan.

On September 27, 2011, the Board of Directors passed a resolution relating to the SI Plan whereby they authorized and approved the Executive Long-Term Incentive Plan (“LTIP”). The LTIP was implemented to provide methodology for granting Stock Awards and Stock Unit Awards to select senior executives of the Company or any Subsidiary.

A maximum of 300,000 shares of common stock may be issued under the SI Plan. As of March 31, 2012, the Company had awarded 59,500 shares as stock options under the SI plan. There were no stock options awarded in

2011 or 2012. During 2011, the Company awarded 17,409 shares as 50% Stock Awards and 50% Stock Unit Awards under the SI plan. There have been no Stock Awards or Stock Unit Awards granted thus far during 2012.

Convertible Preferred Stock

Series B Convertible Preferred Stock. During 2009, the Company sold to certain accredited investors including directors, executive officers, and certain major customers and holders of the Company's common stock, \$24,635,000, in the aggregate, of a newly authorized series of its preferred stock designated as Series B 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series B Preferred Stock"). The Series B Preferred Stock had an issue price of \$5,000 per share and no par value per share. The Series B Preferred Stock was issued in a private placement exempt from registration pursuant to Regulation D of the Securities Act of 1933, as amended.

The Series B Preferred Stock pays non-cumulative dividends semiannually in arrears, when, as and if authorized by the Board of Directors of the Company, at a rate of 9% per year. Holders of the Series B Preferred Stock will have no voting rights, except with respect to certain fundamental changes in the terms of the Series B Preferred Stock and certain other matters. In addition, if dividends on the Series B Preferred Stock are not paid in full for four dividend periods, whether consecutive or not, the holders of the Series B Preferred Stock, acting as a class with any other of the Company's securities having similar voting rights, will have the right to elect two directors to the Company's Board of Directors. The terms of office of these directors will end when the Company has paid or set aside for payment full semi-annual dividends for four consecutive dividend periods.

Each share of the Series B Preferred Stock may be converted at any time at the option of the holder into shares of the Company's common stock. The number of shares of common stock into which each share of the Series B Preferred Stock is convertible is the \$5,000 liquidation preference per share divided by the Conversion Price initially set at \$21.94. The Conversion Price is subject to adjustment from time to time pursuant to the terms of the Certificate of Designation (the "Series B Certificate of Designation"). If at the time of conversion, there are any authorized, declared and unpaid dividends with respect to a converted share of Series B Preferred Stock, the holder will receive cash in lieu of the dividends, and a holder will receive cash in lieu of fractional shares of common stock following conversion.

After November 16, 2014, the Company may, at its option but subject to the Company's receipt of any required prior approvals from the Board of Governors of the Federal Reserve System or any other regulatory authority, redeem the Series B Preferred Stock. Any redemption will be in exchange for cash in the amount of \$5,000 per share, plus any authorized, declared and unpaid dividends, without accumulation of any undeclared dividends.

The Company also has the right at any time on or after November 16, 2014 to require the conversion of all (but not less than all) of the Series B Preferred Stock into shares of common stock if, on the date notice of mandatory conversion is given to holders, the book value of the Company's common stock equals or exceeds 115% of the book value of the Company's common stock at September 30, 2008. "Book value of the Company's common stock" at any date means the result of dividing the Company's total common stockholders' equity at that date, determined in accordance with U.S. generally accepted accounting principles, by the number of shares of common stock then outstanding, net of any shares held in the treasury. The book value of the Company's common stock at September 30, 2008 was \$13.03, and 115% of this amount is approximately \$14.98. The book value of the Company's common stock at March 31, 2012 was \$16.58.

Pursuant to Section 3(j) of the Series B Certification of Designation, the conversion price for the Series B Preferred Stock, which was initially set at \$21.94, was required to be adjusted if, among other things, the initial conversion price of any subsequently issued series of preferred stock was lower than the then current conversion price of the Series B Preferred Stock. As a result of the Series C Preferred Stock (see below) having an initial conversion price of less than \$21.94, the conversion price of the Series B Preferred Stock was adjusted pursuant to the terms of the Series B Certificate of Designation based on the amount of Series C Preferred Stock sold on February 11, 2011, March 2, 2011 and May 13, 2011. The new conversion price of the Series B Preferred Stock, certified by the Company's accountant pursuant to Section 3(j) of the Series B Certificate of Designation, is \$21.71. If additional Series C Preferred Stock is sold following an Investor's receipt of applicable bank regulatory approval, subsequent adjustments will be made to the conversion price of the Series B Preferred Stock

Series C Convertible Preferred Stock. On February 11, 2011, the Company accepted from certain accredited investors, including directors, executive officers, and certain major customers and holders of the Company's common stock (collectively, the "Investors"), subscriptions for the purchase of \$27,500,000, in the aggregate, of a newly authorized series of preferred stock designated as Series C 8% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series C Preferred Stock"). As of February 11, 2011, \$11,010,000 of the Series C Preferred Stock had been issued and sold by the Company to certain Investors. On March 2, 2011, three investors subsequently completed the required bank regulatory process and an additional \$2,750,000 of Series C Preferred Stock was issued and sold by the Company to these investors. On May 13, 2011, four additional investors received the required bank regulatory approval and an additional \$5,490,000 of Series C Preferred Stock was issued and sold by the Company to these investors. The balance of the Series C Preferred Stock will be issued to the remaining Investors upon the completion of the bank regulatory process applicable to their purchases.

The Series C Preferred Stock has an issue price of \$5,000 per share and no par value per share. The Series C Preferred Stock was issued in a private placement exempt from registration pursuant to Regulation D of the Securities Act of 1933, as amended.

The Series C Preferred Stock pays non-cumulative dividends semiannually in arrears, when, as and if authorized by the Board of Directors of the Company, at a rate of 8% per year. Holders of the Series C Preferred Stock will have no voting rights, except with respect to certain fundamental changes in the terms of the Series C Preferred Stock and certain other matters. In addition, if dividends on the Series C Preferred Stock are not paid in full for four dividend periods, whether consecutive or not, the holders of the Series C Preferred Stock, acting as a class with any other of the Company's securities having similar voting rights, including the Company's Series B Preferred Stock, will have the right to elect two directors to the Company's Board of Directors. The terms of office of these directors will end when the Company has paid or set aside for payment full semi-annual dividends for four consecutive dividend periods.

Each share of the Series C Preferred Stock may be converted at any time at the option of the holder into shares of the Company's common stock. The number of shares of common stock into which each share of the Series C Preferred Stock is convertible is the \$5,000 liquidation preference per share divided by the Conversion Price of \$20.29. The Conversion Price is subject to adjustment from time to time pursuant to the terms of the Series C Certificate of Designation. If at the time of conversion, there are any authorized, declared and unpaid dividends with respect to a converted share of Series C Preferred Stock, the holder will receive cash in lieu of the dividends, and a holder will receive cash in lieu of fractional shares of common stock following conversion.

After May 13, 2016 the Company may, at its option but subject to the Company's receipt of any required prior approvals from the Board of Governors of the Federal Reserve System or any other regulatory authority, redeem the Series C Preferred Stock. Any redemption will be in exchange for cash in the amount of \$5,000 per share, plus any authorized, declared and unpaid dividends, without accumulation of any undeclared dividends.

The Company also has the right at any time after May 13, 2016 to require the conversion of all (but not less than all) of the Series C Preferred Stock into shares of common stock if, on the date notice of mandatory conversion is given to holders, (a) the tangible book value per share of the Company's common stock equals or exceeds 115% of the tangible book value per share of the Company's common stock at December 31, 2010, and (b) the NASDAQ Bank Index (denoted by CBNK:IND) equals or exceeds 115% of the NASDAQ Bank Index at December 31, 2010. "Tangible book value per share of our common stock" at any date means the result of dividing the Company's total common stockholders equity at that date, less the amount of goodwill and intangible assets, determined in accordance with U.S. generally accepted accounting principles, by the number of shares of common stock then outstanding, net of any shares held in the treasury. The tangible book value of the Company's common stock at December 31, 2010 was \$9.38, and 115% of this amount is approximately \$10.79. The NASDAQ Bank Index value at December 31, 2010 was 1,847.35 and 115% of this amount is approximately 2,124.45. The tangible book value of the Company's common stock at March 31, 2012 was \$11.69 and the NASDAQ Bank Index value at March 31, 2012 was 1,837.16.

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Comprehensive Income

The Company's comprehensive income for the three-month periods ended March 31, 2012 and 2011 was as follows (in thousands):

	Three months ended	
	March 31	
	2012	2011
Net income	\$3,390	\$2,845
Other comprehensive income:		
Unrealized gains on securities available-for-sale	435	1,262
Non-credit component of unrealized gains (losses) on securities available-for-sale for which a portion of an other-than-temporary impairment has been recognized in income	(6)	(46)
Other-than-temporary impairment losses recognized in earnings	-	185
Reclassification adjustment for realized gains included in income	(384)	(181)
Other comprehensive income before taxes	45	1,220
Tax expense	(17)	(475)
Total other comprehensive income	28	745
Comprehensive income	\$3,418	\$3,590

The components of accumulated other comprehensive income included in stockholders' equity are as follows:

	Unrealized		
	Gain		
	(Loss) on	Securities with	
		Available	Other-Than-Temporary
	for Sale	Impairment Losses	Total
March 31, 2012			
Net unrealized gains on securities available-for-sale	\$10,118	\$ -	\$10,118
Securities with other-than-temporary impairment losses	-	(4,913)	(4,913)
Tax benefit (expense)	(3,944)	1,915	(2,029)
Balance at March 31, 2012	\$6,174	\$ (2,998)	\$3,176

	Unrealized		
	Gain		
	(Loss) on	Securities with	
		Available	Other-Than-Temporary
	for Sale	Impairment Losses	Total
December 31, 2011			
Net unrealized gains on securities available-for-sale	\$10,066	\$ -	\$10,066
Securities with other-than-temporary impairment losses	-	(4,906)	(4,906)
Tax benefit (expense)	(3,924)	1,912	(2,012)
Balance at December 31, 2011	\$6,142	\$ (2,994)	\$3,148

See “Note 3 – Investment Securities” for more detailed information regarding unrealized losses on available-for-sale securities.

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Adoption of New Accounting Guidance

ASU No. 2011-04 -- Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. In May 2011, the FASB issued ASU No. 2011-04. ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Consequently, the amendments in this update result in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS"). ASU 2011-04 is effective prospectively during interim and annual periods beginning on or after December 15, 2011. Early application by public entities is not permitted. The adoption of ASU No. 2011-04 is not expected to have a material impact on the Company's financial statements.

ASU No. 2011-05 – Presentation of Comprehensive Income. In June 2011, the FASB issued ASU No. 2011-05. The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The statement(s) are required to be presented with equal prominence as the other primary financial statements. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The provisions of ASU No. 2011-05 are effective for the Company's interim reporting period beginning on or after December 15, 2011, with retrospective application required. The adoption of ASU No. 2011-05 resulted in the addition of a statement of comprehensive income.

ASU 2011-08 — Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. In September 2011, the FASB issued ASU 2011-08. ASU 2011-08 amends Topic 350 to permit an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Under the amendments in this guidance, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments do not change the current guidance for testing other indefinite lived intangible assets for impairment. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's financial statements.

Note 2 -- Earnings Per Share

Basic net income per common share available to common stockholders is calculated as net income less preferred stock dividends divided by the weighted average number of common shares outstanding. Diluted net income per common share available to common stockholders is computed using the weighted average number of common shares outstanding, increased by the assumed conversion of the Company's convertible preferred stock and the Company's stock options, unless anti-dilutive.

The components of basic and diluted net income per common share available to common stockholders for the three-month periods ended March 31, 2012 and 2011 were as follows:

	Three months ended	
	March 31,	
	2012	2011
Basic Net Income per Common Share		
Available to Common Stockholders:		
Net income	\$3,390,000	\$2,845,000
Preferred stock dividends	(939,000)	(707,000)
Net income available to common stockholders	\$2,451,000	\$2,138,000
Weighted average common shares outstanding	6,019,858	6,072,602
Basic earnings per common share	\$.41	\$.35
Diluted Net Income per Common Share		
Available to Common Stockholders:		
Net income available to common stockholders	\$2,451,000	\$2,138,000
Effect of assumed preferred stock conversion	-	-
Net income applicable to diluted earnings per share	\$2,451,000	\$2,138,000
Weighted average common shares outstanding	6,019,858	6,072,602
Dilutive potential common shares:		
Assumed conversion of stock options	8,370	12,754
Restricted stock awarded	249	-
Assumed conversion of preferred stock	-	-
Dilutive potential common shares	8,619	12,754
Diluted weighted average common shares outstanding	6,028,477	6,085,356
Diluted earnings per common share	\$.41	\$.35

The following shares were not considered in computing diluted earnings per share for the three-month periods ended March 31, 2012 and 2011 because they were anti-dilutive:

	Three months ended	
	March 31,	
	2012	2011
Stock options to purchase shares of common stock	202,970	202,970
Average dilutive potential common shares associated with convertible preferred stock	2,083,475	1,755,657

Note 3 -- Investment Securities

The amortized cost, gross unrealized gains and losses and estimated fair values for available-for-sale and held-to-maturity securities by major security type at March 31, 2012 and December 31, 2011 were as follows (in thousands):

	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized (Losses)	
March 31, 2012				
Available-for-sale:				
U.S. Treasury securities and obligations				

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of U.S. government corporations & agencies	\$152,750	\$861	\$(321)	\$153,290
Obligations of states and political subdivisions	40,679	2,493	(32)	\$43,140
Mortgage-backed securities: GSE residential	268,995	7,245	(83)	\$276,157
Trust preferred securities	5,449	-	(4,913)	\$536
Other securities	9,586	44	(90)	9,540
Total available-for-sale	\$477,459	\$10,643	\$(5,439)	\$482,663
Held-to-maturity:					
Obligations of states and political subdivisions	\$51	\$-	\$-		\$51

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December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available-for-sale:				
U.S. Treasury securities and obligations				
of U.S. government corporations & agencies	\$164,812	\$1,294	\$(40)	\$166,066
Obligations of states and political subdivisions	38,828	2,374	-	41,202
Mortgage-backed securities: GSE residential	254,930	6,940	(37)	261,833
Trust preferred securities	5,625	-	(4,906)	719
Other securities	9,561	-	(465)	9,096
Total available-for-sale	\$473,756	\$10,608	\$(5,448)	\$478,916
Held-to-maturity:				
Obligations of states and political subdivisions	\$51	\$-	\$-	\$51

The trust preferred securities are four trust preferred pooled securities issued by First Tennessee Financial (“FTN”). The unrealized losses of these securities, which have maturities ranging from eighteen years to twenty-six years, are primarily due to their long-term nature, a lack of demand or inactive market for these securities, and concerns regarding the underlying financial institutions that have issued the trust preferred securities. See the heading “Trust Preferred Securities” for further information regarding these securities.

Realized gains and losses resulting from sales of securities were as follows during the periods ended March 31, 2012 and 2011 and the year ended December 31, 2011 (in thousands):

	March 31, 2012	March 31, 2011	December 31, 2011
Gross gains	\$384	\$181	\$486
Gross losses	-	-	-

The following table indicates the expected maturities of investment securities classified as available-for-sale and held-to-maturity, presented at fair value, at March 31, 2012 and the weighted average yield for each range of maturities (dollars in thousands).

	One year or less	After 1 through 5 years	After 5 through 10 years	After ten years	Total
Available-for-sale:					
U.S. Treasury securities and obligations of					
U.S. government corporations and agencies	\$92,573	\$58,225	\$2,492	\$-	\$153,290
Obligations of state and					
political subdivisions	625	18,929	22,420	1,166	43,140
Mortgage-backed securities: GSE residential	13,489	184,902	77,766		