FIRST MID ILLINOIS BANCSHARES INC
Form 10-Q
May 06, 2010

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010

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.)
1515 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 [X] 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 [X]
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 [X] No

As of May 6, 2010, 6,104,792 common shares, $4.00 par value, were outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets	(Unaudited)	
(In thousands, except share data)	March 31, 2010	December 31, 2009
Assets		
Cash and due from banks:		
Non-interest bearing	$ 16,157	$ 20,243
Interest bearing	38,031	19,512
Federal funds sold	60,000	60,000
Cash and cash equivalents	114,188	99,755
Investment securities:		
Available-for-sale, at fair value	236,475	238,697
Held-to-maturity, at amortized cost (estimated fair value of $321 and $469 at March 31, 2010 and December 31, 2009, respectively)	314	459
Loans held for sale	876	149
Loans	685,826	700,601
Less allowance for loan losses	(9,529)	(9,462)
Net loans	676,297	691,139
Interest receivable	5,259	6,871
Other real estate owned	2,584	2,862
Premises and equipment, net	15,247	15,487
Goodwill, net	17,363	17,363
Intangible assets, net	2,656	2,832
Other assets	16,265	19,541
Total assets	$ 1,087,524	$ 1,095,155
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$ 124,225	$ 128,726
Interest bearing	727,756	711,684
Total deposits	851,981	840,410
Securities sold under agreements to repurchase	65,192	80,386
Interest payable	765	861
FHLB borrowings	27,750	32,750
Junior subordinated debentures	20,620	20,620
Other liabilities	7,135	8,907
Total liabilities	973,443	983,934
Stockholders' Equity		
Convertible preferred stock, no par value; authorized 1,000,000; issued 4,927 shares in 2010 and 2009	24,635	24,635
Common stock, $4 par value; authorized 18,000,000 shares; issued 7,390,122 shares in 2010 and 7,364,959 shares in 2009	29,560	29,460
Additional paid-in capital	27,198	26,811
Retained earnings	64,115	62,144
Deferred compensation	2,828	2,894
Accumulated other comprehensive income	968	464
Less treasury stock at cost, 1,288,020 shares in 2010		

and 1,282,076 shares in 2009	(35,223)	(35,187)
Total stockholders' equity	114,081	111,221
Total liabilities and stockholders' equity	$1,087,524	$1,095,155

See accompanying notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Income (unaudited)
(In thousands, except per share data)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Interest income:		
Interest and fees on loans	$9,914	$10,863
Interest on investment securities	2,235	2,084
Interest on federal funds sold	16	13
Interest on deposits with other financial institutions	45	21
Total interest income	12,210	12,981
Interest expense:		
Interest on deposits	2,186	3,573
Interest on securities sold under agreements to repurchase	30	26
Interest on FHLB borrowings	343	423
Interest on other borrowings	-	22
Interest on subordinated debentures	260	316
Total interest expense	2,819	4,360
Net interest income	9,391	8,621
Provision for loan losses	760	604
Net interest income after provision for loan losses	8,631	8,017
Other income:		
Trust revenues	624	579
Brokerage commissions	129	79
Insurance commissions	644	745
Service charges	1,076	1,134
Securities gains, net	241	-
Total other-than-temporary impairment losses	(623)	(1,201)
Portion of loss recognized in other comprehensive loss	-	(332)
Other-than-temporary impairment losses recognized in earnings	(623)	(869)
Gain on sale of merchant banking portfolio	-	1,000
Mortgage banking revenue, net	96	88
Other	881	910
Total other income	3,068	3,666
Other expense:		
Salaries and employee benefits	4,368	4,204
Net occupancy and equipment expense	1,278	1,314
Net other real estate owned expense	(152)	73
FDIC insurance	318	636
Amortization of intangible assets	176	192
Stationery and supplies	115	134
Legal and professional	429	473
Marketing and donations	203	191
Other	1,055	1,166
Total other expense	7,790	8,383
Income before income taxes	3,909	3,300
Income taxes	1,361	1,115

Net income	$2,548	$2,185
Dividends on preferred shares	577	266
Net income available to common stockholders	$1,971	$1,919
Per share data:		
Basic net income per common share available to common stockholders	$0.32	$0.31
Diluted net income per common share available to common stockholders	$0.32	$0.31
Cash dividends declared per common share	$-	$-

See accompanying notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows (unaudited)	Three months ended March 31,	
(In thousands)	2010	2009
Cash flows from operating activities:		
Net income	$2,548	$2,185
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	760	604
Depreciation, amortization and accretion, net	741	526
Stock-based compensation expense	13	14
Gains on investment securities, net	(241)	-
Other-than-temporary impairment losses recognized in earnings	623	869
(Gains) losses on sales of other real property owned, net	(168)	39
Loss on write down of fixed assets	1	-
Gain on sale of merchant banking portfolio	-	(1,000)
(Gains) losses on sale of loans held for sale, net	89	(101)
Origination of loans held for sale	(7,475)	(15,084)
Proceeds from sale of loans held for sale	6,659	10,102
Decrease in other assets	3,907	1,953
Increase (decrease) in other liabilities	(1,289)	407
Net cash provided by operating activities	6,168	514
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	6,367	-
Proceeds from maturities of securities available-for-sale	21,182	11,930
Proceeds from maturities of securities held-to-maturity	145	140
Purchases of securities available-for-sale	(25,067)	(56,617)
Net decrease in loans	14,082	36,344
Purchases of premises and equipment	(142)	(685)
Proceeds from sales of other real property owned	1,137	216
Net cash provided by (used in) investing activities	17,704	(8,672)
Cash flows from financing activities:		
Net increase in deposits	11,571	44,002
Decrease in repurchase agreements	(15,194)	(10,821)
Repayment of long term FHLB advances	(5,000)	-
Repayment of long term debt	-	(13,000)
Proceeds from issuance of common stock	143	294
Proceeds from issuance of preferred stock	-	22,635
Purchase of treasury stock	(102)	(1,042)
Dividends paid on common stock	(857)	(763)
Net cash provided by (used in) financing activities	(9,439)	41,305
Increase in cash and cash equivalents	14,433	33,147
Cash and cash equivalents at beginning of period	99,755	86,643
Cash and cash equivalents at end of period	$114,188	$119,790

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	Three months ended March 31,	
	2010	2009
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$2,915	$4,248
Income taxes	750	275
Supplemental disclosures of noncash investing and financing activities		
Loans transferred to other real estate owned	651	1,054
Dividends reinvested in common stock	299	402
Net tax benefit related to option and deferred compensation plans	32	96

See accompanying notes to unaudited condensed consolidated financial statements.

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Notes to Consolidated Financial Statements
(unaudited)

Basis of Accounting and Consolidation

The unaudited condensed consolidated financial statements include the accounts of First Mid-Illinois Bancshares, Inc. ("Company") and the following wholly-owned subsidiaries: Mid-Illinois Data Services, Inc. ("MIDS"), The Checkley Agency, Inc. ("Checkley"), and First Mid-Illinois Bank & Trust, N.A. ("First Mid Bank"). 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, 2010 and 2009, 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, 2010 presentation and there was no impact on net income or stockholders' equity. The results of the interim period ended March 31, 2010 are not necessarily indicative of the results expected for the year ending December 31, 2010. The Company operates as a one-segment entity for financial reporting purposes.

The 2009 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 2009 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 herein in the SI Plan.

A maximum of 300,000 shares of common stock may be issued under the SI Plan. As of December 31, 2009, the Company had awarded 59,500 shares under the plan. There were no shares awarded during the first three months of 2010.

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 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 would then end when the Company has paid or set aside for payment full semi-annually 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 of $21.94. The Conversion Price is subject to adjustment from time to time pursuant to the terms of the Certificate of Designations. 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 five years, 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.

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The Company also has the right at any time on or after the fifth anniversary of the original issuance date of the Series B Preferred Stock 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, 2010 was $14.66.

Comprehensive Income

The Company's comprehensive income for the three-month periods ended March 31, 2010 and 2009 was as follows (in thousands):

	Three months ended March 31,	
	2010	2009
Net income	$2,548	$2,185
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available-for-sale	772	(1,582)
Unrealized losses on securities available-for-sale for which a portion of an other-than-temporary impairment has been recognized in income	(329)	(1,201)
Other-than-temporary impairment losses recognized in earnings	623	869
Reclassification adjustment for realized gains included in income	(241)	-
Other comprehensive income (loss) before taxes	825	(1,914)
Tax benefit (expense)	(321)	746
Total other comprehensive income (loss)	504	(1,168)
Comprehensive income	$3,052	$1,017

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

March 31, 2010	Unrealized Gain (Loss) on Available for Sale Securities	Other-Than-Temporary Impairment Losses	Total
Net unrealized gains on securities available-for-sale	$5,895	$ -	$5,895
Other-than-temporary impairment losses on securities	-	(4,309)	(4,309)
Tax benefit (expense)	(2,298)	1,680	(618)
Balance at March 31, 2010	$3,597	$ (2,629)	$968

	Unrealized Gain (Loss) on	Other-Than-Temporary

March 31, 2009	Available for Sale Securities	Impairment Losses	Total
Net unrealized losses on securities available-for-sale	$(1,521)	$ -	$(1,521)
Other-than-temporary impairment losses on securities	-	(1,074)	(1,074)
Tax expense	593	418	1,011
Balance at March 31, 2009	$(928)	$ (656)	$(1,584)

See heading “Securities” for more detailed information regarding unrealized losses on available-for-sale securities.

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Adoption of New Accounting Guidance

In February 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2010-09 "Subsequent Events (Topic 855) – Amendments to Certain Recognition and Disclosure Requirements." ASU 2010-09 amends the subsequent events disclosure guidance. The amendments include a definition of an SEC filer, requires an SEC filer to evaluate subsequent events through the date the financial statements are issued, and removes the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. ASU 2010-09 was effective upon issuance. Adoption of this update did not have a material effect on the Company's financial statements.

In January 2010, the FASB issued ASU No. 2010-06 "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements." ASU 2010-06 amends the fair value disclosure guidance. The amendments include new disclosures and changes to clarify existing disclosure requirements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of this update did not have a material effect on the Company's financial statements.

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, 2010 and 2009 were as follows:

	Three months ended March 31,	
	2010	2009
Basic Net Income per Common Share		
Available to Common Stockholders:		
Net income	$2,548,000	$2,185,000
Preferred stock dividends	(577,000)	(266,000)
Net income available to common stockholders	$1,971,000	$1,919,000
Weighted average common shares outstanding	6,098,804	6,139,777
Basic earnings per common share	$.32	$.31
Diluted Net Income per Common Share		
Available to Common Stockholders:		
Net income available to common stockholders	$1,971,000	$1,919,000
Effect of assumed preferred stock conversion	-	-
Net income applicable to diluted earnings per share	$1,971,000	$1,919,000
Weighted average common shares outstanding	6,098,804	6,139,777
Dilutive potential common shares:		
Assumed conversion of stock options	27,054	50,773
Assumed conversion of preferred stock	-	-

Diluted weighted average common shares outstanding	6,125,858	6,190,550
Diluted earnings per common share	$ .32	$ .31

The following shares were not considered in computing diluted earnings per share for the three-month periods ended March 31, 2010 and 2009 because they were anti-dilutive:

	Three months ended March 31,	
	2010	2009
Stock options to purchase shares of common stock	202,970	229,095
Average dilutive potential common shares associated with convertible preferred stock	1,118,429	548,069

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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, 2010 and December 31, 2009 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
March 31, 2010				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations & agencies	$99,088	$1,414	$(30)	$100,472
Obligations of states and political subdivisions	23,067	1,057	(37)	24,087
Mortgage-backed securities: GSE residential	105,474	3,510	(7)	108,977
Trust preferred securities	7,225	-	(4,309)	2,916
Other securities	35	-	(12)	23
Total available-for-sale	$234,889	$5,981	$(4,395)	$236,475
Held-to-maturity:				
Obligations of states and political subdivisions	$314	$7	$-	$321
December 31, 2009				
Available-for-sale:				
U.S. Treasury securities and obligations of U.S. government corporations and Agencies	$89,640	$1,386	$(52)	$90,974
Obligations of states and political subdivisions	23,071	742	(97)	23,716
Mortgage-backed securities: GSE residential	111,301	3,343	(125)	114,519
Trust preferred securities	7,758	-	(4,603)	3,155
Other securities	6,166	187	(20)	6,333
Total available-for-sale	$237,936	$5,658	$(4,897)	$238,697
Held-to-maturity:				
Obligations of states and political subdivisions	$459	$10	$-	$469

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 four years to twenty nine 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, 2010 and 2009 and the year ended December 31, 2009 (in thousands):

	March 31, 2010	March 31, 2009	December 31, 2009
Gross gains	241	-	637

Gross losses	-	-	-

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The following table indicates the expected maturities of investment securities classified as available-for-sale and held-to-maturity, presented at amortized cost, at March 31, 2010 and the weighted average yield for each range of maturities. Mortgage-backed securities are included based on their weighted average life. All other securities are shown at their contractual maturity (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	$50,156		$39,469		$9,463		$-		$99,088	
Obligations of state and political subdivisions	2,785		5,067		14,881		334		23,067	
Mortgage-backed securities: GSE residential	4,924		100,550		-		-		105,474	
Trust preferred securities	2,526		4,699		-		-		7,225	
Other securities	-		-		-		35		35	
Total investments	$60,391		$149,785		$24,344		$369		$234,889	
Weighted average yield	3.21	%	3.68	%	4.64	%	4.20	%	3.66	%
Full tax-equivalent yield	3.30	%	3.75	%	5.86	%	6.19	%	3.86	%
Held-to-maturity:										
Obligations of state and political subdivisions	$263		$51		$-		$-		$314	
Weighted average yield	4.99	%	4.75	%	-	%	-	%	4.95	%
Full tax-equivalent yield	7.44	%	6.58	%	-	%	-	%	7.30	%

The weighted average yields are calculated on the basis of the amortized cost and effective yields weighted for the scheduled maturity of each security. Tax-equivalent yields have been calculated using a 34% tax rate. With the exception of obligations of the U.S. Treasury and other U.S. government agencies and corporations, there were no investment securities of any single issuer, the book value of which exceeded 10% of stockholders' equity at March 31, 2010.

Investment securities carried at approximately $173,937,000 and $185,357,000 at March 31, 2010 and December 31, 2009, respectively, were pledged to secure public deposits and repurchase agreements and for other purposes as permitted or required by law.

The following table presents the aging of gross unrealized losses and fair value by investment category as of March 31, 2010 and December 31, 2009 (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

March 31, 2010:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$100,472	$(30)	$-	$-	$100,472	$(30)
Obligations of states and political subdivisions	21,145	-	3,263	(37)	24,408	(37)
Mortgage-backed securities:						
GSE residential	108,977	(7)	-	-	108,977	(7)
Trust preferred securities	-	-	2,916	(4,309)	2,916	(4,309)
Other securities	-	-	23	(12)	23	(12)
Total	$230,594	$(37)	$6,202	$(4,358)	$236,796	$(4,395)

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	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2009:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$90,974	$(52)	$-	$-	$90,974	$(52)
Obligations of states and political subdivisions	23,015	(40)	1,170	(57)	24,185	(97)
Mortgage-backed securities:						
GSE residential	114,431	(124)	88	(1)	114,519	(125)
Trust preferred securities	-	-	3,155	(4,603)	3,155	(4,603)
Other securities	6,318	-	15	(20)	6,333	(20)
Total	$234,738	$(216)	$4,428	$(4,681)	$239,166	$(4,897)

Obligations of states and political subdivisions

At March 31, 2010, there were eight obligations of states and political subdivisions issued by six municipalities with a fair value of $3,263,000 and unrealized losses of $37,000 in a continuous unrealized loss position for twelve months or more. This position was due to municipal rates increasing since the purchase of the securities resulting in the market value being lower than book value. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell these securities and it is not more-likely-than-not the Company will be required to sell these securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at March 31, 2010.

Trust Preferred Securities

At March 31, 2010, there were four trust preferred securities with a fair value of $2,916,000 and unrealized losses of $4,309,000 in a continuous unrealized loss position for twelve months or more. These unrealized losses were primarily due to the long-term nature of the trust preferred securities, a lack of demand or inactive market for these securities, and concerns regarding the underlying financial institutions that have issued the trust preferred securities. Cash flow analysis for these securities indicated an other-than-temporary-impairment (OTTI) and the Company performed further analysis to determine the portion of the loss that was related to credit conditions of the underlying issuers. The credit loss was calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the security to the carrying value of the investment. Based on this analysis, the Company recorded impairment charges of approximately $623,000 for the credit portion of the unrealized loss of these trust preferred securities in the quarter ended March 31, 2010. This loss established a new, lower amortized cost basis for these securities and reduced non-interest income as of March 31, 2010. Because the Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell these securities before recovery of their new, lower amortized cost basis, which may be maturity, the Company does not consider the remainder of the investment in these securities to be other-than-temporarily impaired at March 31, 2010. However, future downgrades or additional deferrals and defaults in these securities, in particular PreTSL XXVIII, could result in additional OTTI and consequently, have a material impact on future earnings.

Following are the details for each trust preferred security (in thousands):

	Book Value	Market Value	Unrealized Loss	Other-than-temporary Impairment Recorded To-date
PreTSL I	$1,201	$930	$(271)	$249
PreTSL II	1,098	891	(207)	2,056
PreTSL VI	227	193	(33)	99
PreTSL XXVIII	4,699	902	(3,798)	31
Total	$7,225	$2,916	$(4,309)	$2,435

Other securities

At March 31, 2010, there was one corporate bond with a fair value of $23,000 and unrealized losses of $12,000 in a continuous unrealized loss position for twelve months or more. The long-term nature of this security has led to increased supply, while demand has decreased, leading to devaluation of the security. Management has evaluated this security and believes the decline in market value is liquidity, and not credit, related. Because the Company does not intend to sell this security and it is not more-likely-than-not the Company will be required to sell this security before recovery of its amortized cost basis, which may be maturity, the Company does not consider it to be other than temporarily impaired at March 31, 2010.

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The Company does not believe any other individual unrealized loss as of March 31, 2010 represents OTTI. However, given the continued disruption in the financial markets, the Company may be required to recognize OTTI losses in future periods with respect to its available for sale investment securities portfolio. The amount and timing of any additional OTTI will depend on the decline in the underlying cash flows of the securities. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in the period the other-than-temporary impairment is identified.

Other-than-temporary Impairment

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. For securities where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial asset impairment model. For securities where the security is not a beneficial interest in securitized financial assets, the Company uses debt and equity securities impairment model.

The Company routinely conducts periodic reviews to identify and evaluate each investment security to determine whether OTTI has occurred. Economic models are used to determine whether OTTI has occurred on these securities. While all securities are considered, the securities primarily impacted by OTTI testing are pooled trust preferred securities. For each pooled trust preferred security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if OTTI has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other-than-temporary. The most significant inputs are the following:

- Prepayments
- Defaults
- Loss severity

The pooled trust preferred securities relate to trust preferred securities issued by financial institutions. The pools typically consist of financial institutions throughout the United States. Other inputs may include the actual collateral attributes, which include credit ratings and other performance indicators of the underlying financial institutions including profitability, capital ratios, and asset quality.

To determine if the unrealized losses for pooled trust preferred securities is other-than-temporary, the Company projects total estimated defaults of the underlying assets (financial institutions) and multiplies that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the projected collateral loss. The Company also evaluated the current credit enhancement underlying the security to determine the impact on cash flows. If the Company determines that a given pooled trust preferred security position will be subject to a write-down or loss, the Company records the expected credit loss as a charge to earnings.

For those securities for which OTTI was determined to have occurred as of March 31, 2010 (that is, a determination was made that the entire amortized cost bases will not likely be recovered), the following assumptions were used to measure the amount of credit loss recognized in earnings. The Company's assumptions for the pooled trust preferred securities included default rates of 2% for the second and third quarters of 2010, 1% for the fourth quarter of 2010 and the first two quarters of 2011 and .375% for all quarters remaining over the life of the securities, a 15% recovery with a 2 year lag, and no prepayments.

Credit Losses Recognized on Investments

As described above, some of the Company's investments in trust preferred securities have experienced fair value deterioration due to credit losses but are not otherwise other-than-temporarily impaired. The following table provides information about those trust preferred securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income (loss) for the three-months ended March 31, 2010 and 2009 (in thousands).

	Accumulated Credit Losses	Accumulated Credit Losses
	March 31, 2010	March 31, 2009
Credit losses on trust preferred securities held		
Beginning of period	$ 1,812	$ -
Additions related to OTTI losses not previously recognized	-	869
Reductions due to sales	-	-
Reductions due to change in intent or likelihood of sale	-	-
Additions related to increases in previously recognized OTTI losses	623	-
Reductions due to increases in expected cash flows	-	-
End of period	$ 2,435	$ 869

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Goodwill and Intangible Assets

The Company has goodwill from business combinations, intangible assets from branch acquisitions, and identifiable intangible assets assigned to core deposit relationships and customer lists of Checkley.

The following table presents gross carrying value and accumulated amortization by major intangible asset class as of March 31, 2010 and December 31, 2009 (in thousands):

	March 31, 2010		December 31, 2009	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Goodwill not subject to amortization (effective 1/1/02)	$21,123	$ 3,760	$21,123	$ 3,760
Intangibles from branch acquisition	3,015	2,613	3,015	2,563
Core deposit intangibles	5,936	4,031	5,936	3,953
Customer list intangibles	1,904	1,555		