FIRST BUSEY CORP /NV/
Form 10-Q
August 06, 2010

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 6/30/2010	**Commission File No. 0-15950**

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of Incorporation or organization)	**37-1078406** (I.R.S. Employer Identification No.)
100 W. University Ave.,	
Champaign, Illinois (Address of principal executive offices)	**61820** (Zip Code)

Registrant s telephone number, including area code: **(217) 365-4516**

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 o

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Class	**Outstanding at August 6, 2010**
Common Stock, $.001 par value	66,360,892

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEETS

June 30, 2010 and December 31, 2009

(Unaudited)

	June 30, 2010	December 31, 2009
	(dollars in thousands)	
Assets		
Cash and due from banks	$ 279,021	$ 207,071
Securities available for sale	562,978	569,640
Loans held for sale (fair value 2010 $42,139; 2009 $29,736)	41,223	29,153
Loans (net of allowance for loan losses 2010 $92,129; 2009 $100,179)	2,486,178	2,663,491
Premises and equipment	75,300	77,528
Goodwill	20,686	20,686
Other intangible assets	21,599	23,644
Cash surrender value of bank owned life insurance	36,764	35,750
Other real estate owned	14,299	17,241
Deferred tax asset, net	60,713	66,496
Other assets	100,455	104,152
Total assets	$ 3,699,216	$ 3,814,852
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 438,421	$ 468,230
Interest bearing	2,642,060	2,702,850
Total deposits	$ 3,080,481	$ 3,171,080
Securities sold under agreements to repurchase	135,554	142,325
Short-term borrowings	4,000	
Long-term debt	58,076	82,076
Junior subordinated debt owed to unconsolidated trusts	55,000	55,000
Other liabilities	32,849	36,243
Total liabilities	$ 3,365,960	$ 3,486,724
Stockholders Equity		
Preferred stock, $.001 par value, 1,000,000 shares authorized, issued - 2008 series T, 100,000 shares, $1,000 liquidation value;	$ 99,525	$ 99,460
Common stock, $.001 par value, authorized 200,000,000 shares; issued 68,071,497	68	68
Additional paid-in capital	510,192	510,198
Accumulated deficit	(254,884)	(256,976)
Accumulated other comprehensive income	11,789	8,812
Total stockholders equity before treasury stock and unearned ESOP shares	$ 366,690	$ 361,562
Common stock shares held in treasury at cost 1,650,605	(32,183)	(32,183)
Unearned ESOP shares 60,000 shares	(1,251)	(1,251)
Total stockholders equity	$ 333,256	$ 328,128
Total liabilities and stockholders equity	$ 3,699,216	$ 3,814,852
Common shares outstanding at period end	66,360,892	66,360,892

See accompanying notes to unaudited consolidated financial statements.

3

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Six Months Ended June 30, 2010 and 2009

(Unaudited)

		2010		2009
	(dollars in thousands, except per share amounts)			
Interest income:				
Interest and fees on loans	$	71,580	$	83,747
Interest and dividends on investment securities:				
Taxable interest income		7,601		10,406
Non-taxable interest income		1,496		1,713
Dividends				8
Total interest income	$	80,677	$	95,874
Interest expense:				
Deposits	$	19,210	$	34,315
Federal funds purchased and securities sold under agreements to repurchase		311		628
Short-term borrowings		3		898
Long-term debt		1,684		2,580
Junior subordinated debt owed to unconsolidated trusts		1,364		1,519
Total interest expense	$	22,572	$	39,940
Net interest income	$	58,105	$	55,934
Provision for loan losses		22,200		57,500
Net interest income (loss) after provision for loan losses	$	35,905	$	(1,566)
Other income:				
Trust fees	$	7,645	$	6,553
Commissions and brokers fees, net		911		947
Remittance processing		4,853		6,635
Service charges on deposit accounts		5,461		5,959
Other service charges and fees		2,503		2,330
Gain on sales of loans		5,880		6,133
Security gains, net		742		75
Other operating income		2,703		4,989
Total other income	$	30,698	$	33,621
Other expenses:				
Salaries and wages	$	19,734	$	21,421
Employee benefits		5,182		5,571
Net occupancy expense of premises		4,573		4,971
Furniture and equipment expenses		3,109		3,759
Data processing		3,847		3,662
Amortization of intangible assets		2,045		2,180
Regulatory expense		3,503		4,977
OREO expense		1,063		390
Other operating expenses		9,824		9,048
Total other expenses	$	52,880	$	55,979
Income (loss) before income taxes	$	13,723	$	(23,924)
Income taxes		3,821		(10,688)
Net income (loss)	$	9,902	$	(13,236)
Preferred stock dividends and discount accretion		2,565		1,730
Net income (loss) available to common shareholders	$	7,337	$	(14,966)
Basic earnings (loss) per common share	$	0.11	$	(0.42)
Diluted earnings (loss) per common share	$	0.11	$	(0.42)
Dividends declared per share of common stock	$	0.08	$	0.28

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended June 30, 2010 and 2009

(Unaudited)

		2010		2009
		(dollars in thousands, except per share amounts)		
Interest income:				
Interest and fees on loans	$	35,544	$	41,607
Interest and dividends on investment securities:				
Taxable interest income		3,696		5,134
Non-taxable interest income		744		855
Dividends				3
Total interest income	$	39,984	$	47,599
Interest expense:				
Deposits	$	9,259	$	16,498
Federal funds purchased and securities sold under agreements to repurchase		148		284
Short-term borrowings		3		399
Long-term debt		790		1,306
Junior subordinated debt owed to unconsolidated trusts		684		742
Total interest expense	$	10,884	$	19,229
Net interest income	$	29,100	$	28,370
Provision for loan losses		7,500		47,500
Net interest income (loss) after provision for loan losses	$	21,600	$	(19,130)
Other income:				
Trust	$	3,435	$	3,348
Commissions and brokers fees, net		471		428
Remittance processing		2,233		3,381
Service charges on deposit accounts		2,728		3,101
Other service charges and fees		1,293		1,191
Gain on sales of loans		3,442		3,715
Security gains, net				54
Other operating income		802		2,282
Total other income	$	14,404	$	17,500
Other expenses:				
Salaries and wages	$	10,068	$	10,792
Employee benefits		2,543		2,754
Net occupancy expense of premises		2,231		2,396
Furniture and equipment expenses		1,578		1,823
Data processing		1,951		1,930
Amortization of intangible assets		1,022		1,090
Regulatory expense		2,040		4,143
OREO expense		670		252
Other operating expenses		5,564		4,920
Total other expenses	$	27,667	$	30,100
Income (loss) before income taxes	$	8,337	$	(31,730)
Income taxes		2,652		(12,601)
Net income (loss)	$	5,685	$	(19,129)
Preferred stock dividends and discount accretion		1,283		1,343
Net income (loss) available to common shareholders	$	4,402	$	(20,472)
Basic earnings (loss) per share	$	0.07	$	(0.57)
Diluted earnings (loss) per share	$	0.07	$	(0.57)

Dividends declared per share of common stock	$	0.04	$	0.08

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2010 and 2009

(Unaudited)

	2010	2009
	(dollars in thousands)	
Cash Flows from Operating Activities		
Net income (loss)	$ 9,902	$ (13,236)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based and non-cash compensation	58	70
Depreciation and amortization	5,226	5,786
Provision for loan losses	22,200	57,500
Provision for deferred income taxes	3,820	4,668
Amortization of security premiums and discounts, net	2,394	2,442
Gain on sales of investment securities, net	(742)	(75)
Gain on sales of loans	(5,880)	(6,133)
Net loss on sales of ORE properties	223	729
Settlement of post retirement benefit liabilities		(2,021)
Increase in cash surrender value of bank owned life insurance	(1,014)	(651)
Decrease in deferred compensation, net	(11)	(8)
Change in assets and liabilities:		
Decrease in other assets	4,572	926
Decrease in other liabilities	(1,114)	(2,230)
Decrease in interest payable	(2,269)	(625)
Increase in income taxes receivable		(13,302)
Net cash provided by operating activities before loan originations and sales	$ 37,365	$ 33,840
Loans originated for sale	(240,243)	(377,242)
Proceeds from sales of loans	234,053	353,312
Net cash provided by operating activities	$ 31,175	$ 9,910
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	31,168	8,433
Proceeds from maturities of securities classified available for sale	104,476	110,574
Purchase of securities classified available for sale	(125,694)	(118,542)
Decrease in loans	148,645	53,108
Proceeds from sale of premises and equipment	48	563
Proceeds from sale of other real estate properties	8,312	3,642
Purchases of premises and equipment	(1,001)	(2,519)
Net cash provided by investing activities	$ 165,954	$ 55,259

(continued on next page)

FIRST BUSEY CORPORATION and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the Six Months Ended June 30, 2010 and 2009

(Unaudited)

		2010		2009
		(dollars in thousands)		
Cash Flows From Financing Activities				
Net decrease in certificates of deposit	$	(165,877)	$	(237,574)
Net increase in demand, money market and savings deposits		75,278		74,954
Cash dividends paid		(7,809)		(10,984)
Net decrease in Federal funds purchased and securities sold under agreements to repurchase		(6,771)		(28,881)
Proceeds from short-term borrowings		4,000		
Principal payments on short-term borrowings				(53,000)
Principal payments on long-term debt		(24,000)		(9,000)
Proceeds from issuance of CPP preferred stock and warrants				100,000
Net cash used in financing activities	$	(125,179)	$	(164,485)
Net increase (decrease) in cash and due from banks	$	71,950	$	(99,316)
Cash and due from banks, beginning	$	207,071	$	190,113
Cash and due from banks, ending	$	279,021	$	90,797

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for:				
Interest	$	24,842	$	40,565
Non-cash investing and financing activities:				
Other real estate acquired in settlement of loans	$	6,468	$	4,907
Non-cash stock option activity	$		$	22
Dividends accrued	$	760	$	708

See accompanying notes to unaudited consolidated financial statements

FIRST BUSEY CORPORATION and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(dollars in thousands)			
Net income (loss)	$ 5,685	$ (19,129)	$ 9,902	$ (13,236)
Other comprehensive income (loss), before tax:				
Unrealized net gains (losses) on securities:				
Unrealized net holding gains (losses) arising during period	$ 4,539	$ (1,696)	$ 5,683	$ (1,641)
Less adjustment for gains included in net income (loss)		(54)	(742)	(75)
Other comprehensive income (loss), before tax	$ 4,539	$ (1,750)	$ 4,941	$ (1,716)
Income tax expense (benefit) related to items of other comprehensive income (loss)	1,804	(695)	1,964	(682)
Other comprehensive income (loss), net of tax	$ 2,735	$ (1,055)	$ 2,977	$ (1,034)
Comprehensive income (loss)	$ 8,420	$ (20,184)	$ 12,879	$ (14,270)

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 Company), 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, 2009.

The accompanying consolidated balance sheet as of December 31, 2009, which has been derived from audited financial statements, and the 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 six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The consolidated financial statements include the accounts of the Company 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 with no effect on net income or stockholders equity.

In preparing the accompanying consolidated financial statements, the Company s management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. Material estimates which are particularly susceptible to significant change in the near term relate to the fair value of investment securities, the determination of the allowance for loan losses, including valuation of real estate and related loan collateral, and valuation allowance on the deferred tax asset.

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements included in this Annual Report on Form 10-Q were issued. There were no significant subsequent events for the quarter ended June 30, 2010 through the date of these financial statements that warranted adjustment to or disclosure in the consolidated financial statement.

Note 2: Recent Accounting Pronouncements

FASB ASC Topic 310, Receivables: Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. On July 21, 2010, new authoritative accounting guidance (Accounting Standards Update No. 2010-20) under ASC Topic 310 was issued which requires an entity to provide more information in their disclosures about the credit quality of their financing receivables and the credit reserves held against them. This statement addresses only disclosures and does not change recognition or measurement. The new authoritative accounting guidance under ASC Topic 310 will be effective for the Company s financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required beginning on or after January 1, 2011.

FASB ASC Topic 815, Derivatives and Hedging. New authoritative accounting guidance (Accounting Standards Update No. 2010-11) under ASC Topic 815 clarifies that the only form of an embedded credit derivative that is exempt from embedded derivative bifurcation requirements are those that relate to the subordination of one financial instrument to another. Entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The provisions of Topic 815 will be effective for the Company on July 1, 2010 and are not expected to have a significant impact on the Company s financial statements.

FASB ASC Topic 820-10, Fair Value Measurements and Disclosures Improving Disclosures About Fair Value Measurements. New authoritative accounting guidance (Accounting Standards Update No. 2010-06) in this update require new disclosures about significant transfers in and out of Level 1 and Level 2 fair value measurements. The amendments also require a reporting entity to provide information about activity for purchases, sales, issuances and settlements in Level 3 fair value measurements and clarify disclosures about the level of disaggregation and disclosures about inputs and valuation techniques. This update became effective for the Company for interim and annual reporting periods beginning after December 15, 2009 and did not have a significant impact on the Company s financial statements.

FASB ASC Topic 860, Transfers and Servicing Accounting for Transfers of Financial Assets. New authoritative accounting guidance (Accounting Standards Update No. 2009-16) under ASC Topic 860 amends prior guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. ASC Topic 860 eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The provision became effective on January 1, 2010 and did not have a significant impact on the Company s financial statements.

Note 3: Securities

The amortized cost and fair values of securities classified available for sale are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
June 30, 2010:				
U.S. Treasury securities	$ 708	$ 72	$	$ 780
Obligations of U.S. government corporations and agencies	354,776	10,353		365,129
Obligations of states and political subdivisions	77,243	3,106	(47)	80,302
Mortgage-backed securities	106,332	4,996		111,328
Corporate debt securities	1,793	61	(1)	1,853
	540,852	18,588	(48)	559,392
Mutual funds and other equity securities	2,561	1,025		3,586
	$ 543,413	$ 19,613	$ (48)	$ 562,978

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
December 31, 2009:				
U.S. Treasury securities	$ 710	$ 72	$	$ 782
Obligations of U.S. government corporations and agencies	339,023	7,401	(394)	346,030
Obligations of states and political subdivisions	80,229	2,480	(163)	82,546
Mortgage-backed securities	131,229	4,058	(2)	135,285
Corporate debt securities	1,662	63	(4)	1,721
	552,853	14,074	(563)	566,364
Mutual funds and other equity securities	2,163	1,113		3,276
	$ 555,016	$ 15,187	$ (563)	$ 569,640

Gains and losses related to sales of securities are summarized as follows:

	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	(dollars in thousands)			
Gross security gains	$	742	$	90
Gross security losses				(15)
Net security gains	$	742	$	75

The following presents information pertaining to securities with gross unrealized losses as of June 30, 2010 and December 31, 2009, aggregated by investment category and length of time that individual securities have been in continuous loss position:

	Less than 12 months				Greater than 12 months				Total			
	Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses	
					(dollars in thousands)							
June 30, 2010:												
Obligations of states and political subdivisions		352		2		2,771		45		3123		47
Mortgage-backed securities(1)		134								134		
Corporate debt securities		145		1						145		1
Total temporarily impaired securities	$	631	$	3	$	2,771	$	45	$	3,402	$	48

(1) Unrealized loss was less than one-thousand dollars.

	Less than 12 months				Greater than 12 months				Total			
	Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses	
					(dollars in thousands)							
December 31, 2009:												
Obligations of U.S. government agencies and corporations	$	53,357	$	394	$		$		$	53,357	$	394
Obligations of states and political subdivisions		5,772		24		5,759		139		11,531		163
Mortgage-backed securities		427		2						427		2
Corporate debt securities						96		4		96		4
Total temporarily impaired securities	$	59,556	$	420	$	5,855	$	143	$	65,411	$	563

The total number of investment securities in an unrealized loss position as of June 30, 2010 and December 31, 2009 was 11 and 42, respectively. The unrealized losses resulted from changes in market interest rates and liquidity, not from changes in the probability of receiving the contractual cash flows. The Company does not intend to sell the securities and it is not more-likely-than-not that the Company will be required to sell the securities prior to recovery of amortized cost. Full collection of the amounts due according to the contractual terms of the securities is expected; therefore, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2010.

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 whether we have the intent to sell the security and it is more likely than not we will have to sell the security before recovery of its cost basis.

The amortized cost and fair value of debt securities available for sale as of June 30, 2010, by contractual maturity, are shown below. Mutual funds and other equity securities do not have stated maturity dates and therefore are not included in the following maturity summary.

		Amortized Cost		Fair Value
		(dollars in thousands)		
Due in one year or less	$	81,406	$	82,365
Due after one year through five years		312,233		322,946
Due after five years through ten years		72,664		76,413
Due after ten years		74,549		77,668
	$	540,852	$	559,392

Investment securities with carrying amounts of $369.9 million and $400.3 million on June 30, 2010 and December 31, 2009, respectively, were pledged as collateral for public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

Note 4: Loans

The major classifications of loans as of June 30, 2010 and December 31, 2009 were as follows:

		June 30, 2010		December 31, 2009
		(dollars in thousands)		
Commercial	$	373,714	$	390,358
Real estate construction		256,328		328,052
Real estate - farmland		63,362		62,049
Real estate - 1-4 family residential mortgage		627,470		657,738
Real estate - multifamily mortgage		267,113		276,303
Real estate - non-farm nonresidential mortgage		887,637		934,803
Installment		64,725		70,569
Agricultural		36,978		42,687
	$	2,577,327	$	2,762,559
Plus:				
Net deferred loan costs		980		1,111
		2,578,307		2,763,670
Less:				
Allowance for loan losses		92,129		100,179
Net loans	$	2,486,178	$	2,663,491

Geographic distribution of loans excluding loans held for sale and deferred loan fees, by call report category, is as follows:

	June 30, 2010 (dollars in thousands)		
	Illinois	Florida	Indiana
Commercial	$ 321,694	$ 17,297	$ 34,723
Real estate construction	169,229	45,021	42,078
Real estate - farmland	59,924	3,438	
Real estate - 1 to 4 family residential mortgage	471,394	141,092	14,984
Real estate - multifamily mortgage	260,199	2,116	4,798
Real estate - non-farm nonresidential mortgage	672,883	161,640	53,114
Installment	62,949	1,351	425
Agricultural	36,978		
Total	$ 2,055,250	$ 371,955	$ 150,122

	December 31, 2009 (dollars in thousands)		
	Illinois	Florida	Indiana
Commercial	$ 339,410	$ 15,246	$ 35,702
Real estate construction	181,021	91,934	55,097
Real estate - farmland	57,703	4,346	
Real estate - 1 to 4 family residential mortgage	492,355	145,619	19,764
Real estate - multifamily mortgage	268,304	4,016	3,983
Real estate - non-farm nonresidential mortgage	713,688	165,522	55,593
Installment	68,474	1,660	435
Agricultural	42,687		
Total	$ 2,163,642	$ 428,343	$ 170,574

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Changes in the allowance for loan losses were as follows:

	Six Months Ended June 30,			
	2010		2009	
	(dollars in thousands)			
Balance, beginning of year	$	100,179	$	98,671
Provision for loan losses		22,200		57,500
Recoveries applicable to loan balances previously charged off		12,695		1,032
Loan balances charged off		42,945		68,654
Balance, June 30	$	92,129	$	88,549

A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect scheduled payments of principal and interest payments when due according to the terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loans and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Loans contractually past due in excess of 90 days and loans classified as non-accrual are summarized as follows:

	June 30, 2010		December 31, 2009	
	(dollars in thousands)			
Total loans 90 days past due and still accruing				
Illinois	$	1,604	$	4,022
Indiana		27		
Florida		200		144
		1,831		4,166
Total non-accrual loans				
Illinois	$	36,812	$	24,009
Indiana		17,587		18,089
Florida		31,570		40,035
		85,969		82,133
Total non-performing loans	$	87,800	$	86,299

Impaired loan totals in the categories below are net of partial charge-offs taken against those loans during the year. The balance shown does not reflect the total amounts due from the customer. The following table presents data on impaired loans:

	June 30, 2010	December 31, 2009
	(dollars in thousands)	
Impaired loans for which a specific allowance has been provided	$ 13,195	$ 5,273
Impaired loans for which no specific allowance has been provided	127,499	127,669
Total loans determined to be impaired	$ 140,694	$ 132,942
Allowance for loan loss for impaired loans included in the allowance for loan losses	$ 4,845	$ 1,850

Note 5: Goodwill

Other than goodwill, the Company does not have any other intangible assets that are not amortized. Goodwill is subject to at least annual impairment assessments. The Company has established December 31 as the annual impairment assessment date. Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit, which for the Company is each of our operating segments. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any. The first step utilizes Level 2 inputs to establish the estimated fair value of the reporting unit, which are primarily valuations of comparable public companies and comparable public transaction multiples. Due to the current economic conditions, it is possible we will evaluate our goodwill for impairment on a more frequent basis than annually. Future evaluations may result in further impairment.

During 2009, the Company recorded a full impairment of the goodwill associated with its banking operations totaling $208.2 million. The remaining goodwill on the balance sheet relates to FirsTech, our remittance processing subsidiary, and Busey Wealth Management.

The Company determined that an interim impairment test on goodwill was not required during the quarter ended June 30, 2010.

Note 6: Short-term Borrowings

The following table sets forth the distribution of short-term borrowings and weighted average interest rates at June 30, 2010. Securities sold under agreements to repurchase generally represent overnight borrowing transactions. Other short-term borrowings consist of notes with maturities of less than one year.

	Securities sold under agreements to repurchase		Other short-term borrowings	
	(dollars in thousands)			
2010				
Balance, June 30, 2010	$	135,554	$	4,000
Weighted average interest rate at end of period		0.40%		3.35%
Maximum outstanding at any month end	$	137,592	$	4,000
Average daily balance	$	133,435	$	22
Weighted average interest rate during period (1)		0.47%		27.50%

(1)The weighted average interest rate is computed by dividing total interest for the period by the average daily balance outstanding. The weighted average interest rate on other short-term borrowings is higher than expected due to unutilized line fees included in interest expense.

Note 7: Earnings Per Common Share

Net income (loss) per common share has been computed as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010		2009		2010		2009	
	(in thousands, except per share data)							
Net income (loss) available to common shareholders	$	4,402	$	(20,472)	$	7,337	$	(14,966)
Shares:								
Weighted average common shares outstanding		66,361		35,816		66,361		35,816
Dilutive effect of outstanding options as determined by the application of the treasury stock method								
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation		66,361		35,816		66,361		35,816
Basic earnings (loss) per share	$	0.07	$	(0.57)	$	0.11	$	(0.42)
Diluted earnings (loss) per share	$	0.07	$	(0.57)	$	0.11	$	(0.42)

Basic earnings per share are computed by dividing net income available to common shareholders for the year by the weighted average number of shares outstanding.

Diluted earnings per share are determined by dividing net income available to common shareholders for the year by the weighted average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents assume exercise of stock options and use of proceeds to purchase treasury stock at the average market price for the period. If the average market price for the period exceeds the strike price of a stock option, that option is considered anti-dilutive and is excluded from the calculation of common stock equivalents. The calculation of the diluted earnings per share for the three and six month periods ended June 30, 2010 and 2009 does not reflect the assumed exercise of potentially dilutive stock options because the effect would have been anti-dilutive due to the lower market price for the period. None of the Company s 1,521,518 outstanding options or 573,833 warrants were potentially dilutive for the three and six month periods ended June 30, 2010 and 2009.

Note 8: Stock-based Compensation

Under the terms of the Company s stock option plans, the Company is allowed, but not required, to source stock option exercises from its inventory of treasury stock. The Company has historically sourced stock option exercises from its treasury stock inventory, including exercises for the year ended December 31, 2009. As of June 30, 2010, under the Company s stock repurchase plan, 895,655 additional shares were authorized for repurchase. The repurchase plan has no expiration date and expires when the Company has repurchased all of the remaining authorized shares. However, because of First Busey s participation in Capital Purchase Program under the Troubled Asset Relief Program, it will not be permitted to repurchase any shares of its common stock, other than in connection with benefit plans consistent with past practice, until such time as the U.S. Department of the Treasury no longer holds any equity securities in the Company.

During the second quarter of 2010, the Company adopted the First Busey Corporation 2010 Equity Incentive Plan (2010 Equity Plan), which was approved at the annual stockholders meeting on May 19, 2010. The company will no longer make any additional grants under the prior plans. The prior plans include: the First Busey Corporation 1993 Restricted Stock Award Plan, the First Busey Corporation 1999 Stock Option Plan, the Main Street Trust, Inc. 2000 Stock Incentive Plan, and the First Busey Corporation 2004 Stock Option Plan.

The Company s equity incentive plans are designed to encourage ownership of our common stock by our employees and directors, to provide additional incentive for them to promote the success of our business, and to attract and retain talented personnel. All of our employees and directors and those of our subsidiaries are eligible to receive awards under the plans.

Subject to permitted adjustments for certain corporate transactions, the maximum number of shares that may be delivered to participants, or their beneficiaries, under the 2010 Equity Plan is 4,000,000 shares of First Busey common stock. To the extent that any shares of stock covered by an award (including stock awards) under the 2010 Equity Plan, or the prior plans, are not delivered for any reason, including because the award is forfeited, canceled, settled in cash or shares are withheld to satisfy tax withholding requirements, such shares will not be deemed to have been delivered for purposes of determining the maximum number of shares of stock available for delivery and will again become available for usage under the 2010 Equity Plan. With respect to stock appreciation rights, or SARs, that are settled in stock, only actual shares delivered shall be counted for purposes of these limitations. If any option granted under the 2010 Equity Plan is exercised by tendering shares of stock, only the number of shares of stock issued net of the shares of stock tendered shall be counted for purposes of these limitations.

The 2010 Equity Plan s effective date is May 19, 2010. The 2010 Equity Plan will continue in effect until terminated by the board of directors; provided that no awards may be granted under the 2010 Equity Plan after the ten-year anniversary of the effective date. Any awards that are outstanding after the tenth anniversary of the effective date will remain subject to the terms of the 2010 Equity Plan.

The following additional limits apply to awards under the 2010 Equity Plan:

- the maximum number of shares of stock that may be covered by options or SARs that are intended to be performance-based compensation which are granted to any one participant during any calendar year is 400,000 shares;

- the maximum number of shares of stock that may be covered by stock awards that are intended to be performance-based compensation which are granted to any one participant during any calendar year is 200,000 shares; and

- the maximum dollar amount of cash incentive awards or cash-settled stock awards intended to be performance-based compensation payable to any one participant with respect to any calendar year is $1,000,000.

On June 22, 2010, the Company issued 67,500 stock options to First Busey Corporation s non-employee directors. The stock options have an exercise price of $4.49, vest on June 1, 2011 and expire on June 1, 2021.

Number of options granted		67,500
Exercise Price	$	4.49
Estimated forfeiture rate		%
Risk-free interest rate		1.98%
Expected life, in years		4.9
Expected volatility		47.17%
Expected dividend yield		3.01%
Estimated fair value per option	$	1.48

Expected life and estimated forfeiture rate is based on historical exercise and termination behavior. Expected stock price volatility is based on historical volatility of the Company s common stock and correlates with the expected life of the options. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with a remaining term approximately equal to the expected life of the option. The expected dividend yield represents the annual dividend yield as of the date of grant. Management reviews and adjusts the assumptions used to calculate the fair value of an option as of each grant date to better reflect expected trends.

A summary of the status of and changes in the Company s stock option plans for the six months ended June 30, 2010 follows:

	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	1,592,755	$	16.12	
Granted	67,500		4.49	

Exercised				
Forfeited	138,737		12.72	
Outstanding at end of period	1,521,518	$	15.92	3.66
Exercisable at end of period	1,454,018	$	16.80	3.73

As of June 30, 2010, the Company had an insignificant amount of unrecognized stock option expense. The Company recognized an insignificant amount of compensation expense related to stock options for the six months ended June 30, 2010.

The total intrinsic value of stock options exercised in the six months ended June 30, 2009 was insignificant.

Note 9: Income Taxes

At June 30, 2010, the Company was under examination by the Internal Revenue Service for tax years 2007 and 2008. Although not finalized, the Company has $1.1 million accrued for anticipated adjustments, including interest, as a result of the examination.

The Company was also under examination by the Illinois Department of Revenue for 2007 and 2008 income tax filings and the Florida Department of Revenue for 2006, 2007 and 2008 Corporate income tax filings. Both state examinations are expected to be finalized in the third quarter.

Note 10: Outstanding Commitments and Contingent Liabilities

Legal Matters

The Company 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 Company and its subsidiaries.

Credit Commitments and Contingencies

The Company 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 Company and its subsidiaries exposure to credit loss are represented by the contractual amount of those commitments. The Company 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 Company s exposure to off-balance-sheet risk follows:

	June 30, 2010	December 31, 2009
	(dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 516,677	$ 544,589
Standby letters of credit	18,407	19,002

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 Company upon extension of credit, is based on management s credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer s obligation 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 Company holds collateral, which may include accounts receivable, inventory, property and equipment, and 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 Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of June 30, 2010, and December 31, 2009, no amounts were recorded as liabilities for the Company s potential obligations under these guarantees.

As of June 30, 2010, the Company had 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 11: Reportable Segments and Related Information

Following the August 2009 merger of Busey Bank, N.A. into Busey Bank, the Company has three reportable segments, Busey Bank, FirsTech and Busey Wealth Management. Busey Bank provides a full range of banking services to individual and corporate customers through its branch network in downstate Illinois, through its branch in Indianapolis, Indiana, and through its branch network in southwest Florida. FirsTech provides remittance processing for online bill payments, lockbox and walk-in payments. Busey Wealth Management is the parent company of Busey Trust Company, which provides a full range of trust and investment management services, including estate and financial planning, securities brokerage, investment advice, tax preparation, custody services and philanthropic advisory services.

The Company 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 accounting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Following is a summary of selected financial information for the Company s business segments:

	Goodwill		Total Assets	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
	(dollars in thousands)		(dollars in thousands)	
Goodwill & Total Assets:				
Busey Bank	$	$	$ 3,651,592	$ 3,766,612
FirsTech	8,992	8,992	23,820	23,294
Busey Wealth Management	11,694	11,694	25,899	24,731
All Other			(2,095)	215
Total Goodwill	$ 20,686	$ 20,686	$ 3,699,216	$ 3,814,852

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(dollars in thousands)		(dollars in thousands)	
Interest Income:				
Busey Bank	$ 39,918	$ 47,537	$ 80,548	$ 95,743
FirsTech	15	12	31	22
Busey Wealth Management	61	54	121	114
All Other	(10)	(4)	(23)	(5)
Total Interest Income	$ 39,984	$ 47,599	$ 80,677	$ 95,874
Interest Expense:				
Busey Bank	$ 10,109	$ 18,205	$ 21,034	$ 37,856
FirsTech				
Busey Wealth Management				
All Other	775	1,024	1,538	2,084
Total Interest Expense	$ 10,884	$ 19,229	$ 22,572	$ 39,940
Other Income:				
Busey Bank	$ 8,898	$ 8,990	$ 19,008	$ 19,384
FirsTech	2,276	3,404	4,917	6,685
Busey Wealth Management	3,697	3,315	7,223	6,411
All Other	(467)	1,791	(450)	1,141
Total Other Income	$ 14,404	$ 17,500	$ 30,698	$ 33,621
Net Income (loss):				
Busey Bank	$ 5,302	$ (20,135)	$ 8,772	$ (14,265)
FirsTech	456	847	1,097	1,669
Busey Wealth Management	959	717	1,858	1,279
All Other	(1,032)	(558)	(1,825)	(1,919)
Total Net Income (loss)	$ 5,685	$ (19,129)	$ 9,902	$ (13,236)

Note 12: Fair Value Measurements

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. FASB ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect the Company s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to those Company assets and liabilities that are carried at fair value, effective January 1, 2009. Prior to 2009, these valuation methodologies were applied to only financial assets and liabilities that were carried at fair value.

There were no transfers between levels during the quarter ended June 30, 2010.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable data. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Company s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Securities Available for Sale. Securities classified as available for sale are reported at fair value utilizing level 1 and level 2 measurements. For corporate debt, mutual funds and equity securities, unadjusted quoted prices in active markets for identical assets are utilized to determine fair value at the measurement date and have been classified as level 1 in the ASC 820 fair value hierarchy. For all other securities, the Company obtains fair value measurements from an independent pricing service. The independent pricing service evaluations are based on market data. The independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and, for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the independent pricing service evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, the independent pricing service uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and develop prepayment scenarios. The models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

The market inputs that the independent pricing service normally seeks for evaluations of securities, listing in approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. The independent pricing service also monitors market indicators, industry and economic events. Information of this nature is a trigger to acquire further market data. For certain security types, additional inputs may be used, or some of the market inputs may not be applicable. Evaluators may prioritize inputs differently on any given day for any security based on market conditions, and not all inputs listed are available for use in the evaluation process for each security evaluation on a given day. Because the data utilized was observable, the securities have been classified as level 2 in the ASC 820 fair value hierarchy.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
June 30, 2010				
Securities available-for-sale:				
U.S. Treasury	$	$ 780	$	$ 780
U.S. government agencies and corporations		365,129		365,129
Obligations of states and political subdivisions		80,302		80,302
Mortgage-backed		111,328		111,328
Corporate debt securities	1,853			1,853
Mutual funds and other equity	3,586			3,586
	$ 5,439	$ 557,539	$	$ 562,978
December 31, 2009				
Securities available-for-sale:				
U.S. Treasury	$	$ 782	$	$ 782
U.S. government agencies and corporations		346,030		346,030
Obligations of states and political subdivisions		82,546		82,546
Mortgage-backed		135,285		135,285
Corporate debt	1,721			1,721
Mutual funds and other equity	3,276			3,276
	$ 4,997	$ 564,643	$	$ 569,640

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Impaired Loans. The Company does not record impaired loans at fair value on a recurring basis. However, periodically, a loan is considered impaired and is reported at the fair value of the underlying collateral, less estimated costs to sell, if repayment is expected solely from the collateral. Impaired loans measured at fair value typically consist of loans on non-accrual status and restructured loans in compliance with modified terms. Collateral values are estimated using a combination of observable inputs, including recent appraisals and unobservable inputs based on customized discounting criteria. Due to the significance of the unobservable inputs, all impaired loan fair values have been classified as level 3 in the ASC 820 fair value hierarchy.

Non-financial assets and non-financial liabilities measured at fair value include foreclosed assets (upon initial recognition or subsequent impairment). Foreclosed assets are measured using a combination of observable inputs, including recent appraisals and unobservable inputs based on customized discounting criteria. Due to the significance of the unobservable inputs, all foreclosed asset fair values have been classified as level 3 in the ASC 820 fair value hierarchy.

The following table summarizes financial assets and financial liabilities measured at fair value on a non-recurring basis as of

June 30, 2010 and December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(dollars in thousands)		
June 30, 2010				
Impaired loans	$	$	$ 135,849	$ 135,849
Foreclosed assets			14,299	14,299
December 31, 2009				
Impaired loans	$	$	$ 131,092	$ 131,092
Foreclosed assets			17,241	17,241

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. A detailed description of the valuation methodologies used in estimating the fair value of financial instruments is set forth in the 2009 Form 10-K.

The estimated fair values of financial instruments were as follows:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(dollars in thousands)		
Financial assets:				
Securities	562,978	562,978	569,640	569,640
Loans held for sale	41,223	42,139	29,153	29,736
Loans, net	2,486,178	2,515,972	2,663,491	2,697,857
Accrued interest receivable	14,103	14,103	15,286	15,286
Financial liabilities:				
Deposits	3,080,481	3,092,750	3,171,080	3,182,759
Securities sold under agreements to repurchase	135,554	135,554	142,325	142,341
Short-term borrowings	4,000	4,000		
Long-term debt	58,076	60,610	82,076	84,869
Junior subordinated debt owed to unconsolidated trusts	55,000	53,981	55,000	53,375
Accrued interest payable	5,822	5,822	8,091	8,091

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 (referred to herein as First Busey , Company , we , or our) at June 30, 2010 (unaudited), as compared with December 31, 2009, and the results of operations for the three and six months ended June 30, 2010 and 2009 (unaudited). Management s discussion and analysis should be read in conjunction with First Busey s consolidated financial statements and notes thereto appearing elsewhere in this quarterly report, as well as our 2009 Annual Report on Form 10-K.

EXECUTIVE SUMMARY

Operating Results

We were profitable in the second quarter of 2010:

• Net income was $5.7 million for the quarter ended June 30, 2010 compared to a loss of $19.1 million for the quarter ended June 30, 2009.

• Net income was $9.9 million for the six months ended June 30, 2010 compared to a loss of $13.2 million for the six months ended June 30, 2009.

• Income available to common shareholders (net of TARP dividends and discount accretion) for the quarter ended June 30, 2010 was $4.4 million, or $0.07 per fully-diluted common share, compared to a loss of $20.5 million, or $0.57 per fully-diluted common share, for the quarter ended June 30, 2009.

• Income available to common shareholders (net of TARP dividends and discount accretion) for the six months ended June 30, 2010 was $7.3 million, or $0.11 per fully-diluted common share, compared to a loss of $15.0 million, or $0.42 per fully-diluted common share, for the six months ended June 30, 2009.

• Pre-provision, pre-tax net income was $15.8 million for the second quarter of 2010 compared to $15.8 million for the quarter ended June 30, 2009.

• Net interest margin increased to 3.49% for the second quarter of 2010 as compared to 2.93% for the second quarter of 2009. The net interest margin for the first six months of 2010 was 3.50% as compared to 2.91% in the same period of 2009.

• Our efficiency ratio (a measurement that roughly shows the percentage cost of each dollar of revenue) for the quarter ended June 30, 2010 decreased to 60.56% as compared to 62.61% for the quarter ended June 30, 2009.

• Total revenue, net of interest expense and security gains, for the second quarter of 2010 was $43.5 million compared to $45.9 million for the second quarter of 2009.

Pre-provision, Pre-tax Non-GAAP Reconciliation

The following pre-provision, pre-tax (PPPT) non-GAAP reconciliation presents our adjusted PPPT income after items we consider to be either non-recurring or non-persistent, as they were significantly higher or due to the significant economic challenges in 2010 and 2009. While certain of these items are non-recurring in nature, such as bank owned life insurance settlement, others will continue to occur, but we do not expect them to be at the same levels in future years as the were in 2010 or 2009.

	2010 YTD Total	Three Months Ended 2010 June 30	Three Months Ended 2010 March 31
		(dollars in thousands)	
Pre-tax, Pre-Provision Profit, GAAP Basis	$ 35,923	$ 15,837	$ 20,086
Reconciling income items:			
Bank owned life insurance income adjustment	(300)		(300)
Investments in private equity funds	81	281	(200)
Security gains/ losses	(742)		(742)
Reconciling expense items:			
OREO expenses	1,285	1,031	254
Other vendor related expenses	700	700	
Adjusted pre-provision, pre-tax profit	$ 36,947	$ 17,849	$ 19,098

	2009 YTD Total	Three Months Ended 2009 June 30	Three Months Ended 2009 March 31
Pre-tax, Pre-Provision Profit , GAAP Basis	$ 36,165	$ 15,770	$ 17,806
Reconciling income items:			
Bank owned life insurance settlement	(2,021)		(2,021)
Investments in private equity funds	(600)	(1,000)	400
Security gains/ losses	(75)	(54)	(21)
Other	(1,252)		
Reconciling expense items:			
FDIC Assessment	2,200	2,800	(600)
Employee related costs	33		33
OREO expenses	1,119	1,009	110
Non-accrual prior quarter interest reversals	320	320	
Adjusted pre-provision, pre-tax profit	$ 34,552	$ 18,845	$ 15,707

Asset Quality

Our credit metrics at June 30, 2010 were generally flat compared to December 31, 2009 levels, but remained significantly better than levels at September 30, 2009, when we believe that our non-performing assets peaked. We expect gradual improvement in these credit metrics throughout 2010 depending on market specific economic conditions. The key metrics are as follows:

- Loans 30-89 days past due increased slightly to $14.6 million at June 30, 2010 from $12.5 million at December 31, 2009, but have declined significantly from $34.0 million at September 30, 2009.

- Non-performing loans increased slightly to $87.8 million at June 30, 2010 from $86.3 million at December 31, 2009, but have declined significantly from $172.5 million at September 30, 2009.

- Illinois non-performing loans increased to $38.4 million at June 30, 2010 up from $28.0 million at December 31, 2009 but have declined from $42.8 million at September 30, 2009.

- Florida non-performing loans decreased to $31.8 million at June 30, 2010 from $40.2 million at December 31, 2009 and $113.3 million at September 30, 2009.

- Indiana non-performing loans decreased to $17.6 million at June 30, 2010 from $18.1 million at December 31, 2009, but have increased slightly from $16.4 million at September 30, 2009.

- Other real estate owned decreased to $14.3 million at June 30, 2010 from $17.2 million at December 31, 2009 and $16.6 million at September 30, 2009.

- The ratio of non-performing assets to total loans plus other real estate owned increased slightly to 3.88% at June 30, 2010 from 3.68% at December 31, 2009, but was significantly below the 6.26% ratio at September 30, 2009.

- Allowance for loan losses to non-performing loan ratio was 104.9% at June 30, 2010, which was a decrease from 116.1% at December 31, 2009, but significantly higher that the 69.6% at September 30, 2009.

- Allowance for loan losses to total loans was 3.52% at June 30, 2010 down from 3.59% at December 31, 2009 and 4.00% at September 30, 2009.

As noted above, we continue to believe the peak of our non-performing assets occurred in the quarter ended September 30, 2009. We expect continued gradual improvement in our credit metrics, subject to market specific economic conditions, as we believe we have identified the risks within our loan portfolio. We are actively working to resolve our credit issues through borrower workouts, appropriate fair value valuations and loan sales depending on a credit by credit evaluation. We sold a significant amount of loans in the fourth quarter of 2009, but year-to-date 2010 loan sales have been, and future loans sales are expected to be, less significant.

Economic Conditions of Markets

Overall, all of our markets appear to have stabilized. Our Illinois markets continue to perform well, despite an increase in non-performing loans. The primary area of our credit challenges within Illinois are subdivision projects, hotels and retail space. On a percentage of loan basis, our credit challenges remain within our Indianapolis and southwest Florida markets.

The Illinois markets possess strong industrial, academic and healthcare employment bases that have performed well relative to the rest of the United States. Our primary downstate Illinois markets of Champaign, Macon, McLean and Peoria counties are anchored by several strong, familiar and stable organizations.

Champaign County is home to the University of Illinois Urbana/Champaign (U of I), the University s primary campus. U of I has in excess of 42,000 students, and has grown annually over the last decade. Additionally, Champaign County healthcare providers serve a significant area of downstate Illinois and western Indiana. Macon County is home to Archer Daniels Midland (ADM), a Fortune 100 company and one of the largest agricultural processors in the world. ADM s presence in Macon County supports many derivative businesses in the agricultural processing arena. Additionally, Macon County is home to Millikin University, and its healthcare providers serve a significant role in the market. McLean County is home to State Farm, Country Financial, Illinois State University and Illinois Wesleyan University. State Farm, a Fortune 100 company, is the largest employer in McLean County, and Country Financial and the universities provide additional stability to a growing area of downstate Illinois. Peoria County is home to Caterpillar, a Fortune 100 company, and Bradley University in addition to a large health care presence serving much of the western portion of downstate Illinois. The institutions noted above, coupled with over $1.5 billion in agricultural output, anchor the communities in which they are located, and have provided a comparatively stable foundation for housing, employment and small business.

Southwest Florida has shown signs of stabilization and small signs of improvement in areas such as unemployment and home sales. During 2010, in some areas of our Florida market, unemployment percentages decreased and mean home sales prices began to rise for the first time in years. However, we expect it will take southwest Florida a number of years to return to the economic strength it demonstrated just a few years ago.

EARNINGS PERFORMANCE

NET INTEREST INCOME

Net interest income is the difference between interest income and fees earned on earning assets and interest expense incurred on interest-bearing liabilities. Interest rate levels and volume fluctuations within earning assets and interest-bearing liabilities impact net interest income. Net interest margin is tax-equivalent net interest income as a percentage of average earning assets.

Certain assets with tax favorable treatment are evaluated on a tax-equivalent basis. Tax-equivalent basis assumes a federal income tax rate of 35%. Tax favorable assets generally have lower contractual pre-tax yields than fully taxable assets. A tax-equivalent analysis is performed by adding the tax savings to the earnings on tax favorable assets. After factoring in the tax favorable effects of these assets, the yields may be more appropriately evaluated against alternative earning assets. In addition to yield, various other risks are factored into the evaluation process.

The following table shows the consolidated average balance sheets, detailing the major categories of assets and liabilities, the interest income earned on interest-earning assets, the interest expense paid for the interest-bearing liabilities, and the related interest rates for the periods, or as of the dates, shown. All average information is provided on a daily average basis.

AVERAGE BALANCE SHEETS AND INTEREST RATES

THREE MONTHS ENDED JUNE 30, 2010 AND 2009

	2010			2009			Change due to (1)		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense (dollars in thousands)	Yield/ Rate	Average Volume	Average Yield/Rate	Total Change
Assets									
Interest-bearing bank deposits	$ 177,987	$ 85	0.19%	$ 66,330	$ 34	0.21%	$ 53	$ (2)	$ 51
Federal funds sold			%	151		%			
Investment securities									
U.S. Government obligations	363,076	2,530	2.79%	391,409	3,438	3.52%	(235)	(673)	(908)
Obligations of states and political subdivisions (1)	80,170	1,145	5.73%	89,386	1,315	5.90%	(132)	(38)	(170)
Other securities	116,158	1,081	3.73%	182,528	1,624	3.57%	(615)	72	(543)
Loans (net of unearned interest)(1) (2)	2,665,171	35,636	5.36%	3,221,058	41,703	5.19%	(7,395)	1,328	(6,067)
Total interest-earning assets	$ 3,402,562	$ 40,477	4.77%	$ 3,950,862	$ 48,114	4.88%	$ (8,324)	$ 687	$ (7,637)
Cash and due from banks	79,173			81,782					
Premises and equipment	76,048			80,834					
Allowance for loan losses	(96,020)			(88,749)					
Other assets	265,347			395,110					