FIRST MID ILLINOIS BANCSHARES INC
Form 10-Q
May 11, 2015

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015
Or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to ______________

Commission file number 0-13368

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

Delaware	37-1103704
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
1421 Charleston Avenue, Mattoon, Illinois	61938
(Address of principal executive offices)	(Zip code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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

Large accelerated filer [ ] Accelerated filer [X]

Non-accelerated filer [ ] Smaller reporting company [ ]
(Do not check if a smaller reporting company)

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

As of May 8, 2015, 7,008,695 common shares, $4.00 par value, were outstanding.

PART I

ITEM 1. FINANCIAL STATEMENTS
First Mid-Illinois Bancshares, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share data)

	(Unaudited) March 31, 2015	December 31, 2014
Assets		
Cash and due from banks:		
Non-interest bearing	$29,401	$40,716
Interest bearing	26,073	10,520
Federal funds sold	493	494
Cash and cash equivalents	55,967	51,730
Investment securities:		
Available-for-sale, at fair value	405,523	377,856
Held-to-maturity, at amortized cost (estimated fair value of $49,977 and $53,937 at March 31, 2015 and December 31, 2014, respectively)	48,799	53,650
Loans held for sale	868	1,958
Loans	1,053,288	1,060,448
Less allowance for loan losses	(14,106)	(13,682)
Net loans	1,039,182	1,046,766
Interest receivable	6,009	6,828
Other real estate owned	243	263
Premises and equipment, net	27,093	27,352
Goodwill, net	25,753	25,753
Intangible assets, net	1,689	1,844
Other assets	12,524	13,103
Total assets	$1,623,650	$1,607,103
Liabilities and Stockholders’ Equity		
Deposits:		
Non-interest bearing	$231,443	$222,116
Interest bearing	1,047,660	1,049,961
Total deposits	1,279,103	1,272,077
Securities sold under agreements to repurchase	116,596	121,869
Interest payable	305	285
FHLB borrowings	25,000	20,000
Other borrowings	2,000	—
Junior subordinated debentures	20,620	20,620
Dividends payable	1,100	530
Other liabilities	8,127	6,806
Total liabilities	1,452,851	1,442,187
Stockholders’ Equity:		
Convertible preferred stock, no par value; authorized 1,000,000 shares; issued 5,500 shares in 2015 and 2014	27,400	27,400
Common stock, $4 par value; authorized 18,000,000 shares; issued 7,542,700 shares in 2015 and 7,529,815 shares in 2014	32,171	32,119
Additional paid-in capital	56,191	55,607
Retained earnings	65,445	61,956
Deferred compensation	2,858	3,329

Accumulated other comprehensive income (loss)	2,002	(875)
Less treasury stock at cost, 539,015 in 2015 and 496,497 shares in 2014	(15,268)	(14,620)
Total stockholders’ equity	170,799	164,916
Total liabilities and stockholders’ equity	$1,623,650	$1,607,103

See accompanying notes to unaudited condensed consolidated financial statements.

First Mid-Illinois Bancshares, Inc.
Condensed Consolidated Statements of Income (unaudited)

(In thousands, except per share data)	Three months ended March 31, 2015	2014
Interest income:		
Interest and fees on loans	$11,052	$10,812
Interest on investment securities	2,361	2,523
Interest on deposits with other financial institutions	26	27
Total interest income	13,439	13,362
Interest expense:		
Interest on deposits	532	609
Interest on securities sold under agreements to repurchase	14	12
Interest on FHLB borrowings	153	68
Interest on subordinated debentures	128	126
Total interest expense	827	815
Net interest income	12,612	12,547
Provision for loan losses	265	323
Net interest income after provision for loan losses	12,347	12,224
Other income:		
Trust revenues	920	933
Brokerage commissions	278	250
Insurance commissions	635	558
Service charges	1,189	1,144
Securities gains, net	229	191
Mortgage banking revenue, net	167	98
ATM / debit card revenue	1,006	973
Other	375	334
Total other income	4,799	4,481
Other expense:		
Salaries and employee benefits	6,056	6,053
Net occupancy and equipment expense	1,979	2,149
Net other real estate owned (income) expense	(8)	21
FDIC insurance	203	206
Amortization of intangible assets	155	162
Stationery and supplies	152	155
Legal and professional	582	562
Marketing and donations	217	264
Other	1,468	1,388
Total other expense	10,804	10,960
Income before income taxes	6,342	5,745
Income taxes	2,303	2,138
Net income	4,039	3,607
Dividends on preferred shares	550	1,104
Net income available to common stockholders	$3,489	$2,503
Per share data:		
Basic net income per common share available to common stockholders	0.50	0.43
Diluted net income per common share available to common stockholders	0.48	0.43

See accompanying notes to unaudited condensed consolidated financial statements.

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First Mid-Illinois Bancshares, Inc.
Condensed Consolidated Statements of Comprehensive Income (unaudited)
(in thousands)

	Three months ended March 31,	
	2015	2014
Net income	$4,039	$3,607
Other Comprehensive Income		
Unrealized gains on available-for-sale securities, net of taxes of $(1,871) and $(1,628) for three months ended March 31, 2015 and 2014, respectively.	2,927	2,549
Amortized holding losses on held-to-maturity securities transferred from available-for-sale, net of taxes of $(57) and $0 for three months ended March 31, 2015 and 2014, respectively.	90	—
Less: reclassification adjustment for realized gains included in net income net of taxes of $89 and $74 for three months ended March 31, 2015 and 2014, respectively.	(140)	(117)
Other comprehensive income, net of taxes	2,877	2,432
Comprehensive income	$6,916	$6,039

See accompanying notes to unaudited condensed consolidated financial statements.

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First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)	Three months ended March 31,	
(In thousands)	2015	2014
Cash flows from operating activities:		
Net income	$4,039	$3,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	265	323
Depreciation, amortization and accretion, net	876	982
Stock-based compensation expense	88	122
Gains on investment securities, net	(229)	(191)
(Gain) loss on sales of other real property owned, net	(18)	12
Loss on write down of fixed assets	64	7
Gains on sale of loans held for sale, net	(189)	(98)
Decrease in accrued interest receivable	819	769
Increase in accrued interest payable	20	8
Origination of loans held for sale	(12,515)	(7,658)
Proceeds from sale of loans held for sale	13,794	6,842
Increase in other assets	(1,240)	(5,281)
Increase in other liabilities	1,311	606
Net cash provided by operating activities	7,085	50
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	9,453	52,527
Proceeds from maturities of securities held-to-maturity	5,000	—
Proceeds from maturities of securities available-for-sale	9,362	22,208
Purchases of securities available-for-sale	(41,902)	(29,895)
Net (increase) decrease in loans	7,277	(8,168)
Purchases of premises and equipment	(245)	(93)
Proceeds from sales of other real property owned	80	160
Net cash provided by (used in) investing activities	(10,975)	36,739
Cash flows from financing activities:		
Net increase in deposits	7,026	18,209
Decrease in repurchase agreements	(5,273)	(37,910)
Proceeds from FHLB advances	5,000	—
Repayment of FHLB advances	—	(10,000)
Proceeds from other borrowings	2,000	1,000
Proceeds from issuance of common stock	210	305
Conversion of preferred stock	—	(5)
Purchase of treasury stock	(836)	(902)
Net cash provided by (used in) financing activities	8,127	(29,303)
Increase in cash and cash equivalents	4,237	7,486
Cash and cash equivalents at beginning of period	51,730	65,102
Cash and cash equivalents at end of period	$55,967	$72,588

First Mid-Illinois Bancshares, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited) (continued)	Three months ended March 31,	
(In thousands)	2015	2014
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$807	$807
Income taxes	160	2,355
Supplemental disclosures of noncash investing and financing activities		
Loans transferred to other real estate owned	42	186
Net tax benefit related to option and deferred compensation plans	85	101

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 -- Basis of Accounting and Consolidation

The unaudited condensed consolidated financial statements include the accounts of First Mid-Illinois Bancshares, Inc. (“Company”) and its wholly-owned subsidiaries: First Mid-Illinois Bank & Trust, N.A. (“First Mid Bank”), Mid-Illinois Data Services, Inc. (“MIDS”) and The Checkley Agency, Inc. doing business as First Mid Insurance Group (“First Mid Insurance”). All significant intercompany balances and transactions have been eliminated in consolidation. The financial information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods ended March 31, 2015 and 2014, and all such adjustments are of a normal recurring nature. Certain amounts in the prior year’s consolidated financial statements have been reclassified to conform to the March 31, 2015 presentation and there was no impact on net income or stockholders’ equity. The results of the interim period ended March 31, 2015 are not necessarily indicative of the results expected for the year ending December 31, 2015. The Company operates as a one-segment entity for financial reporting purposes.

The 2014 year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements and related footnote disclosures although the Company believes that the disclosures made are adequate to make the information not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2014 Annual Report on Form 10-K.

Website

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

Branch Purchase and Assumption Agreement

On January 30, 2015, First Mid Bank, a wholly-owned subsidiary of the Company, entered into a Purchase and Assumption Agreement (the “Purchase Agreement”) with Old National Bank, a national banking association having its principal office in Evansville, Indiana, pursuant to which First Mid Bank will purchase certain assets and assume certain liabilities of 12 branch offices of Old National Bank in Southern Illinois (the “Branches”). Pursuant to the terms of the Purchase Agreement, First Mid Bank has agreed to assume certain deposit liabilities and to acquire certain loans, as well as cash, real property, furniture, and other fixed operating assets associated with the Branches. The book value of loan and deposit balances to be assumed were approximately $160 million and $502 million, respectively, as of December 31, 2014. First Mid Bank has also agreed to assume certain leases relating to the Branches. The completion of the Purchase is subject to regulatory approval required by the Office of the Comptroller of the Currency and normal customary closing conditions, including First Mid Bank, in conjunction with the Company, obtaining financing in connection with the acquisition. Subject to the satisfaction of such conditions, First Mid Bank and Old National Bank expect to close the acquisition in the third quarter of 2015.

Rights Agreement

On January 21, 2015, the Company entered into an Amendment No. 1 to the Rights Agreement (the "Rights Agreement"), dated as of September 22, 2009, by and between the Company and Computershare Trust Company, N.A., as rights agent. This amendment accelerated the expiration of the Company's common stock purchase rights (the “Rights”) from 5:00 p.m., Mattoon, Illinois time, on September 22, 2019, to 5:00 p.m., Mattoon, Illinois time, on January 21, 2015, and had the effect of terminating the Rights Agreement on that date. At the time of the termination of the Rights Agreement, all of the Rights distributed to holders of the Company's common stock pursuant to the Rights Agreement expired.

NASDAQ Listing

On May 12, 2014, the Company's common stock began trading on The NASDAQ Stock Market under the ticker "FMBH." Prior to the listing of the Company's common stock on NASDAQ, the common stock was traded on the OTC Bulletin Board.

Stock Plans

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

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

A maximum of 300,000 shares of common stock may be issued under the SI Plan. As of March 31, 2015, the Company had awarded 59,500 shares as stock options under the SI plan. There were no stock options awarded in 2015 or 2014. The Company awarded 16,604 shares as Stock Unit Awards and 19,377 as 50% Stock Awards and 50% Stock Unit Awards during 2015 and 2014, respectively, under the SI plan.

Convertible Preferred Stock

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

On September 23, 2014, the Board of Directors of the Company approved the mandatory conversion of all of the Company's issued and outstanding 4,926 shares of Series B Preferred Stock into shares of the Company's common stock. On September 24, 2014, notices were sent to the shareholders of the Series B Preferred Stock regarding the mandatory conversion. On November 17, 2014, the Company completed the mandatory conversion. The conversion ratio for each share of the Preferred Stock was computed by dividing $5,000 (the issuance price per share of the Series B Preferred Stock) by $21.62 (then current conversion price). The conversion ratio, therefore, was 231.267 shares of the Company's common stock for each share of Series B Preferred Stock. This resulted in the issuance of approximately 1,139,195 shares of common stock in the aggregate. As a result of the conversion, dividends ceased to accrue on the Series B Preferred Stock and certificates for shares of Series B Preferred Stock only represent the right to receive the appropriate number of shares of common stock, together with net accrued but unpaid dividends on the Preferred Stock, and cash in lieu of fractional share interests.

Series C Convertible Preferred Stock. On February 11, 2011, the Company accepted from certain accredited investors, including directors, executive officers, and certain major customers and holders of the Company's common stock (collectively, the "Investors"), subscriptions for the purchase of $27,500,000, in the aggregate, of a newly authorized series of preferred stock designated as Series C 8% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series C Preferred Stock"). As of February 11, 2011, $11,010,000 of the Series C Preferred Stock had been issued and sold by the Company to certain Investors. On March 2, 2011, three investors subsequently completed the required bank regulatory process and an additional $2,750,000 of Series C Preferred Stock was issued and sold by the Company to these investors. On May 13, 2011, four additional investors received the required bank regulatory approval and an additional $5,490,000 of Series C Preferred Stock was issued and sold by the Company to these investors. On June 28, 2012, the final $8,250,000 of the Company's Series C Preferred Stock was issued and sold by the Company to Investors following their receipt of the required bank regulatory approval, for a total of $27,500,000 of outstanding Series C Preferred Stock. All of the Series C Preferred Stock subscribed for by investors has been issued.

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

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

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

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

The Company also has the right at any time after May 13, 2016 to require the conversion of all (but not less than all) of the Series C Preferred Stock into shares of common stock if, on the date notice of mandatory conversion is given to holders, (a) the tangible book value per share of the Company's common stock equals or exceeds 115% of the tangible book value per share of the Company's common stock at December 31, 2010, and (b) the NASDAQ Bank Index (denoted by CBNK:IND) equals or exceeds 115% of the NASDAQ Bank Index at December 31, 2010. "Tangible book value per share of our common stock" at any date means the result of dividing the Company's total common stockholders equity at that date, less the amount of goodwill and intangible assets, determined in accordance with U.S. generally accepted accounting principles, by the number of shares of common stock then outstanding, net of any shares held in the treasury. The tangible book value of the Company's common stock at December 31, 2010 was $9.38, and 115% of this amount is approximately $10.79. The NASDAQ Bank Index value at December 31, 2010 was 1,847.35 and 115% of this amount is approximately 2,124.45. The tangible book value of the Company's common stock at March 31, 2015 was $16.56 and the NASDAQ Bank Index value at March 31, 2015 was 2,679.98.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income included in stockholders' equity as of March 31, 2015 and December 31, 2014 are as follows (in thousands):

	Unrealized Gain (Loss) on Securities	Securities with Other-Than-Temporary Impairment Losses	Total