

FIRST BUSEY CORP /NV/

Form 10-Q

November 09, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 9/30/2006 Commission File No. 0-15950
FIRST BUSEY CORPORATION
(Exact name of registrant as specified in its charter)

Nevada

37-1078406

(State or other jurisdiction of
Incorporation or organization)

(I.R.S. Employer Identification No.)

201 W. Main St.,
Urbana, Illinois

61801

(Address of principal
executive offices)

(Zip Code)

Registrant's telephone number, including area code: (217) 365-4556

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined by Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 1, 2006
Common Stock, \$.001 par value	21,443,766

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED BALANCE SHEETS
September 30, 2006 and December 31, 2005
(Unaudited)

	September 30, 2006	December 31, 2005
	(Dollars in thousands)	
Assets		
Cash and due from banks	\$ 52,341	\$ 60,957
Federal funds sold	14,329	2,300
Securities available for sale (amortized cost 2006, \$313,496; 2005, \$319,151)	324,887	331,237
Loans (net of allowance for loan losses 2006 \$23,552; 2005 \$23,190)	1,881,676	1,725,972
Premises and equipment	41,304	37,815
Cash surrender value of bank owned life insurance	19,547	18,894
Goodwill	54,386	54,102
Other intangible assets	4,065	5,122
Other assets	26,686	27,023
 Total assets	 \$ 2,419,221	 \$ 2,263,422
 Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest bearing	\$ 235,416	\$ 265,170
Interest bearing	1,713,403	1,544,229
 Total deposits	 \$ 1,948,819	 \$ 1,809,399
 Federal funds purchased and securities sold under agreements to repurchase	 57,147	 50,113
Short-term borrowings	1,000	
Long-term debt	161,708	169,883
Junior subordinated debt owed to unconsolidated trusts	55,000	50,000
Other liabilities	15,870	14,313
 Total liabilities	 \$ 2,239,544	 \$ 2,093,708
 Commitments and contingencies (Note 8)		
 Stockholders Equity		
Preferred stock	\$	\$
Common stock	22	22
Common stock to be issued	8	408
Surplus	45,548	44,812
Retained earnings	141,024	129,729

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Accumulated other comprehensive income	6,863	7,282
Total stockholders' equity before treasury stock, unearned ESOP shares and deferred compensation for stock grants	\$ 193,465	\$ 182,253
Treasury stock, at cost	(11,729)	(10,477)
Unearned ESOP shares and deferred compensation for stock grants	(2,059)	(2,062)
Total stockholders' equity	\$ 179,677	\$ 169,714
Total liabilities and stockholders' equity	\$ 2,419,221	\$ 2,263,422
Common shares outstanding at period end	21,444,766	21,504,082

See accompanying notes to unaudited consolidated financial statements.

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FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
For the Nine Months Ended September 30, 2006 and 2005
(Unaudited)

	2006	2005
	(Dollars in thousands, except per share amounts)	
Interest income:		
Interest and fees on loans	\$ 97,001	\$ 75,453
Interest and dividends on investment securities:		
Taxable interest income	6,551	5,458
Non-taxable interest income	2,458	1,668
Dividends	470	556
Interest on Federal funds sold	188	358
 Total interest income	 \$ 106,668	 \$ 83,493
Interest expense:		
Deposits	\$ 38,597	\$ 23,375
Federal funds purchased and securities sold under agreements to repurchase	2,108	805
Short-term borrowings	57	100
Long-term debt	5,707	4,837
Junior subordinated debt owed to unconsolidated trusts	3,049	2,492
 Total interest expense	 \$ 49,518	 \$ 31,609
Net interest income	\$ 57,150	\$ 51,884
Provision for loan losses	1,000	2,765
 Net interest income after provision for loan losses	 \$ 56,150	 \$ 49,119
Other income:		
Trust	\$ 4,470	\$ 4,277
Commissions and brokers fees, net	1,987	1,679
Service charges on deposit accounts	6,011	5,835
Other service charges and fees	2,187	1,701
Security gains, net	1,880	306
Gain on sales of loans	1,858	1,932
Increase in cash surrender value of life insurance	653	591
Other operating income	1,232	1,316
 Total other income	 \$ 20,278	 \$ 17,637
Other expenses:		
Salaries and wages	\$ 19,878	\$ 16,697
Employee benefits	4,457	3,711

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Net occupancy expense of premises	3,814	3,323
Furniture and equipment expenses	2,677	2,278
Data processing	1,344	1,496
Stationery, supplies and printing	1,023	826
Amortization of intangible assets	1,057	724
Other operating expenses	9,211	7,509
Total other expenses	\$ 43,461	\$ 36,564
Income before income taxes	\$ 32,967	\$ 30,192
Income taxes	11,423	9,821
Net income	\$ 21,544	\$ 20,371
Basic earnings per share	\$ 1.01	\$ 0.99
Diluted earnings per share	\$ 1.00	\$ 0.98
Dividends declared per share of common stock	\$.48	\$ 0.42

See accompanying notes to unaudited consolidated financial statements.

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FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
For the Quarters Ended September 30, 2006 and 2005
(Unaudited)

	2006	2005
	(Dollars in thousands, except per share amounts)	
Interest income:		
Interest and fees on loans	\$ 34,554	\$ 27,670
Interest and dividends on investment securities:		
Taxable interest income	2,210	1,831
Non-taxable interest income	830	628
Dividends	157	181
Interest on Federal funds sold	66	135
 Total interest income	 \$ 37,817	 \$ 30,445
Interest expense:		
Deposits	\$ 14,553	\$ 8,929
Federal funds purchased and securities sold under agreements to repurchase	824	315
Short-term borrowings	36	9
Long-term debt	1,993	1,785
Junior subordinated debt owed to unconsolidated trusts	1,010	933
 Total interest expense	 \$ 18,416	 \$ 11,971
 Net interest income	 \$ 19,401	 \$ 18,474
Provision for loan losses	300	650
 Net interest income after provision for loan losses	 \$ 19,101	 \$ 17,824
 Other income:		
Trust	\$ 1,312	\$ 1,366
Commissions and brokers fees, net	608	628
Service charges on deposit accounts	2,122	2,067
Other service charges and fees	738	617
Security gains (losses), net	794	(106)
Gain on sales of loans	786	920
Increase in cash surrender value of life insurance	219	200
Other operating income	622	426
 Total other income	 \$ 7,201	 \$ 6,118
 Other expenses:		
Salaries and wages	\$ 6,609	\$ 6,062
Employee benefits	1,509	1,332

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Net occupancy expense of premises	1,310	1,255
Furniture and equipment expenses	929	852
Data processing	450	429
Stationery, supplies and printing	348	312
Amortization of intangible assets	353	334
Other operating expenses	3,023	2,587
Total other expenses	\$ 14,531	\$ 13,163
Income before income taxes	\$ 11,771	\$ 10,779
Income taxes	4,129	3,220
Net income	\$ 7,642	\$ 7,559
Basic earnings per share	\$ 0.36	\$ 0.36
Diluted earnings per share	\$ 0.36	\$ 0.36
Dividends declared per share of common stock	\$ 0.16	\$ 0.14

See accompanying notes to unaudited consolidated financial statements

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FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2006 and 2005
(Unaudited)

	2006	2005
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	\$ 21,544	\$ 20,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	340	8
Depreciation and amortization	4,071	3,263
Provision for loan losses	1,000	2,765
Provision for deferred income taxes	(1,590)	(339)
Stock dividends		(339)
Amortization of security discounts, net	(824)	(609)
Gain on sales of investment securities, net	(1,880)	(306)
Gain on sales of loans	(1,858)	(1,932)
Net loss (gain) on sale of ORE properties	6	(180)
Gain on sale and disposition of premises and equipment	(21)	(3)
Increase in cash surrender value of bank owned life insurance	(653)	(591)
Increase in deferred compensation	90	105
Change in assets and liabilities:		
Decrease (increase) in other assets	1,057	(1,991)
(Increase) decrease in other liabilities	(16)	2,488
Increase in interest payable	1,877	1,128
Increase in income taxes receivable		(1,195)
Increase in income taxes payable	(94)	
Net cash provided by operating activities before loan originations and sales	\$ 23,049	\$ 22,643
Loans originated for sale	(124,134)	(133,714)
Proceeds from sales of loans	127,088	132,256
Net cash provided by operating activities	\$ 26,003	\$ 21,185
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	8,120	42,166
Proceeds from maturities of securities classified available for sale	79,199	83,312
Purchase of securities classified available for sale	(77,805)	(87,515)
Increase in Federal funds sold	(12,029)	(49,695)
Increase in loans	(158,597)	(115,138)
Proceeds from sale of premises and equipment	16	70
Proceeds from sale of ORE properties	261	4,675
Purchases of premises and equipment	(6,519)	(4,518)
Purchase of subsidiary, net of cash and due from banks acquired		(12,364)

Net cash used in investing activities

\$ (167,354)

\$ (139,007)

(continued on next page)

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FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the Nine Months Ended September 30, 2006 and 2005
(Unaudited)

	2006	2005
	(Dollars in thousands)	
Cash Flows From Financing Activities		
Net increase in certificates of deposit	\$ 107,187	\$ 46,425
Net increase in demand, money market and savings deposits	32,233	78,817
Cash dividends paid	(10,249)	(8,580)
Net increase in Federal funds purchased and securities sold under agreement to repurchase	7,034	3,503
Proceeds from short-term borrowings	2,000	4,000
Principal payments on short-term borrowings	(1,000)	(14,250)
Proceeds from issuance of long-term debt	50,325	51,500
Principal payments on long-term debt	(58,500)	(41,373)
Proceeds from issuance of junior subordinate debt owed to unconsolidated trusts	30,000	10,000
Redemption of junior subordinate debt owed to unconsolidated trusts	(25,000)	
Purchase of treasury stock	(1,329)	(2,131)
Proceeds from sale of treasury stock	34	1,746
Net cash provided by financing activities	\$ 132,735	\$ 129,657
Net (decrease) increase in cash and due from banks	\$ (8,616)	\$ 11,835
Cash and due from banks, beginning	\$ 60,957	\$ 47,991
Cash and due from banks, ending	\$ 52,341	\$ 59,826

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Other real estate acquired in settlement of loans	\$ 852	\$ 635
Purchase of subsidiary:		
Cash payment	\$	\$ 19,103
Common stock issued		16,778
Total purchase price	\$	\$ 35,881
Assets acquired:		
Cash and due from other banks	\$	\$ 6,739
Federal funds sold		3,746
Securities available for sale		21,007
Loans (net allowance for loan losses)		114,744
Premises and equipment		8,787
Goodwill		22,182

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Other intangible assets	2,371
Other assets	1,710
Liabilities assumed:	
Deposits	(139,430)
Short-term borrowings	(2,964)
Other liabilities	(3,011)
	\$
	\$ 35,881

See accompanying notes to unaudited consolidated financial statements

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FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2006 and 2005
(Unaudited)

	2006	2005
	(Dollars in thousands)	
Net income	\$ 21,544	\$ 20,371
Other comprehensive loss, before tax:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	\$ 1,185	\$ (3,407)
Less reclassification adjustment for gains included in net Income	(1,880)	(306)
Other comprehensive loss, before tax	\$ (695)	\$ (3,101)
Income tax benefit related to items of other comprehensive loss	(276)	(1,227)
Other comprehensive loss, net of tax	\$ (419)	\$ (1,874)
Comprehensive income	\$ 21,126	\$ 18,497

See accompanying notes to unaudited consolidated financial statements

FIRST BUSEY CORPORATION and Subsidiaries
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated interim financial statements of First Busey Corporation (the Corporation), a Nevada corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for quarterly reports on Form 10-Q and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the quarter and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The consolidated financial statements include the accounts of First Busey Corporation and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current presentation.

Note 2: Recent Accounting Pronouncements

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 156, Accounting for Servicing of Financial Assets (SFAS No. 156), which requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practical. An entity can elect either to (1) subsequently measure servicing rights at fair value and report changes in fair value in earnings, or (2) continue the current practice of amortizing servicing rights in proportion to and over the expected period of servicing income or loss. This statement is effective for the Corporation's fiscal year beginning January 1, 2007. The Corporation is evaluating the impact of the statement on its financial position and results of operations.

In February 2006, the FASB issued Statement No. 155, Accounting for Certain Hybrid Financial Instruments an amendment to FASB Statements No. 133 and 140. (SFAS No. 155), which permits, but does not require, fair value

accounting for any

hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). The statement also subjects beneficial interests in securitized financial assets to the requirements of SFAS No. 133.

This statement is effective for all financial instruments acquired, issued, or subject to remeasurement after the beginning of the Corporation's fiscal year beginning January 1, 2007. The Corporation is evaluating the impact of the statement on its financial position and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No. 109,

Accounting for Income Taxes. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This interpretation is effective for the Corporation's fiscal year beginning January 1, 2007. The Corporation does not expect the Interpretation will have a material impact on our financial position, results of operations or liquidity.

Note 3: Unrealized Losses on Investment Securities

Information pertaining to securities with gross unrealized losses as of September 30, 2006, aggregated by investment category and length of time that individual securities have been in continuous loss position follows:

	Continuous unrealized losses existing for less than 12 months		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2006:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 87,785	\$ 235	\$ 62,272	\$ 454	\$ 150,057	\$ 689
Obligations of states and political subdivisions	11,992	41	21,802	258	33,794	299
Mortgage-backed securities	6,071	56	3,164	85	9,235	141
Corporate securities	689	2	1,559	39	2,248	41
Subtotal, debt securities	\$ 106,537	\$ 334	\$ 88,797	\$ 836	\$ 195,334	\$ 1,170
Mutual funds and other equity Securities			57	7	57	7
Total temporarily impaired Securities	\$ 106,537	\$ 334	\$ 88,854	\$ 843	\$ 195,391	\$ 1,177

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Note 4: Loans

The major classifications of loans as of September 30, 2006 and December 31, 2005 were as follows:

	September 30, 2006	December 31, 2005
	(Dollars in thousands)	
Commercial	\$ 224,879	\$ 219,134
Real estate construction	442,322	345,454
Real estate farmland	11,690	10,188
Real estate 1-4 family residential mortgage	541,762	528,922
Real estate multifamily mortgage	108,795	104,502
Real estate non-farm nonresidential mortgage	514,653	470,779
Installment	38,888	45,702
Agricultural	21,014	23,433
	\$ 1,904,003	\$ 1,748,114
Plus net deferred loan costs	1,225	1,048
	1,905,228	1,749,162
Less:		
Allowance for loan losses	23,552	23,190
Net loans	\$ 1,881,676	\$ 1,725,972

The real estate 1-4 family residential mortgage category includes loans held for sale with carrying values of \$10,641,000 at September 30, 2006 and \$11,737,000 at December 31, 2005; these loans had fair market values of \$10,764,000 and \$11,877,000, respectively.

Changes in the allowance for loan losses were as follows:

	Nine Months Ended September 30,	
	2006	2005
	(Dollars in thousands)	
Balance, beginning of year	\$ 23,190	\$ 19,217
Addition due to acquisition		1,208
Provision for loan losses	1,000	2,765
Recoveries applicable to loan balances previously charged off	125	182
Loan balances charged off	(763)	(752)
Balance, September 30	\$ 23,552	\$ 22,620

Note 5: Earnings Per Share

Net income per common share has been computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Dollars and shares in thousands, except per share amounts)			
Net income	\$ 7,642	\$ 7,559	\$ 21,544	\$ 20,371
Shares:				
Weighted average common shares outstanding	21,322	21,031	21,346	20,631
Dilutive effect of outstanding options as determined by the application of the treasury stock method	119	99	99	114
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	21,441	21,130	21,445	20,745
Basic earnings per share	\$ 0.36	\$ 0.36	\$ 1.01	\$ 0.99
Diluted earnings per share	\$ 0.36	\$ 0.36	\$ 1.00	\$ 0.98

Note 6: Stock-based Compensation

First Busey Corporation has two stock-based employee compensation plans, which are described more fully in Note 16 of the Corporation's Annual Report on Form 10-K. Prior to January 1, 2006, the Corporation accounted for those plans under the recognition and measurement provision of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation*. No stock-based employee compensation cost was recognized under the Corporation's Stock Option Plan in the Corporation's Consolidated Statements of Income prior to January 1, 2006, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, the Corporation adopted the fair value recognition provision of FASB Statement No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the nine-month period ended September 30, 2006, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation costs for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

Prior to the adoption of Statement 123(R), the Corporation presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. Statement 123(R) requires cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for those options to be presented as financing cash flows. The Corporation had no material excess cash inflows during the nine months ended September 30, 2006.

The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of Statement 123 to options granted under the Corporation's stock option plan in all periods presented. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing formula and amortized to expense over the shorter of the optionees' service period or the options' vesting periods.

	Three Months Ended		Nine Months	
	September 30, 2006	2005	Ended September 30, 2006	2005
	(dollars in thousands, except per share amounts)			
Net income as reported	\$ 7,642	\$ 7,559	\$ 21,544	\$ 20,371
Add: Stock-based compensation expense included in reported net income, net of related tax effects	82		191	
Deduct: Total stock-based compensation expense for all awards, net of related tax effects	(82)	(96)	(191)	(216)
Pro-forma net income	\$ 7,642	\$ 7,463	\$ 21,544	\$ 20,155
Earnings per share:				
Basic, as reported	\$ 0.36	\$ 0.36	\$ 1.01	\$ 0.99
Less compensation expense		0.01		0.01
Basic, pro forma	\$ 0.36	\$ 0.35	\$ 1.01	\$ 0.98
Diluted, as reported	\$ 0.36	\$ 0.36	\$ 1.00	\$ 0.98
Less compensation expense		0.01		0.01
Diluted, pro forma	\$ 0.36	\$ 0.35	\$ 1.00	\$ 0.97

On April 25 and May 16, 2006, the Corporation granted options to non-employee directors and certain employees, respectively. The Corporation utilizes the weighted average assumptions in the following table to estimate the fair value of stock options at the date of grant using the Black-Scholes option-pricing model. These assumptions are consistent with the provisions of Statement 123(R) and the Corporation's prior period pro forma disclosures of net income and earnings per share, including stock option expense. Management reviews and adjusts the assumptions used to calculate the fair value of an option on a periodic basis to better reflect expected trends. The fair value of stock options will be expensed ratably over the service period or vesting period, whichever is shorter. Generally, option grants to non-employee directors are subject to a service period requirement that is shorter than the associated vesting schedule.

	Directors	Employees
Number of options granted	62,000	188,000
Exercise Price	\$ 20.71	\$ 20.16
Estimated forfeiture rate		8.00%
Risk-free interest rate	4.98%	4.99%

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Expected life, in years	4.2	4.2
Expected volatility	11.3%	11.3%
Expected dividend yield	3.09%	3.17%
Estimated fair value per option	\$ 2.37	\$ 2.27

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A summary of the status of the Corporation's stock option plan for the nine-month period ended September 30, 2006, and the changes during the period ended on that date is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2006	625,925	\$ 17.67
Granted	250,000	20.30
Exercised	(5,325)	14.56
Forfeited	(10,350)	20.14
Outstanding at September 30, 2006	860,250	\$ 18.42
Exercisable at September 30, 2006	331,200	\$ 16.05

The following table summarizes information about stock options outstanding at September 30, 2006:

Exercise Prices	Number	Options Outstanding			Options Exercisable
		Contractual Weighted-Average Remaining Life	Exercise Date	Expiration Date	Number
\$ 14.56	220,200	4.21 years	Apr. 16, 2005	Dec. 16, 2010	220,200
18.07	54,000	2.21 years	Jan. 21, 2005	Dec. 15, 2008	54,000
19.59	290,050	2.96 years	Sept. 14, 2007	Sept. 14, 2009	
19.83	54,000	3.21 years	Jan. 21, 2006	Dec. 15, 2009	54,000
20.16	182,000	5.21 years	Jan. 26, 2009	Dec. 15, 2011	
20.71	60,000	5.21 years	Jan. 26, 2009	Dec. 15, 2011	3,000
	860,250	3.88 years			331,200

Of the 860,250 options the Corporation has outstanding, 290,050 and 239,000 become exercisable on September 14, 2007 and January 26, 2009, respectively. The Corporation will recognize compensation expense of approximately \$247,000 and \$170,000 in 2006 and 2007, before income tax effects, respectively, related to the options becoming exercisable in 2007. Compensation expense recognition of approximately \$196,000, \$190,000, \$147,000 and \$6,000 will occur in 2006 through 2009, before income tax effect, respectively, related to the options becoming exercisable in 2009.

Note 7: Junior Subordinated Debt Owed to Unconsolidated Trusts

First Busey Corporation has established statutory trusts for the sole purpose of issuing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trusts to purchase junior subordinated notes of the Corporation, which are the sole assets of each trust. Concurrent with the issuance of the trust preferred securities, the Corporation issued guarantees for the benefit of the holders of the trust preferred securities. The trust preferred securities are issues that qualify, and are treated by the Corporation, as Tier I regulatory capital. The Corporation owns all of the common securities of each trust. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment.

The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of September 30, 2006:

	First Busey Statutory Trust II	First Busey Statutory Trust III	First Busey Statutory Trust IV
Junior Subordinated Notes:			
Principal balance	\$ 15,000,000	\$ 10,000,000	\$ 30,000,000
Annual interest rate	3-mo LIBOR + 2.65%	3-mo LIBOR + 1.75%	6.94%
Stated maturity date	June 17, 2034	June 15, 2035	June 15, 2036
Call date	June 17, 2009	June 15, 2010	June 15, 2011
Trust Preferred Securities:			
Face value	\$ 15,000,000	\$ 10,000,000	\$ 30,000,000
Annual distribution rate ⁽¹⁾	3-mo LIBOR + 2.65%	3-mo LIBOR + 1.75%	6.94%
Issuance date	April 30, 2004	June 15, 2005	June 15, 2006
Distribution dates ⁽²⁾	Quarterly	Quarterly	Quarterly

(1) First Busey Statutory Trust IV maintains a 5-year fixed coupon of 6.94%, subsequently converting to a floating 3-month LIBOR +1.55%.

(2) All cash distributions are cumulative

The trust preferred securities are subject to mandatory redemption, in whole or in part, upon repayment of the junior subordinated notes at par value at the stated maturity date or upon redemption of the junior subordinated notes on a date no earlier than June 17, 2009, for First Busey Statutory Trust II, June 15, 2010, for First Busey Statutory Trust III, and June 15, 2011, for First Busey Statutory Trust IV. Prior to these respective redemption dates, the junior subordinated notes may also be redeemed by the Corporation (in which case the trust preferred securities would also be redeemed) after the occurrence of certain events that would have a negative tax effect on the Corporation or the trusts, would cause the trust preferred securities to no longer qualify for Tier 1 capital, or would result in a trust being treated as an investment company. 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 notes. The Corporation's obligations under the junior subordinated notes and other relevant trust agreements, in aggregate, constitute a full and unconditional guarantee by the Corporation of each trust's obligations under the trust preferred securities issued by each trust. The Corporation has the right to defer payment of interest on the notes and, therefore, distributions on the trust preferred securities, for up to five years, but not beyond the stated maturity date in the table above.

On April 25, 2006, the Corporation's board of directors approved redemption of the trust preferred securities issued by First Busey Capital Trust I. These securities were redeemed at par value on June 19, 2006, plus accrued but unpaid

distributions. The Corporation received regulatory approval and established a new series of preferred securities in an aggregate principal amount of \$30,000,000 as part of a pooled trust preferred program, First Busey Statutory Trust IV. The proceeds of the new issue were used to redeem the securities of First Busey Capital Trust I and to repay certain outstanding indebtedness of the Corporation.

In March, 2005, the Board of Governors of the Federal Reserve System issued a final rule allowing bank holding companies to continue to include qualifying trust preferred securities in their Tier I Capital for regulatory capital purposes, subject to a 25% limitation to all core (Tier I) capital elements, net of goodwill less any associated deferred tax liability. The final rule provides a five-year transition period, ending March 31, 2009, for applications of the aforementioned quantitative limitation. As of September 30, 2006, 100% of the trust preferred securities noted in the table above qualified as Tier I capital under the final rule adopted in March, 2005.

Note 8: Outstanding Commitments and Contingent Liabilities

The Corporation and its subsidiaries are parties to legal actions which arise in the normal course of their business activities. In the opinion of management, the ultimate resolution of these matters is not expected to have a material effect on the financial position or the results of operations of the Corporation and its subsidiaries.

The Corporation and its subsidiaries are parties to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Corporation and its subsidiaries' exposure to credit loss are represented by the contractual amount of those commitments. The Corporation and its subsidiaries use the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. A summary of the contractual amount of the Corporation's exposure to off-balance-sheet risk follows:

	September 30, 2006	December 31, 2005
	(Dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$526,018	\$ 559,847
Standby letters of credit	16,341	12,567

Commitments to extend credit are agreements to lend to a customer as long as no condition established in the contract has been violated. These commitments are generally at variable interest rates and generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including bond financing and similar transactions and primarily have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds collateral, which may include accounts receivable, inventory, property and equipment, income producing properties, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the corporation would be required to fund the commitment. The maximum potential amount of future payments the Corporation could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Corporation would be entitled to seek recovery from the customer. As of September 30, 2006, and December 31, 2005, no amounts were recorded as liabilities for the Corporation's potential obligations under these guarantees. As of September 30, 2006, the Corporation has no futures, forwards, swaps or option contracts, or other financial instruments with similar characteristics with the exception of rate lock commitments on mortgage loans to be held for sale.

Note 9: Business Combinations

Main Street Trust, Inc.

On September 20, 2006, the Corporation signed a definitive agreement with Main Street Trust, Inc., (Main Street) in a merger of equals stock transaction in which Main Street will merge with and into the Corporation, with the Corporation the surviving entity. Main Street shareholders will receive shares of the Corporation common stock in a fixed exchange ratio of 1.55 shares of the Corporation for each share of Main Street. The combined company will maintain the First Busey Corporation name and NASDAQ Global Select market symbol of BUSE.

The merger is subject to the approval by Main Street's and the Corporation's stockholders, by banking regulators and to other customary conditions.

Tarpon Coast Bancorp, Inc.

On July 29, 2005, First Busey Corporation acquired all the outstanding common stock of Tarpon Coast Bancorp, Inc. (Tarpon) and its subsidiary, Tarpon Coast National Bank, a \$153 million bank headquartered in Port Charlotte, Florida. First Busey Corporation issued 849,965 shares of common stock and paid cash of \$18,797,000 to Tarpon shareholders, which was funded

through the issuance of long-term debt and \$10 million in additional trust preferred securities. Of the 849,965 shares of common stock issued in the Tarpon acquisition, stock certificates representing 387 shares have not been issued to shareholders by First Busey pending the receipt of the appropriate instructions from Tarpon shareholders. The value of these shares has been included in Common stock to be issued on First Busey's consolidated balance sheet. These shares are also included in the Corporation's earnings-per-share calculations. The transaction has been accounted for as a purchase and the results of operations since the acquisition date have been included in the consolidated financial statements. The purchase price of \$35,909,000 was allocated based upon the fair value of the assets acquired and liabilities assumed. The excess of the total acquisition cost over the fair value of the net tangible assets acquired has been allocated to core deposit intangible and goodwill. The core deposit intangible of \$2,371,000 is being amortized over periods ranging from three to five years.

Unaudited operating results for the three and nine months ended September 30, 2006, and pro forma unaudited operating results for the three and nine months ended September 30, 2005, giving effect to the Tarpon Coast acquisition as if it had occurred as of January 1, 2005, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006 (dollars in thousands, except per share data)	2005 (dollars in thousands, except per share data)	2006 (dollars in thousands, except per share data)	2005 (dollars in thousands, except per share data)
Interest income	\$ 37,817	\$ 31,131	\$ 106,668	\$ 88,143
Interest expense	18,416	12,151	49,518	33,017
Provision for loan losses	300	650	1,000	2,825
Noninterest income	7,201	6,186	20,278	18,306
Noninterest expense	14,531	14,880	43,461	41,143
Income before income taxes	\$ 11,771	\$ 9,636	\$ 32,967	\$ 29,464
Income taxes	4,129	2,967	11,423	9,715
Net income	\$ 7,642	\$ 6,669	\$ 21,544	\$ 19,749
Earnings per share basic	\$ 0.36	\$ 0.31	\$ 1.01	\$ 0.93
Earnings per share diluted	\$ 0.36	\$ 0.31	\$ 1.00	\$ 0.92

Note 10: Reportable Segments and Related Information

The Corporation has three reportable segments, Busey Bank, Busey Bank N.A., and Busey Investment Group. Busey Bank provides a full range of banking services to individual and corporate customers through its branch network in Champaign, McLean, Peoria, Tazewell, and Ford Counties in Illinois, through its branch in Indianapolis, Indiana, and through its loan production office in Fort Myers, Florida. Busey Bank N.A. provides a full range of banking services to individual and corporate customers in Lee, Charlotte, and Sarasota Counties in Southwest Florida.

First Capital Bank, acquired by First Busey Corporation on June 1, 2004, merged into Busey Bank on May 20, 2005. Prior to this merger, First Capital Bank was a separate reportable segment providing a full range of banking services to individual and

corporate customers in Peoria and Pekin, Illinois. Following the merger, the assets and operating results of the Peoria and Pekin markets are included in Busey Bank.

Tarpon Coast National Bank, acquired by the Corporation on July 29, 2005, merged into Busey Bank N.A. on February 18, 2006. Prior to this merger, Tarpon Coast National Bank was a separate reportable segment providing a full range of banking services to individual and corporate customers in Charlotte and Sarasota Counties in Southwest

Florida. Following the merger, the assets and operating results of the Charlotte and Sarasota markets are included in Busey Bank N.A.

The Corporation's three reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies.

The segment financial information provided below has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Corporation. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies in the annual report. The Corporation accounts for inter-segment revenue and transfers at current market value.

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Following is a summary of selected financial information for the Corporation's business segments for the nine-month periods ended September 30, 2006, and September 30, 2005:

	Nine Months Ended September 30,	
	2006	2005
	(Dollars in thousands)	
Interest Income:		
Busey Bank	\$ 86,728	\$ 70,304
Busey Bank N.A.	19,810	13,023
Busey Investment Group, Inc.	190	131
All Other	(60)	35
Total Interest Income	\$ 106,668	\$ 83,493
Interest Expense:		
Busey Bank	\$ 36,935	\$ 24,031
Busey Bank N.A.	7,921	4,153
Busey Investment Group, Inc.		
All Other	4,662	3,425
Total Interest Expense	\$ 49,518	\$ 31,609
Other Income:		
Busey Bank	\$ 13,917	\$ 11,666
Busey Bank N.A.	1,841	736
Busey Investment Group, Inc.	5,774	5,617
All Other	(1,254)	(382)
Total Other Income	\$ 20,278	\$ 17,637
Net Income:		
Busey Bank	\$ 21,773	\$ 18,821
Busey Bank N.A.	2,858	2,490
Busey Investment Group, Inc.	1,662	1,603
All Other	(4,749)	(2,543)
Total Net Income	\$ 21,544	\$ 20,371
Goodwill:		
Busey Bank	\$ 30,237	\$ 30,237
Busey Bank N.A.	22,601	21,191
Busey Investment Group, Inc.		
All Other	1,548	1,548

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Total Goodwill	\$ 54,386	\$ 52,976
Total Assets:		
Busey Bank	\$ 1,957,575	\$ 1,845,048
Busey Bank N.A.	443,529	418,537
Busey Investment Group, Inc.	7,301	6,713
All Other	10,816	(42,726)
Total Assets	\$ 2,419,221	\$ 2,227,572

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FORWARD LOOKING STATEMENTS

This presentation includes forward looking statements that are intended to be covered by the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward looking statements include but are not limited to comments with respect to the objectives and strategies, financial condition, results of operations and business of First Busey Corporation. These forward looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward looking statements will not be achieved. The Corporation cautions you not to place undue reliance on these forward looking statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements. These risks, uncertainties and other factors include the general state of the economy, both on a local and national level, the ability of the Corporation to successfully complete acquisitions, the continued growth of geographic regions served by the Corporation, and the retention of key individuals in the Corporation's management structure.

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

The following is management's discussion and analysis of the financial condition of First Busey Corporation and Subsidiaries (Corporation) at September 30, 2006 (unaudited), as compared with December 31, 2005, and the results of operations for the nine months ended September 30, 2006 and 2005 (unaudited), and the results of operations for the three months ended September 30, 2006 and 2005 (unaudited). Management's discussion and analysis should be read in conjunction with the Corporation's consolidated financial statements and notes thereto appearing elsewhere in this quarterly report, as well as the Company's 2005 Annual Report on Form 10-K.

Certain reclassifications have been made to the balances, with no effect on net income, as of and for the three and nine months ending September 30, 2005, to be consistent with the classifications adopted as of and for the three and nine months ending September 30, 2006.

On September 20, 2006, the Corporation signed a definitive agreement with Main Street Trust, Inc., (Main Street) in a merger of equals stock transaction in which Main Street will merge with and into the Corporation, with the Corporation the surviving entity. Main Street shareholders will receive shares of the Corporation common stock in a fixed exchange ratio of 1.55 shares of the Corporation for each share of Main Street. The combined company will maintain the First Busey Corporation name and NASDAQ Global Select market symbol of BUSE . The merger is subject to the approval by Main Street's and the Corporation's stockholders, by banking regulators and to other customary conditions.

The foregoing description of the merger does not purport to be complete and is qualified in its entirety by reference to the Agreement and Plan of Merger, dated September 29, 2006, which was filed as Exhibit 2.1 on a Current Report on Form 8-K on September 21, 2006.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates are those that are critical to the portrayal and understanding of the Corporation's financial condition and results of operations and require management to make assumptions that are difficult, subjective or complex. These estimates involve judgments, estimates and uncertainties that are susceptible to change. In the event that different assumptions or conditions were to prevail, and depending on the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood.

Allowance for Loan Losses

The Corporation has established an allowance for loan losses which represents the Corporation's estimate of the probable losses that have occurred as of the date of the consolidated financial statements. Management has established an allowance for loan losses which reduces the total loans outstanding by an estimate of uncollectible loans. Loans deemed uncollectible are charged against and reduce the allowance. Periodically, a provision for loan losses is charged to current expense. This provision acts to replenish the allowance for loan losses and to maintain the allowance at a level that management deems adequate.

There is no precise method of predicting specific loan losses or amounts which ultimately may be charged off on segments of the loan portfolio. The determination that a loan may become uncollectible, in whole or in part, is a matter of judgment. Similarly, the adequacy of the allowance for loan losses can be determined only on a judgmental basis, after full review, including (a) consideration of economic conditions and their effect on particular industries and specific borrowers; (b) a review of borrowers' financial data, together with industry data, the competitive situation, the borrowers' management capabilities and other factors; (c) a continuing evaluation of the loan portfolio, including monitoring by lending officers and staff credit personnel of all loans which are identified as being of less than acceptable quality; (d) an in-depth evaluation, on a monthly basis, of all impaired loans (loans are considered to be impaired when based on current information and events, it is probable the Corporation will not be able to collect all amounts due); and (e) an evaluation of the underlying collateral for secured lending, including the use of independent appraisals of real estate properties securing loans.

Periodic provisions for loan losses are determined by management based upon the size and the quality of the loan portfolio measured against prevailing economic conditions and historical loan loss experience and also based on specific exposures in the portfolio. Management has instituted a formal loan review system supported by an effective credit analysis and control process. The Corporation will maintain the allowance for loan losses at a level sufficient to absorb estimated uncollectible loans and, therefore, expects to make periodic additions to the allowance for loan losses.

Revenue Recognition

Income on interest-earning assets is accrued based on the effective yield of the underlying financial instruments. A loan is considered to be impaired when, based on current information and events, it is probable the Corporation will not be able to collect all amounts due. The accrual of interest income on impaired loans is discontinued when there is reasonable doubt as to the borrower's ability to meet contractual payments of interest or principal.

FINANCIAL CONDITION AT SEPTEMBER 30, 2006 AS COMPARED TO DECEMBER 31, 2005

Total assets increased \$155,799,000 or 6.9% at September 30, 2006 from \$2,263,422,000 at December 31, 2005.

Securities available for sale decreased \$6,350,000, or 1.9%, to \$324,887,000 at September 30, 2006 from \$331,237,000 at December 31, 2005. Loans increased \$156,066,000, or 8.9%, to \$1,905,228,000 at September 30, 2006, from \$1,749,162,000 at December 31, 2005 primarily due to growth in real estate construction and non-farm nonresidential.

Total deposits increased \$139,420,000, or 7.7%, to \$1,948,819,000 at September 30, 2006, from \$1,809,399,000 at December 31, 2005. Noninterest-bearing deposits decreased \$29,754,000 or 11.2% to \$235,416,000 at September 30, 2006, from \$265,170,000 at December 31, 2005. Interest-bearing deposits increased \$169,174,000 or 11.0% to \$1,713,403,000 at September 30, 2006, from \$1,544,229,000 at December 31, 2005.

During the first nine months of 2006, the Corporation repurchased 65,000 shares of its common stock at an aggregate cost of \$1,329,000. On February 17, 2004, the Corporation's Board of Directors approved a stock repurchase plan for the repurchase of up to 750,000 shares of common stock. Of the shares repurchased during the first nine months of 2006, all were repurchased under the 2004 Stock Repurchase Plan. The Corporation is purchasing shares for treasury as they become available in order to meet future issuance requirements of previously granted non-qualified stock options. As of September 30, 2006, there were 331,200 options currently exercisable, and an additional 529,050 stock options outstanding but not currently exercisable.

ASSET QUALITY

The following table sets forth the components of non-performing assets and past due loans.

	September 30, 2006	December 31, 2005
Non-accrual loans		

(Dollars in thousands)