Piedmont Office Realty Trust, Inc.
Form 10-Q/A
August 26, 2011

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

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For the Quarterly Period Ended June 30, 2011

OR

o 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 001-34626

PIEDMONT OFFICE REALTY TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland	58-2328421
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

11695 Johns Creek Parkway
Ste. 350
Johns Creek, Georgia 30097
(Address of principal executive offices)
(Zip Code)
(770) 418-8800
(Registrant's telephone number, including area code)
N/A
(Former name, former address, and former fiscal year, if changed since last report)

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 (§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 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 definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer x	Accelerated filer o
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
Number of shares outstanding of the Registrant's
only class of common stock, as of August 8, 2011:
172,826,725 shares

EXPLANATORY NOTE

The sole purpose of this Amendment No. 1 to Piedmont Office Realty Trust, Inc.'s (the "Registrant's") Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 is to furnish Exhibit 101 to Form 10-Q in accordance with Rule 405 of Regulation S-T. Exhibit 101 consists of the following materials from the Registrant's Form 10-Q for the quarterly period ended June 30, 2011, filed with the Securities and Exchange Commission on August 9, 2011, formatted in XBRL (eXtensible Business Reporting Language):

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

No other changes have been made to the Registrant's Form 10-Q. This Amendment No. 1 does not reflect any subsequent events occurring after the original filing date of the Form 10-Q or modify or update in any way disclosures made in the original filing.

EXHIBIT INDEX
TO
SECOND QUARTER 2011
FORM 10-Q
OF
PIEDMONT OFFICE REALTY TRUST, INC.

Exhibit Number	Description of Document
3.1	Third Articles of Amendment and Restatement of Piedmont Office Realty Trust, Inc. (the “Company”) (incorporated by reference to Exhibit 3.1 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed on March 16, 2010) *
3.2	Articles of Amendment of the Company effective June 30, 2011 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on July 6, 2011) *
3.3	Articles Supplementary of the Company effective June 30, 2011 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 6, 2011) *
3.4	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company’s current Report on Form 8-K filed on January 22, 2010) *
10.1	Loan Agreement dated as of July 11, 2007 by and between Broadway 500 West Monroe Fee LLC (now known as Piedmont 500 West Monroe Fee LLC) (“Mortgage Borrower”) and Morgan Stanley Mortgage Capital Holdings LLC (as predecessor in interest to Wells Fargo Bank, N.A., as Trustee, for the Certificate holders of Morgan Stanley Capital I Inc. Commercial Mortgage Pass-Through Certificates Trust, Series 2007-XLF9) (“Mortgage Lender”) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *
10.2	Promissory Note dated as of July 11, 2007 by and between Mortgage Borrower and Mortgage Lender (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *
10.3	First Omnibus Amendment to Loan Agreement and Other Loan Documents (Mortgage Loan) dated as of August 15, 2007, by and among Mortgage Borrower and Mortgage Lender (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *
10.4	Amended and Restated Promissory Note dated as of August 15, 2007, by and among Mortgage Borrower and Mortgage Lender (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *
10.5	Mezzanine A Loan Agreement dated as of July 11, 2007, by and between Broadway 500 West Monroe Mezz I LLC (now known as Piedmont 500 West Monroe Mezz I LLC) (“Mezzanine Borrower”) and Morgan Stanley Mortgage Capital Holdings LLC (as predecessor in interest to 500 W Monroe Mezz I-B, LLC and Deutsche Genossenschafts-Hypothekenbank AG) (“Mezzanine Lender”) (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *

10.6	Promissory Note (Mezzanine A Loan) dated as of July 11, 2007, by and between Mezzanine Borrower and Mezzanine Lender (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *
10.7	First Omnibus Amendment to Loan Agreement and Other Loan Documents (Mezzanine A Loan), dated August 15, 2007, by and between Mezzanine Borrower and Mezzanine Lender (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *
10.8	Amended and Restated Promissory Note (Mezzanine A Loan), dated August 15, 2007, by and between Mezzanine Borrower and Mezzanine Lender (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *
10.9	Second Omnibus Amendment to Loan Agreement and Other Loan Documents (Mezzanine A Loan), dated as of February 26, 2008, by and between Mezzanine Borrower and Mezzanine Lender (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *

10.10	Second Amended and Restated Promissory Note (Mezzanine A Loan), by and between Mezzanine Borrower and Mezzanine Lender (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *
10.11	Mezzanine A Loan Participation Agreement, dated as of February 26, 2008, by and between Mezzanine Lender, Morgan Stanley Mortgage Capital Holdings LLC (as predecessor in interest to Deutsche Genossenschafts-Hypothekenbank AG), as Participation A Holder, Morgan Stanley Mortgage Capital Holdings LLC (as predecessor in interest to 500 W Monroe Mezz I-B, LLC), as Participation B Holder, and LaSalle Bank National Association, as Custodian (incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, filed on May 5, 2011) *
10.12	Amendment Number One to the Wells Real Estate Investment Trust, Inc. 2007 Omnibus Incentive Plan *
31.1	Rule 13a-14(a)/15d-14(a) Certification, executed by Donald A. Miller, CFA, Principal Executive Officer of the Company *
31.2	Rule 13a-14(a)/15d-14(a) Certification, executed by Robert E. Bowers, Principal Financial Officer of the Company *
32.1	Certification required by Rule 13a-14(b)/15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, executed by Donald A. Miller, CFA, Chief Executive Officer and President of the Company *
32.2	Certification required by Rule 13a-14(b)/15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, executed by Robert E. Bowers, Chief Financial Officer and Executive Vice-President of the Company *
101. INS	XBRL Instance Document **
101. SCH	XBRL Taxonomy Extension Schema **
101. CAL	XBRL Taxonomy Extension Calculation Linkbase **
101. DEF	XBRL Taxonomy Extension Definition Linkbase **
101.LAB	XBRL Taxonomy Extension Label Linkbase **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase **
*	Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011
**	Furnished with this Form 10-Q/A

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PIEDMONT OFFICE REALTY TRUST, INC.
(Registrant)

Dated: August 26, 2011

By: /s/ Robert E. Bowers
Robert E. Bowers
Chief Financial Officer and Executive Vice President
(Principal Financial Officer and Duly Authorized Officer)

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and 1,282,076 shares in 2009

	(35,744)	(35,187)
Total stockholders' equity	115,387	111,221
Total liabilities and stockholders' equity	$1,109,279	$1,095,155

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Interest income:				
Interest and fees on loans	$9,822	$10,543	$19,736	$21,406
Interest on investment securities	2,181	2,285	4,416	4,369
Interest on certificates of deposit investments	31	-	62	-
Interest on federal funds sold	21	22	37	35
Interest on deposits with other financial institutions	16	39	30	60
Total interest income	12,071	12,889	24,281	25,870
Interest expense:				
Interest on deposits	2,085	3,703	4,271	7,276
Interest on securities sold under agreements to repurchase	31	31	61	57
Interest on FHLB borrowings	282	425	625	848
Interest on other borrowings	1	-	1	22
Interest on subordinated debentures	262	256	522	572
Total interest expense	2,661	4,415	5,480	8,775
Net interest income	9,410	8,474	18,801	17,095
Provision for loan losses	1,083	638	1,843	1,242
Net interest income after provision for loan losses	8,327	7,836	16,958	15,853
Other income:				
Trust revenues	595	545	1,219	1,124
Brokerage commissions	136	133	265	212
Insurance commissions	444	422	1,088	1,167
Service charges	1,181	1,220	2,257	2,354
Securities gains, net	5	207	246	207
Total other-than-temporary impairment losses	(355)	-	(978)	(869)
Portion of loss recognized in other comprehensive loss	-	-	-	-
Other-than-temporary impairment losses recognized in earnings	(355)	-	(978)	(869)
Gain on sale of merchant banking portfolio	-	-	-	1,000
Mortgage banking revenue, net	105	303	201	391
ATM / debit card revenue	686	577	1,310	1,105
Other	246	254	503	636
Total other income	3,043	3,661	6,111	7,327
Other expense:				
Salaries and employee benefits	4,287	4,245	8,655	8,449
Net occupancy and equipment expense	1,285	1,229	2,563	2,543
Net other real estate owned expense	299	203	147	276
FDIC insurance	344	628	662	1,264
Amortization of intangible assets	176	186	352	378
Stationery and supplies	134	126	249	260
Legal and professional	702	565	1,131	1,038
Marketing and donations	207	261	410	452
Other	1,274	1,172	2,329	2,338

Total other expense	8,708	8,615	16,498	16,998
Income before income taxes	2,662	2,882	6,571	6,182
Income taxes	880	883	2,241	1,998
Net income	$1,782	$1,999	$4,330	$4,184
Dividends on preferred shares	554	509	1,131	775
Net income available to common stockholders	$1,228	$1,490	$3,199	$3,409
Per share data:				
Basic net income per common share available to common stockholders	$0.20	$0.25	$0.52	$0.56
Diluted net income per common share available to common stockholders	$0.20	$0.24	$0.52	$0.55
Cash dividends declared per common share	$0.19	$0.19	$0.19	$0.19

See accompanying notes to unaudited condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows (unaudited)	Six months ended June 30,	
(In thousands)	2010	2009
Cash flows from operating activities:		
Net income	$4,330	$4,184
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,843	1,242
Depreciation, amortization and accretion, net	1,636	1,454
Stock-based compensation expense	26	27
Gains on investment securities, net	(246)	(207)
Other-than-temporary impairment losses recognized in earnings	978	869
(Gains) losses on sales of other real property owned, net	(218)	234
Loss on write down of fixed assets	1	80
Gain on sale of merchant banking portfolio	-	(1,000)
(Gains) losses on sale of loans held for sale, net	(214)	(429)
Origination of loans held for sale	(16,130)	(42,402)
Proceeds from sale of loans held for sale	15,833	41,818
Decrease in other assets	(3,464)	(378)
Increase (decrease) in other liabilities	(2,540)	1,122
Net cash provided by operating activities	1,835	6,614
Cash flows from investing activities:		
Proceeds from maturities of certificates of deposit investments	4,275	-
Purchases of certificates of deposit investments	(4,931)	(597)
Proceeds from sales of securities available-for-sale	6,367	7,709
Proceeds from maturities of securities available-for-sale	42,747	29,315
Proceeds from maturities of securities held-to-maturity	995	140
Purchases of securities available-for-sale	(75,850)	(121,978)
Net decrease in loans	25,376	50,446
Purchases of premises and equipment	(448)	(1,278)
Proceeds from sales of other real property owned	1,640	1,459
Net cash used in investing activities	171	(34,784)
Cash flows from financing activities:		
Net increase in deposits	28,759	100,499
Decrease in repurchase agreements	(6,628)	(12,947)
Repayment of long term FHLB advances	(10,000)	-
Proceeds from short term debt	1,500	-
Repayment of long term debt	-	(13,000)
Proceeds from issuance of common stock	195	480
Proceeds from issuance of preferred stock	-	22,635
Purchase of treasury stock	(560)	(1,321)
Dividends paid on preferred stock	(1,062)	-
Dividends paid on common stock	(1,714)	(1,521)
Net cash provided by financing activities	10,490	94,825
Increase in cash and cash equivalents	12,496	66,655
Cash and cash equivalents at beginning of period	90,411	86,643
Cash and cash equivalents at end of period	$102,907	$153,298

	Six months ended June 30,	
	2010	2009
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$5,622	$8,372
Income taxes	4,343	3,531
Supplemental disclosures of noncash investing and financing activities		
Loans transferred to other real estate owned	6,084	1,159
Dividends reinvested in common stock	645	807
Net tax benefit related to option and deferred compensation plans	38	95

See accompanying notes to unaudited condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Basis of Accounting and Consolidation

The unaudited condensed consolidated financial statements include the accounts of First Mid-Illinois Bancshares, Inc. ("Company") and the following wholly-owned subsidiaries: Mid-Illinois Data Services, Inc. ("MIDS"), The Checkley Agency, Inc. ("Checkley"), and First Mid-Illinois Bank & Trust, N.A. ("First Mid Bank"). All significant intercompany balances and transactions have been eliminated in consolidation. The financial information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods ended June 30, 2010 and 2009, and all such adjustments are of a normal recurring nature. Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the June 30, 2010 presentation and there was no impact on net income or stockholders' equity. The results of the interim period ended June 30, 2010 are not necessarily indicative of the results expected for the year ending December 31, 2010. The Company operates as a one-segment entity for financial reporting purposes.

The 2009 year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements and related footnote disclosures although the Company believes that the disclosures made are adequate to make the information not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2009 Annual Report on Form 10-K.

Website

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

Stock Plans

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

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

Convertible Preferred Stock

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

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

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

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

The Company also has the right at any time on or after the fifth anniversary of the original issuance date of the Series B Preferred Stock to require the conversion of all (but not less than all) of the Series B Preferred Stock into shares of common stock if, on the date notice of mandatory conversion is given to holders, the book value of the Company's common stock equals or exceeds 115% of the book value of the Company's common stock at September 30, 2008. "Book value of the Company's common stock" at any date means the result of dividing the Company's total common stockholders' equity at that date, determined in accordance with U.S. generally accepted accounting principles, by the number of shares of common stock then outstanding, net of any shares held in the treasury. The book value of the Company's common stock at September 30, 2008 was $13.03, and 115% of this amount is approximately $14.98. The book value of the Company's common stock at June 30, 2010 was $14.87.

Comprehensive Income

The Company's comprehensive income for the three and six-month periods ended June 30, 2010 and 2009 was as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income	$1,782	$1,999	$4,330	$4,184
Other comprehensive income:				
Unrealized gains on securities available-for-sale	1,965	1,797	2,737	215
Non-credit component of unrealized gains (losses) on securities available-for-sale for which a portion of an other-than-temporary impairment has been recognized in income	(223)	901	(552)	(300)
Other-than-temporary impairment losses recognized in earnings	355	-	978	869
Reclassification adjustment for realized gains included in income	(5)	(207)	(246)	(207)
Other comprehensive income before taxes	2,092	2,491	2,917	577
Tax expense	(816)	(970)	(1,137)	(224)
Total other comprehensive income	1,276	1,521	1,780	353
Comprehensive income	$3,058	$3,520	$6,110	$4,537

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

June 30, 2010	Unrealized Gain (Loss) on Available for Sale Securities	Other-Than-Temporary Impairment Losses	Total
Net unrealized gains on securities available-for-sale	$7,855	$ -	$7,855
Other-than-temporary impairment losses on securities	-	(4,177)	(4,177)
Tax benefit (expense)	(3,062)	1,628	(1,434)
Balance at June 30, 2010	$4,793	$ (2,549)	$2,244

December 31, 2009	Unrealized Gain (Loss) on Available for Sale Securities	Other-Than-Temporary Impairment Losses	Total
Net unrealized losses on securities available-for-sale	$5,364	$ -	$5,364
Other-than-temporary impairment losses on securities	-	(4,603)	(4,603)
Tax expense	(2,091)	1,794	(297)
Balance at December 31, 2009	$3,273	$ (2,809)	$64

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

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Adoption of New Accounting Guidance

In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2010-20, "Receivables (Topic 310) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," which requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this statement, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature, extent, and financial impact and segment information concerning troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. ASU 2010-20 is effective for interim and annual reporting periods after December 15, 2010. Adoption of this update is not expected to have a material effect on the Company's financial statements.

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

Earnings Per Share

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

The components of basic and diluted net income per common share available to common stockholders for the three and six-month periods ended June 30, 2010 and 2009 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Basic Net Income per Common Share				
Available to Common Stockholders:				
Net income	$1,782,000	$1,999,000	$4,330,000	$4,184,000
Preferred stock dividends	(554,000)	(509,000)	(1,131,000)	(775,000)
Net income available to common stockholders	$1,228,000	$1,490,000	$3,199,000	$3,409,000
Weighted average common shares outstanding	6,101,028	6,127,132	6,099,922	6,133,420
Basic earnings per common share	$.20	$.25	$.52	$.56
Diluted Net Income per Common Share				
Available to Common Stockholders:				
Net income available to common stockholders	$1,228,000	$1,490,000	$3,199,000	$3,409,000
Effect of assumed preferred stock conversion	-	-	-	-
Net income applicable to diluted earnings per share	$1,228,000	$1,490,000	$3,199,000	$3,409,000

Weighted average common shares outstanding	6,101,028	6,127,132	6,099,922	6,133,420
Dilutive potential common shares:				
Assumed conversion of stock options	29,569	42,479	28,185	44,712
Assumed conversion of preferred stock	-	-	-	-
Diluted weighted average common shares outstanding	6,130,597	6,169,611	6,128,107	6,178,132
Diluted earnings per common share	$ .20	$ .24	$ .52	$ .55

The following shares were not considered in computing diluted earnings per share for the three and six-month periods ended June 30, 2010 and 2009 because they were anti-dilutive:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Stock options to purchase shares of common stock	202,970	205,470	202,970	205,470
Average dilutive potential common shares associated with convertible preferred stock	1,118,429	1,027,629	1,118,429	1,027,629

Investment Securities

The amortized cost, gross unrealized gains and losses and estimated fair values for available-for-sale and held-to-maturity securities by major security type at June 30, 2010 and December 31, 2009 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
June 30, 2010				
Available-for-sale:				
U.S. Treasury securities and obligations				
of U.S. government corporations & agencies	$119,026	$1,795	$-	$120,821
Obligations of states and political subdivisions	23,375	884	(67)	24,192
Mortgage-backed securities: GSE residential	113,520	5,250	-	118,770
Trust preferred securities	6,886	-	(4,177)	2,709
Other securities	35	-	(7)	28
Total available-for-sale	$262,842	$7,929	$(4,251)	$266,520
Held-to-maturity:				
Obligations of states and political subdivisions	$50	$4	$-	$54
December 31, 2009				
Available-for-sale:				
U.S. Treasury securities and obligations				
of U.S. government corporations & agencies	$89,640	$1,386	$(52)	$90,974
Obligations of states and political subdivisions	23,071	742	(97)	23,716
Mortgage-backed securities: GSE residential	111,301	3,343	(125)	114,519
Trust preferred securities	7,758	-	(4,603)	3,155
Other securities	6,166	187	(20)	6,333
Total available-for-sale	$237,936	$5,658	$(4,897)	$238,697
Held-to-maturity:				
Obligations of states and political subdivisions	$459	$10	$-	$469

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

Realized gains and losses resulting from sales of securities were as follows during the periods ended June 30, 2010 and 2009 and the year ended December 31, 2009 (in thousands):

	June 30, 2010	June 30, 2009	December 31, 2009
Gross gains	$246	$207	$637
Gross losses	-	-	-

The following table indicates the expected maturities of investment securities classified as available-for-sale and held-to-maturity, presented at amortized cost, at June 30, 2010 and the weighted average yield for each range of maturities. Mortgage-backed securities are included based on their weighted average life. All other securities are shown at their contractual maturity (dollars in thousands).

	One year or less		After 1 through 5 years		After 5 through 10 years		After ten years		Total	
Available-for-sale:										
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$65,300		$47,837		$5,889		$-		$119,026	
Obligations of state and political subdivisions	2,302		6,027		14,708		338		23,375	
Mortgage-backed securities: GSE residential	14,003		99,517		-		-		113,520	
Trust preferred securities	2,482		4,404		-		-		6,886	
Other securities	-		-		-		35		35	
Total investments	$84,087		$157,785		$20,597		$373		$262,842	
Weighted average yield	3.34	%	3.36	%	4.53	%	4.20	%	3.45	%
Full tax-equivalent yield	3.39	%	3.43	%	5.95	%	6.19	%	3.62	%
Held-to-maturity:										
Obligations of state and political subdivisions	$-		$50		$-		$-		$50	
Weighted average yield	-	%	4.75	%	-	%	-	%	4.75	%
Full tax-equivalent yield	-	%	6.58	%	-	%	-	%	6.58	%

The weighted average yields are calculated on the basis of the amortized cost and effective yields weighted for the scheduled maturity of each security. Tax-equivalent yields have been calculated using a 34% tax rate. With the exception of obligations of the U.S. Treasury and other U.S. government agencies and corporations, there were no investment securities of any single issuer, the book value of which exceeded 10% of stockholders' equity at June 30, 2010.

Investment securities carried at approximately $197,771,000 and $185,357,000 at June 30, 2010 and December 31, 2009, respectively, were pledged to secure public deposits and repurchase agreements and for other purposes as permitted or required by law.

The following table presents the aging of gross unrealized losses and fair value by investment category as of June 30, 2010 and December 31, 2009 (in thousands):

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2010:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$-	$-	$-	$-	$-	$-
Obligations of states and political subdivisions	873	(10)	3,249	(57)	4,122	(67)
Mortgage-backed securities:						
GSE residential	30	-	-	-	30	-
Trust preferred securities	-	-	2,709	(4,177)	2,709	(4,177)
Other securities	28	(7)	-	-	28	(7)
Total	$931	$(17)	$5,958	$(4,234)	$6,889	$(4,251)
December 31, 2009:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$90,974	$(52)	$-	$-	$90,974	$(52)
Obligations of states and political subdivisions	23,015	(40)	1,170	(57)	24,185	(97)
Mortgage-backed securities:						
GSE residential	114,431	(124)	88	(1)	114,519	(125)
Trust preferred securities	-	-	3,155	(4,603)	3,155	(4,603)
Other securities	6,318	-	15	(20)	6,333	(20)
Total	$234,738	$(216)	$4,428	$(4,681)	$239,166	$(4,897)

Obligations of states and political subdivisions

At June 30, 2010, there were eight obligations of states and political subdivisions issued by six municipalities with a fair value of $3,249,000 and unrealized losses of $57,000 in a continuous unrealized loss position for twelve months or more. This position was due to yields on municipal securities increasing since the purchase of the securities resulting in the market value being lower than book value. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell these securities and it is not more-likely-than-not the Company will be required to sell these securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at June 30, 2010.

Trust Preferred Securities

At June 30, 2010, there were four trust preferred securities with a fair value of $2,709,000 and unrealized losses of $4,177,000 in a continuous unrealized loss position for twelve months or more. These unrealized losses were primarily due to the long-term nature of the trust preferred securities, a lack of demand or inactive market for these securities, and concerns regarding the underlying financial institutions that have issued the trust preferred securities. Cash flow analysis for these securities indicated an other-than-temporary-impairment (OTTI) and the Company performed further analysis to determine the portion of the loss that was related to credit conditions of the underlying issuers. The credit loss was calculated by comparing expected discounted cash flows based on performance indicators of the underlying assets in the security to the carrying value of the investment. Based on this analysis, the Company recorded impairment charges of approximately $355,000 for the credit portion of the unrealized loss of these trust preferred securities in the quarter ended June 30, 2010. This loss established a new, lower amortized cost basis for these securities and reduced non-interest income as of June 30, 2010. Because the Company does not intend to sell these securities and it is not more-likely-than-not that the Company will be required to sell these securities before recovery of their new, lower amortized cost basis, which may be maturity, the Company does not consider the remainder of the investment in these securities to be other-than-temporarily impaired at June 30, 2010. However, future downgrades or additional deferrals and defaults in these securities, in particular PreTSL XXVIII, could result in additional OTTI and consequently, have a material impact on future earnings.

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

	Book Value	Market Value	Unrealized Loss	Other-than-temporary Impairment Recorded To-date
PreTSL I	$1,181	$900	$(281)	$269
PreTSL II	1,098	870	(228)	2,056
PreTSL VI	203	150	(53)	124
PreTSL XXVIII	4,404	789	(3,615)	341
Total	$6,886	$2,709	$(4,177)	$2,790

The Company does not believe any other individual unrealized loss as of June 30, 2010 represents OTTI. However, given the continued disruption in the financial markets, the Company may be required to recognize OTTI losses in future periods with respect to its available for sale investment securities portfolio. The amount and timing of any additional OTTI will depend on the decline in the underlying cash flows of the securities. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized in the period the other-than-temporary impairment is identified.

Other-than-temporary Impairment

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

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

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

- Prepayments
- Defaults
- Loss severity

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

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

Credit Losses Recognized on Investments

As described above, some of the Company's investments in trust preferred securities have experienced fair value deterioration due to credit losses but are not otherwise other-than-temporarily impaired. The following table provides information about those trust preferred securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income (loss) for the six months ended June 30, 2010 and 2009 (in thousands).

	Accumulated Credit Losses June 30, 2010	Accumulated Credit Losses June 30, 2009
Credit losses on trust preferred securities held		
Beginning of period	$ 1,812	$ -
Additions related to OTTI losses not previously recognized	-	869
Reductions due to sales	-	-
Reductions due to change in intent or likelihood of sale	-	-
Additions related to increases in previously recognized OTTI losses	978	-
Reductions due to increases in expected cash flows	-	-
End of period	$ 2,790	$ 869

Goodwill and Intangible Assets

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

The following table presents gross carrying value and accumulated amortization by major intangible asset class as of June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010		December 31, 2009	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Goodwill not subject to amortization (effective 1/1/02)	$21,123	$ 3,760	$21,123	$ 3,760
Intangibles from branch acquisition	3,015	2,664	3,015	2,563
Core deposit intangibles	5,936	4,109	5,936	3,953
Customer list intangibles	1,904	1,602	1,904	1,507
	$31,978	$ 12,135	$31,978	$ 11,783

Total amortization expense for the six months ended June 30, 2010 and 2009 was as follows (in thousands):

June 30,

	2010	2009
Intangibles from branch acquisition	$100	$101
Core deposit intangibles	157	182
Customer list intangibles	95	95
	$352	$378

Aggregate amortization expense for the current year and estimated amortization expense for each of the five succeeding years is shown in the table below (in thousands):

Aggregate amortization expense:	
For period 01/01/10-06/30/10	$352
Estimated amortization expense:	
For period 07/01/10-12/31/10	$352
For year ended 12/31/11	$704
For year ended 12/31/12	$380
For year ended 12/31/13	$313
For year ended 12/31/14	$313
For year ended 12/31/15	$313

In accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," codified within ASC 350, the Company performed testing of goodwill for impairment as of September 30, 2009 and determined that, as of that date, goodwill was not impaired. Management also concluded that the remaining amounts and amortization periods were appropriate for all intangible assets.

Other Assets

The Company owns approximately $3.7 million of Federal Home Loan Bank of Chicago (FHLB) stock included in other assets. During the third quarter of 2007, the FHLB received a Cease and Desist Order from its regulator, the Federal Housing Finance Board. The FHLB will continue to provide liquidity and funding through advances; however, the order prohibited capital stock repurchases and redemptions until a time to be determined by the Federal Housing Finance Board and requires Federal Housing Finance Board approval for dividends. On July 24, 2008, the Federal Housing Finance Board amended the order to allow the FHLB to repurchase or redeem any capital stock issued to support new advances after the repayment of those new advances if certain conditions are met. The amended order, however, provides that the Director of the Office of Supervision of the Federal Housing Finance Board may direct the FHLB to halt the repurchase of redemption of capital stock if, in his sole discretion, the continuation of such transactions would be inconsistent with maintaining the capital adequacy of the FHLB and its safe and sound operations. With regard to dividends, the FHLB continues to assess its dividend capacity each quarter and make appropriate request for approval. There were no dividends paid by the FHLB during the first six months of 2010. The Company evaluated its cost method investment in FHLB stock, and deemed it was ultimately recoverable as of June 30, 2010.

Repurchase Agreements and Other Borrowings

Securities sold under agreements to repurchase had a seasonal decline of $6.6 million during the first six months of 2010. FHLB borrowings declined $10 million due to maturity of three advances during the first six months of 2010. Other borrowings increased $1.5 million due to a draw on the Northern Trust line of credit during the second quarter of 2010.

Fair Value of Assets and Liabilities

ACS Topic 820, "Fair Value Measurements," defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with Topic 820, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1	Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
Level 2	Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Available-for-Sale Securities

The fair value of available-for-sale securities is determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. Level 1 securities include exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. For these investments the inputs used by the pricing service to determine fair value may include one or a combination of observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bid offers and reference data market research publications and are classified within level 2 of the valuation hierarchy. Level 2 securities include U.S. Treasury securities, obligations of U.S. government corporations and agencies, obligations of states and political subdivisions, mortgage-backed securities, collateralized mortgage obligations and corporate bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include subordinated tranches of collateralized mortgage obligations and investments in trust preferred securities.

The trust preferred securities are collateralized debt obligation securities that are backed by trust preferred securities issued by banks, thrifts, and insurance companies. The market for these securities at June 30, 2010 is not active and markets for similar securities are also not active. The inactivity was evidenced first by a significant widening of the bid-ask spread in the brokered markets in which trust preferred securities trade and then by a significant decrease in the volume of trades relative to historical levels. The new issue market is also inactive and may continue to be, especially as a result of the Dodd-Frank Act's elimination of trust preferred securities from Tier 1 capital for certain holding companies. There are currently very few market participants who are willing and or able to transact for these securities. The market values for these securities (and any securities other than those issued or guaranteed by the US Treasury) are very depressed relative to historical levels.

Given conditions in the debt markets today and the absence of observable transactions in the secondary and new issue markets, we determined:

- The few observable transactions and market quotations that are available are not reliable for purposes of determining fair value at June 30, 2010,

- An income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs will be equally or more representative of fair value than the market approach valuation technique used at prior measurement dates , and

- The Company's trust preferred securities will be classified within Level 3 of the fair value hierarchy because we determined that significant adjustments are required to determine fair value at the measurement date.

The following table presents the Company's assets that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall as of June 30, 2010 and December 31, 2009 (in thousands):

	Fair Value Measurements Using

June 30, 2010	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$120,821	$-	$ 120,821	$ -
Obligations of states and political subdivisions	24,192	-	24,192	-
Mortgage-backed securities	118,770	-	118,698	72
Trust preferred securities	2,709	-	-	2,709
Other securities	28	28	-	-
Total available-for-sale securities	$266,520	$28	$ 263,711	$ 2,781

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2009				
Available-for-sale securities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$90,974	$-	$ 90,974	$ -
Obligations of states and political subdivisions	23,716	-	23,716	-
Mortgage-backed securities	114,519	-	114,444	75
Trust preferred securities	3,155	-	-	3,155
Other securities	6,333	15	6,318	-
Total available-for-sale securities	$238,697	$15	$ 235,452	$ 3,230

The change in fair value of assets measured on a recurring basis using significant unobservable inputs (Level 3) for the periods ended June 30, 2010 and 2009 is summarized as follows (in thousands):

	Available-for-Sale Securities		
June 30, 2010	Mortgage-backed Securities	Trust Preferred Securities	Total
Beginning balance	$75	$3,155	$3,230
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Total gains or losses			
Included in net income	-	(978)	(978)
Included in other comprehensive income (loss)	1	426	427
Purchases, issuances, sales and settlements			
Purchases	-	-	-
Issuances	-	-	-
Sales	-	-	-
Settlements	(4)	106	102
Ending balance	$72	$2,709	$2,781
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$-	$(978)	$(978)

	Available-for-Sale Securities		
	Mortgage-backed Securities	Trust Preferred Securities	Total
June 30, 2009			
Beginning balance	$81	$5,378	$5,459
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Total gains or losses			
Included in net income	-	(869)	(869)
Included in other comprehensive income (loss)	2	765	767
Purchases, issuances, sales and settlements			
Purchases	-	-	-
Issuances	-	-	-
Sales	-	-	-
Settlements	(4)	62	58
Ending balance	$79	$5,336	$5,415
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	$-	$(869)	$(869)

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment and estimating fair value include using the fair value of the collateral for collateral dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Management establishes a specific reserve for loans that have an estimated fair value that is below the carrying value. The total carrying amount of loans for which a specific reserve has been established as of June 30, 2010 was $2,822,000 and a fair value of $2,612,000 resulting in specific loss exposures of $210,000.

When there is little prospect of collecting either principal or interest, loans, or portions of loans, may be charged-off to the allowance for loan losses. Losses are recognized in the period an obligation becomes uncollectible. The recognition of a loss does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan even though partial recovery may be effected in the future.

Foreclosed Assets Held For Sale

Other real estate owned acquired through loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined that fair value declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense. Operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other noninterest expense. The total carrying amount of other real estate owned as of June 30, 2010 was $7,520,000. Other real estate owned measured at fair value on a nonrecurring basis in 2010 amounted to $2,960,000.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2010 and December 31, 2009 (in thousands):

		Fair Value Measurements Using		
June 30, 2010	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans (collateral dependent)	$2,612	$-	$ -	$ 2,612
Foreclosed assets held for sale	2,960	-	-	2,960
December 31, 2009				
Impaired loans (collateral dependent)	$5,068	$-	$-	$5,068
Foreclosed assets held for sale	1,020	-	-	1,020

Other

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and cash equivalents and Federal Reserve and Federal Home Loan Bank Stock

The carrying amount approximates fair value.

Held-to-maturity Securities

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

For loans with floating interest rates, it is assumed that the estimated fair values generally approximate the carrying amount balances. Fixed rate loans have been valued using a discounted present value of projected cash flow. The discount rate used in these calculations is the current rate at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Short-term Borrowings and Interest Payable

The carrying amount approximates fair value.

Long-term Debt and Federal Home Loan Bank Advances

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt.

The following table presents estimated fair values of the Company's financial instruments in accordance with FAS 107-1 and APB 28-1, codified with ASC 805.

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and due from banks	$42,907	$42,907	$30,411	$30,411
Federal funds sold	60,000	60,000	60,000	60,000
Certificates of deposit investments	10,000	10,013	9,344	9,376
Available-for-sale securities	266,520	266,520	238,697	238,697
Held-to-maturity securities	50	54	459	469
Loans held for sale	660	660	149	149
Loans net of allowance for loan losses	663,920	671,527	691,139	698,798
Interest receivable	5,645	5,645	6,871	6,871
Federal Reserve Bank stock	1,368	1,368	1,368	1,368
Federal Home Loan Bank stock	3,727	3,727	3,727	3,727
Financial Liabilities				
Deposits	$869,169	$870,275	$840,410	$841,737
Securities sold under agreements to repurchase	73,758	73,760	80,386	80,389
Interest payable	719	719	861	861
Federal Home Loan Bank borrowings	22,750	24,278	32,750	34,448
Other borrowings	1,500	1,500	-	-
Junior subordinated debentures	20,620	11,271	20,620	11,371

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

The following discussion and analysis is intended to provide a better understanding of the consolidated financial condition and results of operations of the Company and its subsidiaries as of, and for the three and six-month periods ended June 30, 2010 and 2009. This discussion and analysis should be read in conjunction with the consolidated financial statements, related notes and selected financial data appearing elsewhere in this report.

Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), such as discussions of the Company's pricing and fee trends, credit quality and outlook, liquidity, new business results, expansion plans, anticipated expenses and planned schedules. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are identified by use of the words "believe", "expect", "intend", "anticipate", "estimate", "project", or similar expressions. Actual results could differ materially from the results indicated by these statements because the realization of those results is subject to many risks and uncertainties including: the effect of the current severe disruption in financial markets and the United States government programs introduced to restore stability and liquidity, changes in interest rates, general economic conditions and the weakened state of the United States economy, legislative/regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Company and its business, including a discussion of these and additional factors that could materially affect the Company's financial results, is included in the Company's 2009 Annual Report on Form 10-K under the headings "Item 1. Business" and "Item 1A. Risk Factors."

Recent Legislative Developments

Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") was signed into law on July 21, 2010. Generally, the Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law. Uncertainty remains as to the ultimate impact of the Act, which could have a material adverse impact either on the financial services industry as a whole, or on the Company's business, results of operations and financial condition. The Act, among other things:

- Directs the Federal Reserve to issue rules which are expected to limit debit-card interchange fees;
- After a three-year phase-in period which begins January 1, 2013, existing trust preferred securities for holding companies with consolidated assets greater than $15 billion and all new issuances of trust preferred securities are removed as a permitted component of a holding company's Tier 1 capital. (Trust preferred securities outstanding as of May 19, 2010 that were issued by bank holding companies with total consolidated assets of less than $15 billion, such as First Mid, will continue to count as Tier 1 capital.);
- Provides for an increase in the FDIC assessment for depository institutions with assets of $10 billion or more, increases in the minimum reserve ratio for the deposit insurance fund from 1.15% to 1.35% (however, the FDIC will offset the effect of this increase for holding companies with total consolidated assets of less than $10 billion,

such as First Mid) and changes in the basis for determining FDIC premiums from deposits to assets;
- Creates a new consumer financial protection bureau that will have rulemaking authority for a wide range of consumer protection laws that would apply to all banks and certain non-bank financial institutions and would have broad powers to supervise and enforce consumer protection laws;
- Provides for new disclosure and other requirements relating to executive compensation and corporate governance;
- Changes standards for Federal preemption of state laws related to federally chartered institutions and their subsidiaries;
- Provides mortgage reform provisions including (i) a customer's ability to repay, (ii) restricting variable-rate lending by requiring the ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and (iii) making more loans subject to provisions for higher cost loans, new disclosures;
- Creates a financial stability oversight council that will recommend to the Federal Reserve increasingly strict rules for capital, leverage, liquidity, risk management and other requirements as companies grow in size and complexity;
- Permanently increases the deposit insurance coverage to $250 thousand and allows depository institutions to pay interest on checking accounts; and
- Requires publicly-traded bank holding companies with assets of $10 billion or more to establish a risk committee responsible for enterprise-wide risk management practices.

Temporary Liquidity Guarantee Program

On October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program (TLGP). The final rule was adopted on November 21, 2008. The FDIC stated that the purpose of these actions is to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of 31 days or greater, of banks, thrifts, and certain holding companies, and by providing full FDIC insurance coverage for all non-interest bearing transaction accounts, regardless of dollar amount. Inclusion in the program was voluntary. Institutions participating in the senior unsecured debt portion of the program are assessed fees on a sliding scale, depending on length of maturity for debt actually issued.

First Mid Bank elected to participate in both parts of the TLGP, the Transaction Account Guarantee (TAG) Program and the Debt Guarantee Program, although it issued no debt under that now-terminated program. The FDIC's TAG Program, provides, without charge to depositors, a full guarantee on all non-interest bearing transaction accounts held by any depositor, regardless of dollar amount, through December 31, 2010. Participation in the Transaction Account Guarantee Program cost the Company 15 basis points annually on the amount of the deposits during 2010 and cost 10 basis points annually during 2009.

Federal Deposit Insurance Corporation Insurance Coverage

As an FDIC-insured institution, First Mid Bank is required to pay deposit insurance premium assessments to the FDIC.

On October 3, 2008, the FDIC temporarily increased the standard maximum deposit insurance amount (SMDIA) from $100,000 to $250,000 per depositor. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in the SMDIA through December 31, 2013. On July 21, 2010, The Dodd-Frank Act permanently raised the SMDIA to $250,000. The Company expensed $44,000 and $22,000 for this program during the first six months of 2010 and 2009, respectively.

On February 27, 2009, the FDIC adopted a final rule modifying the risk-based assessment system and setting initial base assessment rates beginning April 1, 2009, at 12 to 45 basis points and, due to extraordinary circumstances, extended the period of the restoration plan to increase the deposit insurance fund to seven years. Also on February 27, 2009, the FDIC issued final rules on changes to the risk-based assessment system. The final rules both increase base assessment rates and incorporate additional assessments for excess reliance on brokered deposits and FHLB advances. The new rates increased the range of annual assessment rates from 5 to 7 basis points to 7 to 24 basis points. This new assessment took effect April 1, 2009. The Company expensed $574,000 and $654,000 for this assessment during the first six months of 2010 and 2009, respectively.

Also on February 27, 2009, the FDIC adopted an interim rule to impose a 20 basis point emergency special assessment payable September 30, 2009 based on the second quarter 2009 assessment base, to help shore up the Deposit Insurance Fund ("DIF"). This assessment equates to a one-time cost of $200,000 per $100 million in assessment base. The interim rule also allows the Board to impose possible additional special assessments of up to 10 basis points thereafter to maintain public confidence in the DIF. Subsequently, the FDIC's Treasury borrowing authority increased from $30 billion to $100 billion, allowing the agency to cut the planned special assessment from 20 to 10 basis points. On May 22, 2009, the FDIC adopted a final rule which established a special assessment of five basis points on each FDIC-insured depository institution's assets, minus its Tier 1 capital, as of September 30, 2009. The assessment was capped at 10 basis points of an institution's domestic deposits so that no institution would pay an amount higher than it would have under the interim rule. The Company expensed $522,000 in 2009 for this special assessment. There were no special assessments during the first six months of 2010.

In addition to its insurance assessment, each insured bank was subject to quarterly debt service assessments in connection with bonds issued by a government corporation that financed the federal savings and loan bailout. The Company expensed $44,000 and $66,000 during the first six months of 2010 and 2009, respectively, for this assessment.

On September 29, 2009, the FDIC Board proposed a Deposit Insurance Fund restoration plan that required banks to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. Under the plan—which applies to all banks except those with liquidity problems—banks were assessed through 2010 according to the risk-based premium schedule adopted in 2009. Beginning January 1, 2011, the base rate increases by 3 basis points. The Company recorded a prepaid expense asset of $4,855,000 as of December 31, 2009 as a result of this plan. This asset will be amortized to non-interest expense over the next three years. The balance of this asset was $3,991,000 as of June 30, 2010.

Overview

This overview of management's discussion and analysis highlights selected information in this document and may not contain all of the information that is important to you. For a more complete understanding of trends, events, commitments, uncertainties, liquidity, capital resources, and critical accounting estimates which have an impact on the Company's financial condition and results of operations you should carefully read this entire document.

Net income was $4,330,000 and $4,184,000 and diluted net income per common share available to common stockholders was $.52 and $.55 for the six months ended June 30, 2010 and 2009, respectively. The following table shows the Company's annualized performance ratios for the six months ended June 30, 2010 and 2009, compared to the performance ratios for the year ended December 31, 2009:

	Six months ended				Year ended December 31,	
	June 30, 2010		June 30, 2009		2009	
Return on average assets	.79	%	.76	%	.74	%
Return on average common equity	7.23	%	8.00	%	7.44	%
Average equity to average assets	10.38	%	9.27	%	9.59	%

Total assets at June 30, 2010 and December 31, 2009 were $1.11 billion and $1.10 billion, respectively. The increase in net assets was primarily due to an increase in available-for-sale securities and interest bearing cash and due from bank balances offset by a decrease in net loans. Available-for-sale securities increased by $27.8 million during the first six months of 2010 the addition of government agency and mortgage-backed securities. Net loan balances were $664 million at June 30, 2010, a decrease of $27 million, or 3.9%, from $691 million at December 31, 2009 primarily due to a decline in the balances of loans secured by real estate and agricultural operating loans. Total deposit balances increased to $869 million at June 30, 2010 from $840 million at December 31, 2009 due to increased balances in interest bearing transaction accounts, savings accounts and money market accounts offset by declines in consumer time deposits.

Net interest margin, defined as net interest income divided by average interest-earning assets, was 3.67% for the six months ended June 30, 2010, up from 3.32% for the same period in 2009. Net interest income before the provision for loan losses was $18.8 million compared to net interest income of $17.1 million for the same period in 2009. This increase was due to a greater decline in the rates on interest-earning liabilities compared to the decline in rates on interest-earning assets.

Other income decreased $1.2 million or 16.6%, to $6.1 million for the six months ended June 30, 2010 compared to $7.3 million for the six months ended June 30, 2009. The decrease in other income was primarily due to a $1 million gain from the sale of the bank's merchant card servicing portfolio received during the first quarter of 2009 that was not received in 2010 and more other-than-temporary impairment charges during 2010 compared to 2009.

Other expense decreased 2.9%, or $.5 million, to $16.5 million for the six months ended June 30, 2010 compared to $17 million during the same period in 2009. The decrease in other expense was primarily due to a special FDIC insurance assessment during 2009 that did not occur during 2010.

Following is a summary of the factors that contributed to the changes in net income (in thousands):

	Change in Net Income 2010 versus 2009	
	Three months ended June 30	Six months ended June 30
Net interest income	$936	$1,706
Provision for loan losses	(445)	(601)
Other income, including securities transactions	(618)	(1,216)
Other expenses	(93)	500
Income taxes	3	(243)
Increase (decrease) in net income	$(217)	$146

Credit quality is an area of importance to the Company. Total nonperforming loans were $11.6 million at June 30, 2010, compared to $10.5 million at June 30, 2009 and $12.7 million at December 31, 2009. See the discussion under the heading "Loan Quality and Allowance for Loan Losses" for a detailed explanation of these balances. Repossessed asset balances totaled $7.6 million at June 30, 2010 compared to $1.9 million on June 30, 2009 and $2.9 million on December 31, 2009. The Company's provision for loan losses for the six months ended June 30, 2010 and 2009 was $1,843,000 and $1,242,000, respectively. Total loans past due 30 days or more declined to 1.52% of loans at June 30, 2010 compared to 2.17% of loans at December 31, 2009. At June 30, 2010, the composition of the loan portfolio remained similar to the same period last year. Loans secured by both commercial and residential real estate comprised

71% and 74% of the loan portfolio as of June 30, 2010 and December 31, 2009, respectively. During the six months ended June 30, 2010, annualized net charge-offs were .36% of average loans compared to .07% for the same period in 2009.

The Company's capital position remains strong and the Company has consistently maintained regulatory capital ratios above the "well-capitalized" standards. The Company's Tier 1 capital to risk weighted assets ratio calculated under the regulatory risk-based capital requirements at June 30, 2010 and 2009 and December 31, 2009 was 15.42%, 14.37% and 14.57%, respectively. The Company's total capital to risk weighted assets ratio calculated under the regulatory risk-based capital requirements at June 30, 2010 and 2009 and December 31, 2009 was 16.60%, 15.47%and 15.76%, respectively.

The Company's liquidity position remains sufficient to fund operations and meet the requirements of borrowers, depositors, and creditors. The Company maintains various sources of liquidity to fund its cash needs. See the discussion under the heading "Liquidity" for a full listing of sources and anticipated significant contractual obligations.

The Company enters into 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 lines of credit, letters of credit and other commitments to extend credit. The total outstanding commitments at June 30, 2010 and 2009 were $141.2 million and $139.4 million, respectively.

Critical Accounting Policies and Use of Significant Estimates

The Company has established various accounting policies that govern the application of U.S. generally accepted accounting principles in the preparation of the Company's financial statements. The significant accounting policies of the Company are described in the footnotes to the consolidated financial statements included in the Company's 2009 Annual Report on Form 10-K. Certain accounting policies involve significant judgments and assumptions by management that have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and assumptions, which could have a material impact on the carrying values of assets and liabilities and the results of operations of the Company.

Allowance for Loan Losses. The Company believes the allowance for loan losses is the critical accounting policy that requires the most significant judgments and assumptions used in the preparation of its consolidated financial statements. An estimate of potential losses inherent in the loan portfolio is determined and an allowance for those losses is established by considering factors including historical loss rates, expected cash flows and estimated collateral values. In assessing these factors, the Company use organizational history and experience with credit decisions and related outcomes. The allowance for loan losses represents the best estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The Company evaluates the allowance for loan losses quarterly. If the underlying assumptions later prove to be inaccurate based on subsequent loss evaluations, the allowance for loan losses is adjusted.

The Company estimates the appropriate level of allowance for loan losses by separately evaluating impaired and nonimpaired loans. A specific allowance is assigned to an impaired loan when expected cash flows or collateral do not justify the carrying amount of the loan. The methodology used to assign an allowance to a nonimpaired loan is more subjective. Generally, the allowance assigned to nonimpaired loans is determined by applying historical loss rates to existing loans with similar risk characteristics, adjusted for qualitative factors including the volume and severity of identified classified loans, changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets. Because the economic and business climate in any given industry or market, and its impact on any given borrower, can change rapidly, the risk profile of the loan portfolio is continually assessed and adjusted when appropriate. Notwithstanding these procedures, there still exists the possibility that the assessment could prove to be significantly incorrect and that an immediate adjustment to the allowance for loan losses would be required.

Other Real Estate Owned. Other real estate owned acquired through loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. The adjustment at the time of foreclosure is recorded through the allowance for loan losses. Due to the subjective nature of establishing the fair value when the asset is acquired, the actual fair value of the other real estate owned or foreclosed asset could differ from the original estimate. If it is determined that fair value temporarily declines subsequent to foreclosure, a valuation allowance is recorded through noninterest expense. Operating costs associated with the assets after acquisition are also recorded as noninterest expense. Gains and losses on the disposition of other real estate owned and foreclosed assets are netted and posted to other noninterest expense.

Investment in Debt and Equity Securities. The Company classifies its investments in debt and equity securities as either held-to-maturity or available-for-sale in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which was codified into ASC 320. Securities classified as held-to-maturity are recorded at cost or amortized cost. Available-for-sale securities are carried at fair value. Fair value calculations are based on quoted market prices when such prices are available. If quoted market prices are not available, estimates of fair value are computed using a variety of techniques, including extrapolation from the quoted prices of similar instruments or recent trades for thinly traded securities, fundamental analysis, or through obtaining purchase quotes. Due to the subjective nature of the valuation process, it is possible that the actual fair values of these investments could differ from the estimated amounts, thereby affecting the financial position, results of operations and cash flows of the Company. If the estimated value of investments is less than the cost or amortized cost, the Company evaluates whether an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investment. If such an event or change has occurred and the Company determines that the impairment is other-than-temporary, a further determination is made as to the portion of impairment that is related to credit loss. The impairment of the investment that is related to the credit loss is expensed in the period in which the event or change occurred. The remainder of the impairment is recorded in other comprehensive income.

Deferred Income Tax Assets/Liabilities. The Company's net deferred income tax asset arises from differences in the dates that items of income and expense enter into our reported income and taxable income. Deferred tax assets and liabilities are established for these items as they arise. From an accounting standpoint, deferred tax assets are reviewed to determine if they are realizable based on the historical level of taxable income, estimates of future taxable income and the reversals of deferred tax liabilities. In most cases, the realization of the deferred tax asset is based on future profitability. If the Company were to experience net operating losses for tax purposes in a future period, the realization of deferred tax assets would be evaluated for a potential valuation reserve.

Additionally, the Company reviews its uncertain tax positions annually under FASB Interpretation No. 48 (FIN No. 48), "Accounting for Uncertainty in Income Taxes," codified within ASC 740. An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount actually recognized is the largest amount of tax benefit that is greater than 50% likely to be recognized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. A significant amount of judgment is applied to determine both whether the tax position meets the "more likely than not" test as well as to determine the largest amount of tax benefit that is greater than 50% likely to be recognized. Differences between the position taken by management and that of taxing authorities could result in a reduction of a tax benefit or increase to tax liability, which could adversely affect future income tax expense.

Impairment of Goodwill and Intangible Assets. As a result of the Company's acquisition activity, goodwill, an intangible asset with an indefinite life, is reflected on the balance sheets. Goodwill is evaluated for impairment annually, unless there are factors present that indicate a potential impairment, in which case, the goodwill impairment test is performed more frequently than annually. In accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," codified within ASC 350, the Company performed testing of goodwill for impairment as of September 30, 2009 and determined that, as of that date, goodwill was not impaired.

Core deposit and customer relationships, which are intangible assets with a finite life, are recorded on the Company's balance sheets. These intangible assets were capitalized as a result of past acquisitions and are being amortized over their estimated useful lives of up to 15 years. Core deposit intangible assets, with finite lives will be tested for impairment when changes in events or circumstances indicate that its carrying amount may not be recoverable. Core deposit intangible assets were tested for impairment during 2009 as part of the goodwill impairment test and no impairment charge was deemed necessary.

Fair Value Measurements. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Company estimates the fair value of a financial instrument using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, the Company estimates fair value. The Company's valuation methods consider factors such as liquidity and concentration concerns. Other factors such as model assumptions, market dislocations, and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded.

SFAS No. 157, "Fair Value Measurements", which was codified into ASC 820, establishes a framework for measuring the fair value of financial instruments that considers the attributes specific to particular assets or liabilities and establishes a three-level hierarchy for determining fair value based on the transparency of inputs to each valuation as of the fair value measurement date. The three levels are defined as follows:

- Level 1 — quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs include quoted prices for similar assets and liabilities in active markets, quoted prices of identical or similar assets or liabilities in markets that are not active, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — inputs that are unobservable and significant to the fair value measurement.

At the end of each quarter, the Company assesses the valuation hierarchy for each asset or liability measured. From time to time, assets or liabilities may be transferred within hierarchy levels due to changes in availability of observable market inputs to measure fair value at the measurement date. Transfers into or out of hierarchy levels are based upon the fair value at the beginning of the reporting period. A more detailed description of the fair values measured at each level of the fair value hierarchy can be found in the notes to the financial statements under the heading "Fair Value of Assets and Liabilities."

Mergers and Acquisitions

On May 7, 2010, First Mid Bank entered into a Branch Purchase and Assumption Agreement, dated as of May 7, 2010 (the "Purchase Agreement"), with First Bank, a Missouri state chartered bank ("First Bank"), pursuant to which First Mid Bank has agreed to purchase 10 bank branches (the "Branch Offices") of First Bank located in Bartonville, Bloomington, Galesburg, Knoxville, Peoria and Quincy, Illinois (the "Acquisition"). The Acquisition will include the purchase of approximately $147.5 million in loans and the assumption of approximately $335.2 million in deposits. In connection with the assumption of the deposits, First Mid Bank will pay First Bank a premium of approximately 4.77% on certain deposit amounts to be assumed at the closing of the proposed Acquisition. The Company and First Mid Bank expect this acquisition to be completed in the third quarter of 2010.

Results of Operations

Net Interest Income

The largest source of revenue for the Company is net interest income. Net interest income represents the difference between total interest income earned on earning assets and total interest expense paid on interest-bearing liabilities. The amount of interest income is dependent upon many factors, including the volume and mix of earning assets, the general level of interest rates and the dynamics of changes in interest rates. The cost of funds necessary to support earning assets varies with the volume and mix of interest-bearing liabilities and the rates paid to attract and retain such funds. The Company’s average balances, interest income and expense and rates earned or paid for major balance sheet categories are set forth in the following table (dollars in thousands):

	Six months ended June 30, 2010			Six months ended June 30, 2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-bearing deposits with other financial institutions	$26,360	$30	.23%	$68,860	$60	.18%
Federal funds sold	60,000	37	.12%	49,171	35	.14%
Certificates of deposit investments	9,017	62	1.39%	3	-	-%
Investment securities						
Taxable	224,163	3,935	3.51%	183,497	3,894	4.24%
Tax-exempt (1)	23,368	481	4.12%	23,308	475	4.08%
Loans (2)(3)	686,981	19,736	5.79%	711,179	21,406	6.07%
Total earning assets	1,029,889	24,281	4.75%	1,036,018	25,870	5.04%
Cash and due from banks	18,576			17,752		
Premises and equipment	15,292			15,234		
Other assets	42,115			37,078		
Allowance for loan losses	(9,851)			(8,058)		
Total assets	$1,096,021			$1,098,024		
LIABILITIES AND STOCKHOLDERS’ EQUITY						
Interest-bearing deposits						
Demand deposits	$382,429	$1,669	.88%	$307,879	$1,378	.90%
Savings deposits	143,706	574	.81%	98,273	455	.93%
Time deposits	206,198	2,028	1.98%	332,832	5,443	3.30%
Securities sold under agreements to repurchase	68,141	61	.18%	68,782	57	.17%
FHLB advances	29,490	625	4.28%	37,750	848	4.53%
Federal funds purchased	-	-	-%	6	-	-%
Junior subordinated debt	20,620	522	5.10%	20,620	572	5.59%
Other debt	185	1	1.27%	3,022	22	1.47%
Total interest-bearing liabilities	850,769	5,480	1.30%	869,164	8,775	2.04%
Non interest-bearing demand deposits	123,941			119,727		
Other liabilities	7,575			7,374		
Stockholders' equity	113,736			101,759		

Total liabilities & equity	$1,096,021				$1,098,024			
Net interest income		$18,801				$17,095		
Net interest spread			3.45	%			3.00	%
Impact of non-interest bearing funds			.22	%			.32	%
Net yield on interest- earning assets			3.67	%			3.32	%

(1) The tax-exempt income is not recorded on a tax equivalent basis.
(2) Nonaccrual loans have been included in the average balances.
(3) Includes loans held for sale.

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Changes in net interest income may also be analyzed by segregating the volume and rate components of interest income and interest expense. The following table summarizes the approximate relative contribution of changes in average volume and interest rates to changes in net interest income for the six months ended June 30, 2010, compared to the same period in 2009 (in thousands):

	For the six months ended June 30, 2010 compared to 2009 Increase / (Decrease)		
	Total Change	Volume (1)	Rate (1)
Earning Assets:			
Interest-bearing deposits	$(30)	$(68)	$38
Federal funds sold	2	13	(11)
Certificates of deposit investments	62	62	-
Investment securities:			
Taxable	41	1,531	(1,490)
Tax-exempt (2)	6	1	5
Loans (3)	(1,670)	(709)	(961)
Total interest income	(1,589)	830	(2,419)
Interest-Bearing Liabilities:			
Interest-bearing deposits			
Demand deposits	291	380	(89)
Savings deposits	119	278	(159)
Time deposits	(3,415)	(1,665)	(1,750)
Securities sold under agreements to repurchase	4	(1)	5
FHLB advances	(223)	(178)	(45)
Junior subordinated debt	(50)	-	(50)
Other debt	(21)	(21)	-
Total interest expense	(3,295)	(1,207)	(2,088)
Net interest income	$1,706	$2,037	$(331)

(1) Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.
(2) The tax-exempt income is not recorded on a tax-equivalent basis.
(3) Nonaccrual loans have been included in the average balances.

Net interest income increased $1.7 million, or 10%, to $18.8 million for the six months ended June 30, 2010, from $17.1 million for the same period in 2009. The increase in net interest income was primarily due to an increase in investment security balances and a decrease in time deposit balances.

For the six months ended June 30, 2010, average earning assets decreased by $6.1 million, or .6%, and average interest-bearing liabilities decreased $18.4 million, or 2.1%, compared with average balances for the same period in 2009. The changes in average balances for these periods are shown below:

- Average interest-bearing deposits held by the Company decreased $42.5 million or 61.7%.
- Average federal funds sold increased $10.8 million or 22%.

- Average certificates of deposit investments increased by $9 million or 300000%
- Average loans decreased by $24.2 million or 3.4%.
- Average securities increased by $40.7 million or 19.7%.
- Average deposits decreased by $6.7 million or .9%.
- Average securities sold under agreements to repurchase decreased by $.6 million or .9%.
- Average borrowings and other debt decreased by $11.1 million or 18.1%.
- Net interest margin increased to 3.67% for the first six months of 2010 from 3.32% for the first six months of 2009.

To compare the tax-exempt yields on interest-earning assets to taxable yields, the Company also computes non-GAAP net interest income on a tax equivalent basis (TE) where the interest earned on tax-exempt securities is adjusted to an amount comparable to interest subject to normal income taxes assuming a federal tax rate of 34% (referred to as the tax equivalent adjustment). The net yield on interest-earning assets (TE) was 3.74% and 3.38% for the first six months of 2010 and 2009, respectively. The TE adjustments to net interest income for June 30, 2010 and 2009 were $248,000 and $245,000, respectively.

Provision for Loan Losses

The provision for loan losses for the six months ended June 30, 2010 and 2009 was $1,843,000 and 1,242,000, respectively. Nonperforming loans were $11.6 million and $10.5 million as of June 30, 2010 and 2009, respectively. Net charge-offs were $1,240,000 for the six months ended June 30, 2010 compared to $256,000 during the same period in 2009. For information on loan loss experience and nonperforming loans, see discussion under the "Nonperforming Loans" and "Loan Quality and Allowance for Loan Losses" sections below.

Other Income

An important source of the Company's revenue is other income. The following table sets forth the major components of other income for the three and six months ended June 30, 2010 and 2009 (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	$ Change	2010	2009	$ Change
Trust revenues	$595	$545	$50	$1,219	$1,124	$95
Brokerage commissions	136	133	3	265	212	53
Insurance commissions	444	422	22	1,088	1,167	(79)
Service charges	1,181	1,220	(39)	2,257	2,354	(97)
Security gains, net	5	207	(202)	246	207	39
Impairment losses on securities	(355)	-	(355)	(978)	(869)	(109)
Gain on sale of merchant banking portfolio	-	-	-	-	1,000	(1,000)
Mortgage banking revenue, net	105	303	(198)	201	391	(190)
ATM / debit card revenue	686	577	109	1,310	1,105	205
Other	246	254	(8)	503	636	(133)
Total other income	$3,043	$3,661	$(618)	$6,111	$7,327	$(1,216)

Following are explanations of the changes in these other income categories for the three months ended June 30, 2010 compared to the same period in 2009:

- Trust revenues increased $50,000 or 9.2% to $595,000 from $545,000 due primarily to an increase in revenues from employee benefit accounts and increases in market value fees. Trust assets, at market value, were $458.1 million at June 30, 2010 compared to $434.6 million at June 30, 2009.

- Revenues from brokerage increased $3,000 or 2.3% to $136,000 from $133,000 due to an increase in commissions received from the sale of annuities.

- Insurance commissions increased $22,000 or 5.2% to $444,000 from $422,000 due to an increase in property and casualty insurance commissions during the second quarter of 2010 compared to the same period in 2009.
- Fees from service charges decreased $39,000 or 3.2% to $1,181,000 from $1,220,000. This was primarily the result of a decrease in the number of overdrafts during the second quarter of 2010 compared to the same period in 2009.
- The sale of securities during the three months ended June 30, 2010 resulted in net securities gains of $5,000 compared to $207,000 during the three months ended June 30, 2009.
- During the second quarter of 2010, the Company recorded other-than-temporary impairment charges amounting to $355,000 for three of its investments in trust preferred securities. There were no other-than-temporary impairment charges during the second quarter of 2009. See heading "Investment Securities" in the notes to the financial statements for a more detailed description of these charges.

- Mortgage banking income decreased $198,000 or 65.3% to $105,000 from $303,000. Loans sold balances were as follows:

  - $8.9 million (representing 88 loans) for the second quarter of 2010.
  - $31.4 million (representing 264 loans) for the second quarter of 2009.

First Mid Bank generally releases the servicing rights on loans sold into the secondary market.

- Revenue from ATMs and debit cards increased $109,000 or 18.9% to $686,000 from $577,000 primarily due to increased usage.

- Other income decreased $8,000 or 3.1% to $246,000 from $254,000. This decrease was due to slight declines in various income items.

Following are explanations of the changes in these other income categories for the six months ended June 30, 2010 compared to the same period in 2009:

- Trust revenues increased $95,000 or 8.5% to $1,219,000 from $1,124,000 due primarily to an increase in revenues from employee benefit accounts and increases in market value fees. Trust assets, at market value, were $458.1 million at June 30, 2010 compared to $434.6 million at June 30, 2009.

- Revenues from brokerage increased $53,000 or 25% to $265,000 from $212,000 due to an increase in commissions received from the sale of annuities.

- Insurance commissions decreased $79,000 or 6.8% to $1,088,000 from $1,167,000 due to a decrease in income received from carriers for claim experience during the first quarter of 2010 compared to the same period in 2009 offset by an increase in property and casualty insurance commissions during the second quarter of 2010 compared to the same period in 2009.

- Fees from service charges decreased $97,000 or 4.1% to $2,257,000 from $2,354,000. This was primarily the result of a decrease in the number of overdrafts during 2010 compared to 2009.

- The sale of securities during the six months ended June 30, 2010 resulted in net securities gains of $246,000 compared to $207,000 during the first six months of 2009.

- During the first six months of 2010, the Company recorded other-than-temporary impairment charges amounting to $978,000 for four of its investments in trust preferred securities compared to $869,000 for two of its investments in trust preferred securities for the same period in 2009. See heading "Investment Securities" in the notes to the financial statements for a more detailed description of these charges.

- During the first quarter of 2009, the Company had a $1 million gain on the sale of the Bank's merchant card servicing portfolio. There were no such gains in 2010.

- Mortgage banking income decreased $190,000 or 48.6% to $201,000 from $391,000. Loans sold balances were as follows:

  - $15.6 million (representing 151 loans) for the first six months of 2010.
  - $41.4 million (representing 349 loans) for the first six months of 2009.

First Mid Bank generally releases the servicing rights on loans sold into the secondary market.

- Revenue from ATMs and debit cards increased $205,000 or 18.6% to $1,310,000 from $1,105,000 primarily due to increased usage.

- Other income decreased $133,000 or 20.9% to $503,000 from $636,000. This decrease was primarily due to decreased merchant card income due to sale of the Bank's merchant card servicing portfolio during the first quarter of 2009 and a reduction in loan closing fees during 2010 compared to the same period during 2009.

Other Expense

The major categories of other expense include salaries and employee benefits, occupancy and equipment expenses and other operating expenses associated with day-to-day operations. The following table sets forth the major components of other expense for the three and six months ended June 30, 2010 and 2009 (in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	$ Change	2010	2009	$ Change
Salaries and employee benefits	$4,287	$4,245	$42	$8,655	$8,449	$206
Net occupancy and equipment expense	1,285	1,229	56	2,563	2,543	20
Net other real estate owned expense	299	203	96	147	276	(129)
FDIC insurance	344	628	(284)	662	1,264	(602)
Amortization of intangible assets	176	186	(10)	352	378	(26)
Stationery and supplies	134	126	8	249	260	(11)
Legal and professional	702	565	137	1,131	1,038	93
Marketing and donations	207	261	(54)	410	452	(42)
Other operating expenses	1,274	1,172	102	2,329	2,338	(9)
Total other expense	$8,708	$8,615	$93	$16,498	$16,998	(500)

Following are explanations for the changes in these other expense categories for the three months ended June 30, 2010 compared to the same period in 2009:

- Salaries and employee benefits, the largest component of other expense, increased $42,000 or 1.0% to $4,287,000 from $4,245,000. This increase is primarily due to merit increases for continuing employees during the period for 2010 compared to 2009. There were 345 full-time equivalent employees at June 30, 2010 compared to 340 at June 30, 2009.

- Occupancy and equipment expense increased $56,000 or 4.6% to $1,285,000 from $1,229,000. This increase was primarily due to increases in building rent and expenses for computer software and software maintenance during the second quarter of 2010 compared to the same period for 2009.

- Expense for amortization of intangible assets decreased $10,000 or 5.4% to $176,000 from $186,000 due to core deposit intangibles that were fully amortized during the second quarter of 2009.

- Net other real estate owned expense increased $96,000 or 47.3% to $299,000 from $203,000. The increase in 2010 was due to an increase in real estate tax expenses on properties held offset by several owned properties sold at a gain during the second quarter of 2010 compared to properties owned sold at a loss during the same period in 2009.

- FDIC insurance expense decreased $284,000 or 45.2% to $344,000 from $628,000 due to the expense accrued for a special assessment in 2009 that did not occur in 2010 offset by increases in regular FDIC assessment rates during 2010 compared to the same period in 2009.

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Other operating expenses increased $102,000 or 8.7% to $1,274,000 in 2010 from $1,172,000 in 2009 primarily due to increases in loan collection expenses.

- All other categories of operating expenses increased a net of $91,000 or 9.6% to $1,043,000 from $952,000. This increase is primarily due to an increase in legal and professional fees related to the Company's acquisition of First Bank branches offset by a decrease in marketing and promotion expenses.

Following are explanations for the changes in these other expense categories for the six months ended June 30, 2010 compared to the same period in 2009:

- Salaries and employee benefits, the largest component of other expense, increased $206,000 or 2.4% to $8,655,000 from $8,449,000. This increase is primarily due to merit increases for continuing employees and an increase in health care costs. There were 345 full-time equivalent employees at June 30, 2010 compared to 340 at June 30, 2009.

· Occupancy and equipment expense increased $20,000 or .8% to $2,563,000 from $2,543,000. This increase was primarily due to increases in building rent and expenses for computer software and software maintenance during the first six months of 2010 compared to the same period for 2009.

- Expense for amortization of intangible assets decreased $26,000 or 6.9% to $352,000 from $378,000 due to core deposit intangibles that were fully amortized during the second quarter of 2009.

  - Net other real estate owned expense decreased $129,000 or 46.7% to $147,000 from $276,000. The decrease in 2010 was due to several owned properties sold at a gain during 2010 compared to properties owned sold at a loss during the same period in 2009 offset by an increase in real estate tax expenses on properties held during 2010 compared to the same period during 2009.

- FDIC insurance expense decreased $602,000 or 47.6% to $662,000 from $1,264,000 due to expense accrued for a special assessment in 2009 that did not occur in 2010.

- Other operating expenses decreased $9,000 or .4% to $2,329,000 in 2010 from $2,338,000 in 2009 as a result of a reduction in other losses due to proceeds received from an insurance claim regarding a previous fraud during the first quarter of 2010, offset by increases in loan collection expenses.

- All other categories of operating expenses increased a net of $40,000 or 2.3% to $1,790,000 from $1,750,000. This increase is primarily due to an increase in legal and professional fees related to the Company's acquisition of First Bank branches offset by a decrease in marketing and promotion expenses.

Income Taxes

Total income tax expense amounted to $2,241,000 (34.1% effective tax rate) for the six months ended June 30, 2010, compared to $1,998,000 (32.3% effective tax rate) for the same period in 2009.

The Company adopted the provisions of FIN No. 48, which was codified within ASC 740, on January 1, 2007. The implementation of FIN No. 48 did not impact the Company's financial statements. The Company files U.S. federal and state of Illinois income tax returns. The Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2006.

Analysis of Balance Sheets

Loans

The loan portfolio (net of unearned interest) is the largest category of the Company's earning assets. The following table summarizes the composition of the loan portfolio, including loans held for sale, as of June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010	% Outstanding Loans		December 31, 2009	% Outstanding Loans	
Construction and land development	$19,757	2.9	%	$28,041	4.0	%
Farm loans	58,877	8.7	%	62,330	8.9	%
1-4 Family residential properties	171,054	25.4	%	180,415	25.7	%
Multifamily residential properties	18,877	2.8	%	19,467	2.8	%
Commercial real estate	224,798	33.3	%	226,400	32.3	%

Loans secured by real estate	493,363	73.1	%	516,653	73.7	%
Agricultural loans	47,485	7.0	%	54,144	7.7	%
Commercial and industrial loans	104,911	15.6	%	105,351	15.0	%
Consumer loans	19,127	2.8	%	20,815	3.0	%
All other loans	9,759	1.5	%	3,787	.6	%
Total loans	$674,645	100.0	%	$700,750	100.0	%

Overall loans decreased $26.1 million, or 3.7%. The decrease was a result of decreases in loans secured by real estate and agricultural loans due to a lack of loan demand from quality borrowers and First Mid Bank's enhanced underwriting standards as a result of economic conditions during the on-going recession. The balance of real estate loans held for sale, included in the balances shown above, amounted to $660,000 and $149,000 as of June 30, 2010 and December 31, 2009, respectively.

Commercial and commercial real estate loans generally involve higher credit risks than residential real estate and consumer loans. Because payments on loans secured by commercial real estate or equipment are often dependent upon the successful operation and management of the underlying assets, repayment of such loans may be influenced to a great extent by conditions in the market or the economy. The Company does not have any sub-prime mortgages or credit card loans outstanding which are also generally considered to be higher credit risk.

The following table summarizes the loan portfolio geographically by branch region as of June 30, 2010 and December 31, 2009 (dollars in thousands):

	June 30, 2010		December 31, 2009	
	Principal balance	% Outstanding loans	Principal balance	% Outstanding loans
Mattoon region	$145,048	21.5 %	$144,521	20.6 %
Charleston region	54,752	8.1 %	58,890	8.4 %
Sullivan region	67,507	10.0 %	68,802	9.8 %
Effingham region	87,561	13.0 %	89,141	12.7 %
Decatur region	204,258	30.3 %	212,908	30.4 %
Highland region	115,519	17.1 %	126,488	18.1 %
Total all regions	$674,645	100.0 %	$700,750	100.0 %

Loans are geographically dispersed among these regions located in central and southwestern Illinois. While these regions have experienced some economic stress during 2010 and 2009, the Company does not consider these locations high risk areas since these regions have not experienced the significant declines in real estate values seen in other areas in the United States.

The Company does not have a concentration, as defined by the regulatory agencies, in construction and land development loans or commercial real estate loans as a percentage of total risk-based capital for the periods shown above. At June 30, 2010 and December 31, 2009, the Company did have industry loan concentrations in excess of 25% of total risk-based capital in the following industries (dollars in thousands):

	June 30, 2010		December 31, 2009	
	Principal balance	% Outstanding Loans	Principal balance	% Outstanding Loans
Other grain farming	$95,713	14.19 %	$102,515	14.63 %
Lessors of non-residential buildings	68,234	10.11 %	72,016	10.28 %
Lessors of residential buildings & dwellings	42,626	6.32 %	44,232	6.31 %
Hotels and motels	50,304	7.46 %	50,788	7.25 %

The Company had no further industry loan concentrations in excess of 25% of total risk-based capital.

The following table presents the balance of loans outstanding as of June 30, 2010, by contractual maturities (in thousands):

	Maturity (1)			
	One year or less(2)	Over 1 through 5 years	Over 5 years	Total
Construction and land development	$13,921	$5,629	$206	$19,756
Farm loans	6,027	44,584	8,265	58,876
1-4 Family residential properties	24,286	93,191	53,577	171,054

Multifamily residential properties	1,925	9,512	7,440	18,877
Commercial real estate	30,962	149,408	44,428	224,798
Loans secured by real estate	77,121	302,324	113,916	493,361
Agricultural loans	34,457	12,898	131	47,486
Commercial and industrial loans	64,151	33,773	6,988	104,912
Consumer loans	3,976	14,467	684	19,127
All other loans	5,409	1,682	2,668	9,759
Total loans	$185,114	$365,144	$124,387	$674,645

(1) Based upon remaining contractual maturity.

(2) Includes demand loans, past due loans and overdrafts.

As of June 30, 2010, loans with maturities over one year consisted of approximately $457.4 million in fixed rate loans and approximately $32.1 million in variable rate loans. The loan maturities noted above are based on the contractual provisions of the individual loans. The Company has no general policy regarding renewals and borrower requests, which are handled on a case-by-case basis.

Nonperforming Loans and Nonperforming Other Assets

Nonperforming loans include: (a) loans accounted for on a nonaccrual basis; (b) accruing loans contractually past due ninety days or more as to interest or principal payments; and (c) loans not included in (a) and (b) above which are defined as “restructured loans”. Repossessed assets include primarily repossessed real estate and automobiles.

The Company’s policy is to discontinue the accrual of interest income on any loan for which principal or interest is ninety days past due. The accrual of interest is discontinued earlier when, in the opinion of management, there is reasonable doubt as to the timely collection of interest or principal. Once interest accruals are discontinued, accrued but uncollected interest is charged against current year income. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal.

Restructured loans are loans on which, due to deterioration in the borrower’s financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven.

Repossessed assets represent property acquired as the result of borrower defaults on loans. These assets are recorded at estimated fair value, less estimated selling costs, at the time of foreclosure or repossession. Write-downs occurring at foreclosure are charged against the allowance for loan losses. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Write-downs for subsequent declines in value are recorded in non-interest expense in other real estate owned along with other expenses related to maintaining the properties.

The following table presents information concerning the aggregate amount of nonperforming loans and repossessed assets at June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010		December 31, 2009	
Nonaccrual loans	$10,533		$12,720	
Restructured loans which are performing in accordance				
with revised terms	1,107		-	
Total nonperforming loans	11,640		12,720	
Repossessed assets	7,556		2,896	
Total nonperforming loans and repossessed assets	$19,196		$15,616	
Nonperforming loans to loans,				
before allowance for loan losses	1.73	%	1.82	%
Nonperforming loans and repossessed assets to loans,				
before allowance for loan losses	2.85	%	2.23	%

The $2,187,000 decrease in nonaccrual loans during 2010 resulted from the net of $4,572,000 of loans put on nonaccrual status, offset by $1,535,000 of loans transferred to other real estate owned, $1,081,000 of loans charged off and $4,143,000 of loans becoming current or paid-off. The following table summarizes the composition of nonaccrual loans (in thousands):

	June 30, 2010			December 31, 2009		
	Balance	% of Total		Balance	% of Total	
Construction and land development	$1,680	15.9	%	$2,064	16.2	%
Farm loans	591	5.6	%	1,355	10.6	%

1-4 Family residential properties	2,101	20.0	%	1,968	15.5	%
Multifamily residential properties	188	1.8	%	487	3.8	%
Commercial real estate	4,250	46.3	%	6,063	47.7	%
Loans secured by real estate	8,810	83.6	%	11,937	93.8	%
Agricultural loans	936	8.9	%	-	-	
Commercial and industrial loans	764	7.3	%	783	6.2	%
Consumer loans	23	.2	%	-	-	
Total loans	$10,533	100.0	%	$12,720	100.0	%

Interest income that would have been reported if nonaccrual and restructured loans had been performing totaled $350,000 and $356,000 for the six-month periods ended June 30, 2010 and 2009, respectively.

The $4,660,000 increase in repossessed assets during 2010 resulted from the net of $6,144,000 of additional assets repossessed, $1,480,000 of repossessed assets sold and $4,000 of further write-downs of repossessed assets to current market value. The following table summarizes the composition of repossessed assets (in thousands):

	June 30, 2010			December 31, 2009		
	Balance	% of Total		Balance	% of Total	
Construction and land development	$1,388	18.4	%	$1,252	43.2	%
1-4 family residential properties	2,677	35.4	%	945	32.6	%
Multi-family residential properties	102	1.3	%	-	-	
Commercial real estate	3,353	44.4	%	665	23.0	%
Total real estate	7,520	99.5	%	2,862	98.8	%
Other collateral	36	.5	%	34	1.2	%
Total repossessed collateral	$7,556	100.0	%	$2,896	100.0	%

Repossessed assets sold during 2010 resulted in net gains of $220,000, of which $218,000 was related to real estate asset sales and $2,000 was related to other repossessed asset sales. Repossessed assets sold during 2009 resulted in a net loss of $225,000, of which $221,000 was related to real estate asset sales and $4,000 was related to other repossessed asset sales.

Loan Quality and Allowance for Loan Losses

The allowance for loan losses represents management's estimate of the reserve necessary to adequately account for probable losses existing in the current portfolio. The provision for loan losses is the charge against current earnings that is determined by management as the amount needed to maintain an adequate allowance for loan losses. In determining the adequacy of the allowance for loan losses, and therefore the provision to be charged to current earnings, management relies predominantly on a disciplined credit review and approval process that extends to the full range of the Company's credit exposure. The review process is directed by overall lending policy and is intended to identify, at the earliest possible stage, borrowers who might be facing financial difficulty. Once identified, the magnitude of exposure to individual borrowers is quantified in the form of specific allocations of the allowance for loan losses. Management considers collateral values and guarantees in the determination of such specific allocations. Additional factors considered by management in evaluating the overall adequacy of the allowance include historical net loan losses, the level and composition of nonaccrual, past due and renegotiated loans, trends in volumes and terms of loans, effects of changes in risk selection and underwriting standards or lending practices, lending staff changes, concentrations of credit, industry conditions and the current economic conditions in the region where the Company operates.

Given the current state of the economy, management did assess the impact of the recession on each category of loans and adjusted historical loss factors for more recent economic trends. Management utilizes a five-year loss history as one of several components in assessing the probability of inherent future losses. Given the decline in economic conditions, management also increased its allocation to various loan categories for economic factors during 2010 and 2009. Some of the economic factors include the potential for reduced cash flow for commercial operating loans from reduction in sales or increased operating costs, decreased occupancy rates for commercial buildings, reduced levels of home sales for commercial land developments, the decline in and uncertainty regarding grain prices and increased operating costs for farmers, and increased levels of unemployment and bankruptcy impacting consumer's ability to pay. Each of these economic uncertainties was taken into consideration in developing the level of the reserve. Management considers the allowance for loan losses a critical accounting policy.

Management recognizes there are risk factors that are inherent in the Company's loan portfolio. All financial institutions face risk factors in their loan portfolios because risk exposure is a function of the business. The Company's operations (and therefore its loans) are concentrated in east central Illinois, an area where agriculture is the dominant industry. Accordingly, lending and other business relationships with agriculture-based businesses are critical to the Company's success. At June 30, 2010, the Company's loan portfolio included $106.4 million of loans to borrowers whose businesses are directly related to agriculture. This balance decreased $10.1 million from $116.5 million at December 31, 2009. While the Company adheres to sound underwriting practices, including collateralization of loans, any extended period of low commodity prices, significantly reduced yields on crops and/or reduced levels of government assistance to the agricultural industry could result in an increase in the level of problem agriculture loans and potentially result in loan losses within the agricultural portfolio.

In addition, the Company has $50.3 million of loans to motels and hotels. The performance of these loans is dependent on borrower specific issues as well as the general level of business and personal travel within the region. While the Company adheres to sound underwriting standards, a prolonged period of reduced business or personal travel could result in an increase in nonperforming loans to this business segment and potentially in loan losses. The Company also has $68.2 million of loans to lessors of non-residential buildings and $42.6 million of loans to lessors of residential buildings and dwellings.

Analysis of the allowance for loan losses as of June 30, 2010 and 2009, and of changes in the allowance for the three and six-month periods ended June 30, 2010 and 2009, is as follows (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Average loans outstanding, net of unearned income	$684,061	$700,126	$686,981	$711,179
Allowance-beginning of period	9,529	7,993	9,462	7,587
Charge-offs:				
Real estate-mortgage	432	26	1,012	152
Commercial, financial & agricultural	99	-	195	73
Installment	3	14	29	37
Other	48	46	82	76
Total charge-offs	582	86	1,318	338
Recoveries:				
Real estate-mortgage	3	-	6	1
Commercial, financial & agricultural	7	1	29	12
Installment	7	7	18	23
Other	18	20	45	46
Total recoveries	35	28	78	82
Net charge-offs	547	58	1,240	256
Provision for loan losses	1,083	638	1,843	1,242
Allowance-end of period	$10,065	$8,573	$10,065	$8,573
Ratio of annualized net charge-offs to average loans	.32 %	.03 %	.36 %	.07 %
Ratio of allowance for loan losses to loans outstanding (less unearned interest at end of period)	1.49 %	1.24 %	1.49 %	1.24 %
Ratio of allowance for loan losses to nonperforming loans	86.5 %	81.3 %	86.5 %	81.3 %

The ratio of the allowance for loan losses to nonperforming loans is 86.5% as of June 30, 2010 compared to 81.3% as of June 30, 2009. Given the current economic environment and probable losses in the loan portfolio, management increased the provision for loan losses which increased the allowance balance. Management believes that the overall estimate of the allowance for loan losses appropriately accounts for probable losses attributable to current exposures.

During the first six months of 2010, the Company had net charge-offs of $1,240,000 compared to $256,000 in 2009. During 2010, the Company's significant charge-offs included $805,000 on nine commercial real estate loans of three borrowers.

The Company minimizes credit risk by adhering to sound underwriting and credit review policies. Management and the board of directors of the Company review these policies at least annually. Senior management is actively involved in business development efforts and the maintenance and monitoring of credit underwriting and approval. The loan review system and controls are designed to identify, monitor and address asset quality problems in an accurate and timely manner. On a quarterly basis, the board of directors and management review the status of problem loans and determine a best estimate of the allowance. In addition to internal policies and controls, regulatory authorities periodically review asset quality and the overall adequacy of the allowance for loan losses.

Securities

The Company’s overall investment objectives are to insulate the investment portfolio from undue credit risk, maintain adequate liquidity, insulate capital against changes in market value and control excessive changes in earnings while optimizing investment performance. The types and maturities of securities purchased are primarily based on the Company’s current and projected liquidity and interest rate sensitivity positions.

The following table sets forth the amortized cost of the available-for-sale and held-to-maturity securities as of June 30, 2010 and December 31, 2009 (dollars in thousands):

	June 30, 2010		December 31, 2009	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$119,026	2.54 %	$89,640	3.27 %
Obligations of states and political subdivisions	23,425	4.09 %	23,530	4.13 %
Mortgage-backed securities: GSE residential	113,520	4.22 %	111,301	4.36 %
Trust preferred securities	6,886	4.17 %	7,758	4.22 %
Other securities	35	1.31 %	6,166	4.56 %
Total securities	$262,892	3.45 %	$238,395	3.93 %

At June 30, 2010, the Company’s investment portfolio increased by $24.5 million from December 31, 2009 primarily due to the purchase of several U.S. Treasury securities and obligations of U.S. government corporations and agencies securities and mortgage-backed securities offset by the sale of two corporate bonds. When purchasing investment securities, the Company considers its overall liquidity and interest rate risk profile, as well as the adequacy of expected returns relative to the risks assumed.

The table below presents the credit ratings as of June 30, 2010, for certain investment securities:

	Amortized Cost	Estimated Fair Value	Average Credit Rating of Fair Value at June 30, 2010 (1)					
			AAA	AA +/-	A +/-	BBB +/-	< BBB -	Not rated
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 119,026	$ 120,821	$120,821	$-	$-	$-	$-	$-
Obligations of state and political subdivisions	23,425	24,246	5,387	11,280	3,605	456	-	3,518
Mortgage-backed securities (2)	113,520	118,770	-	-	-	-	-	118,770
Trust preferred securities	6,886	2,709	-	-	-	-	2,709	-

Other securities	35	28	-	-	-	-	-	28
Total investments	$ 262,892	$ 266,574	$ 126,208	$ 11,280	$ 3,605	$ 456	$ 2,709	$ 122,316

(1) Credit ratings reflect the lowest current rating assigned by a nationally recognized credit rating agency.

(2) Mortgage-backed securities include mortgage-backed securities (MBS) and collateralized mortgage obligation (CMO) issues from the following government sponsored enterprises: FHLMC, FNMA, GNMA and FHLB. While MBS and CMOs are no longer explicitly rated by credit rating agencies, the industry recognizes that they are backed by agencies which have an implied government guarantee.

The trust preferred securities are four trust preferred pooled securities issued by FTN Financial Securities Corp. ("FTN"). The following table contains information regarding these securities as of June 30, 2010:

Deal name	PreTSL I	PreTSL II	PreTSL VI	PreTSL XXVIII
Class	Mezzanine	Mezzanine	Mezzanine	C-1
Book value	$1,180,829	$1,098,316	$202,914	$4,403,809
Fair value	$900,003	$869,773	$150,533	$789,036
Unrealized gains/(losses)	$(280,825)	$(228,543)	$(52,381)	$(3,614,772)
Other-than-temporary impairment recorded in earnings	$269,000	$2,055,531	$124,146	$341,303
Lowest credit rating assigned	Caa1	Ca	Caa1	Ca
Number of performing banks	26	23	2	31
Number of issuers in default	3	5	-	7
Number of issuers in deferral	3	7	3	7
Defaults & deferrals as a % of current collateral	24.9 %	37.3 %	80.9 %	29.9 %
Discount margin	9.740 %	9.685 %	1.800 %	1.289 %
Recovery assumption (1)	10 %	10 %	10 %	10 %
Prepayment assumption	0 %	0 %	0 %	0 %

(1) With 2 year lag

Other-than-temporary Impairment of Securities

Declines in the fair value, or unrealized losses, of all available for sale investment securities, are reviewed to determine whether the losses are either a temporary impairment or OTTI. Temporary adjustments are recorded when the fair value of a security fluctuates from its historical cost. Temporary adjustments are recorded in accumulated other comprehensive income, and impact the Company's equity position. Temporary adjustments do not impact net income. A recovery of available for sale security prices also is recorded as an adjustment to other comprehensive income for securities that are temporarily impaired, and results in a positive impact to the Company's equity position.

OTTI is recorded when the fair value of an available for sale security is less than historical cost, and it is probable that all contractual cash flows will not be collected. Investment securities are evaluated for OTTI on at least a quarterly basis. In conducting this assessment, the Company evaluates a number of factors including, but not limited to:

- how much fair value has declined below amortized cost;
- how long the decline in fair value has existed;
- the financial condition of the issuers;
- contractual or estimated cash flows of the security;
- underlying supporting collateral;
- past events, current conditions and forecasts;
- significant rating agency changes on the issuer; and
- the Company's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

If the Company intends to sell the security or if it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis, the entire amount of OTTI is recorded to noninterest income, and therefore, results in a negative impact to net income. Because the available for sale securities portfolio is recorded at fair value, the conclusion as to whether an investment decline is other-than-temporarily impaired, does not significantly impact the Company's equity position, as the amount of the temporary adjustment has already been reflected in accumulated other comprehensive income/loss.

If the Company does not intend to sell the security and it is not more-likely-than-not it will be required to sell the security before recovery of its amortized cost basis only the amount related to credit loss is recognized in earnings. In determining the portion of OTTI that is related to credit loss, the Company compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. The remaining portion of OTTI, related to other factors, is recognized in other comprehensive earnings, net of applicable taxes.

The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. See headings "Investment Securities" and "Trust Preferred Securities" in the Notes to Condensed Consolidated Financial Statements (unaudited) for a discussion of the Company's evaluation and subsequent charges for OTTI.

Deposits

Funding of the Company's earning assets is substantially provided by a combination of consumer, commercial and public fund deposits. The Company continues to focus its strategies and emphasis on retail core deposits, the major component of funding sources. The following table sets forth the average deposits and weighted average rates for the six months ended June 30, 2010 and for the year ended December 31, 2009 (dollars in thousands):

	June 30, 2010		December 31, 2009	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Demand deposits:				
Non-interest-bearing	$123,941	-	$119,537	-
Interest-bearing	382,429	.88 %	332,751	.85 %
Savings	143,706	.81 %	109,305	.83 %
Time deposits	206,198	1.98 %	301,987	3.03 %
Total average deposits	$856,274	1.01 %	$863,580	1.51 %

The following table sets forth the high and low month-end balances for the six months ended June 30, 2010 and for the year ended December 31, 2009 (in thousands):

	June 30, 2010	December 31, 2009
High month-end balances of total deposits	$869,169	$906,853
Low month-end balances of total deposits	842,653	831,157

During the first six months of 2010, the average balance of deposits decreased by $7.3 million from December 31, 2009. The decrease was attributable to decreases in higher rate time deposits offset by increases in all other deposit account balances. Average non-interest bearing deposits increased by $4.4 million, average money market account balances increased by $36 million, NOW account balances increased by $7.2 million and savings account balances increased $37.2 million.

The following table sets forth the maturity of time deposits of $100,000 or more at June 30, 2010 and December 31, 2009 (in thousands):

	June 30, 2010	December 31, 2009
3 months or less	$29,061	$24,951
Over 3 through 6 months	13,204	8,622
Over 6 through 12 months	12,654	29,852
Over 12 months	14,556	18,267
Total	$69,475	$81,692

During the first six months of 2010, the balance of time deposits of $100,000 or more decreased by approximately $12.2 million. The decrease in balances was primarily attributable to declines in brokered and consumer time deposits that matured and were not renewed.

Balances of time deposits of $100,000 or more include brokered CDs, time deposits maintained for public fund entities and consumer time deposits. The balance of brokered CDs was $10 million and $15 million as of June 30, 2010 and December 31, 2009, respectively.

Repurchase Agreements and Other Borrowings

Securities sold under agreements to repurchase are short-term obligations of First Mid Bank. First Mid Bank collateralizes these obligations with certain government securities that are direct obligations of the United States or one of its agencies. First Mid Bank offers these retail repurchase agreements as a cash management service to its corporate customers. Other borrowings consist of Federal Home Loan Bank ("FHLB") advances, federal funds purchased, loans (short-term or long-term debt) that the Company has outstanding and Junior subordinated debentures.

Information relating to securities sold under agreements to repurchase and other borrowings as of June 30, 2010 and December 31, 2009 is presented below (dollars in thousands):

	June 30, 2010	December 31, 2009
Securities sold under agreements to repurchase	$73,758	$80,386
Federal Home Loan Bank advances:		
Fixed term – due in one year or less	3,000	10,000
Fixed term – due after one year	19,750	22,750
Debt:		
Loans due in one year or less	1,500	-
Junior subordinated debentures	20,620	20,620
Total	$118,628	$133,756
Average interest rate at end of period	2.13 %	2.10 %
Maximum outstanding at any month-end		
Securities sold under agreements to repurchase	$73,758	$83,826
Federal Home Loan Bank advances:		
Fixed term – due in one year or less	10,000	15,000
Fixed term – due after one year	22,750	32,750
Debt:		
Loans due in one year or less	1,500	13,000
Junior subordinated debentures	20,620	20,620
Averages for the period (YTD)		
Securities sold under agreements to repurchase	$68,141	$72,589
Federal Home Loan Bank advances:		
Fixed term – due in one year or less	7,000	10,041
Fixed term – due after one year	22,490	26,134
Debt:		
Federal funds purchased	11	3
Loans due in one year or less	174	1,498
Junior subordinated debentures	20,620	20,620
Total	$118,436	$130,885
Average interest rate during the period	2.04 %	2.19 %

Securities sold under agreements to repurchase had a decline of $6.6 million during the first six months of 2010. FHLB advances represent borrowings by First Mid Bank to economically fund loan demand. At June 30, 2010 the fixed term advances consisted of $22.75 million as follows:

- $3 million advance at 5.98% with a 10-year maturity, due March 1, 2011
- $5 million advance at 4.82% with a 5-year maturity, due January 19, 2012, two year lockout, callable quarterly
- $5 million advance at 4.69% with a 5-year maturity, due February 23, 2012, two year lockout, callable quarterly

- $4.75 million advance at 4.75% with a 5-year maturity, due December 24, 2012

- $5 million advance at 4.58% with a 10-year maturity, due July 14, 2016, one year lockout, callable quarterly

The Company is party to a revolving credit agreement with The Northern Trust Company in the amount of $20 million. The balance on this line of credit was $1.5 million as of June 30, 2010. This loan was renewed on April 23, 2010 for one year as a revolving credit agreement with a maximum available balance of $20 million. The interest rate is floating at 2.25% over the federal funds rate (2.39% at June 30, 2010). The loan is unsecured and subject to a borrowing agreement containing requirements for the Company and First Mid Bank, including requirements for operating and capital ratios. The Company and its subsidiary bank were in compliance with the existing covenants at June 30, 2010 and 2009. The Company was in compliance with all of the existing covenants at December 31, 2009 except the Company's return on assets ratio was .74% as of December 31, 2009 which was below the covenant ratio required of .75%. The Company has received a waiver from Northern Trust Company for this covenant as of December 31, 2009.

On February 27, 2004, the Company completed the issuance and sale of $10 million of floating rate trust preferred securities through First Mid-Illinois Statutory Trust I ("Trust I"), a statutory business trust and wholly-owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust I for the purpose of issuing the trust preferred securities. The $10 million in proceeds from the trust preferred issuance and an additional $310,000 for the Company's investment in common equity of Trust I, a total of $10,310 000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust I mature in 2034, bear interest at three-month London Interbank Offered Rate ("LIBOR") plus 280 basis points (3.376% at June 30, 2010 and 3.10% December 31, 2009), reset quarterly, and are callable at par, at the option of the Company, quarterly. The Company used the proceeds of the offering for general corporate purposes.

On April 26, 2006, the Company completed the issuance and sale of $10 million of fixed/floating rate trust preferred securities through First Mid-Illinois Statutory Trust II ("Trust II"), a statutory business trust and wholly-owned unconsolidated subsidiary of the Company, as part of a pooled offering. The Company established Trust II for the purpose of issuing the trust preferred securities. The $10 million in proceeds from the trust preferred issuance and an additional $310,000 for the Company's investment in common equity of Trust II, a total of $10,310 000, was invested in junior subordinated debentures of the Company. The underlying junior subordinated debentures issued by the Company to Trust II mature in 2036, bear interest at a fixed rate of 6.98% (three-month LIBOR plus 160 basis points) paid quarterly and converts to floating rate (LIBOR plus 160 basis points) after June 15, 2011. The net proceeds to the Company were used for general corporate purposes, including the Company's acquisition of Mansfield Bancorp, Inc. in 2006.

The trust preferred securities issued by Trust I and Trust II are included as Tier 1 capital of the Company for regulatory capital purposes. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the calculation of Tier 1 capital for regulatory purposes. The final rule provided a five-year transition period, ending June 30, 2010, for application of the revised quantitative limits. On March 17, 2009, the Federal Reserve Board adopted an additional final rule that delayed the effective date of the new limits on inclusion of trust preferred securities in the calculation of Tier 1 capital until March 31, 2011. The Company does not expect the application of the revised quantitative limits to have a significant impact on its calculation of Tier 1 capital for regulatory purposes or its classification as well-capitalized. The Dodd-Frank Act, signed into law July 21, 2010, removes trust preferred securities as a permitted component of a holding company's Tier 1 capital after a three-year phase-in period beginning January 1, 2013 for larger holding companies. For holding companies with less than $15 billion in consolidated assets, existing issues of trust preferred securities are grandfathered and not subject to this new restriction. New issuances of trust preferred securities, however would not count as tier 1 regulatory capital.

Interest Rate Sensitivity

The Company seeks to maximize its net interest margin while maintaining an acceptable level of interest rate risk. Interest rate risk can be defined as the amount of forecasted net interest income that may be gained or lost due to changes in the interest rate environment, a variable over which management has no control. Interest rate risk, or sensitivity, arises when the maturity or repricing characteristics of interest-bearing assets differ significantly from the maturity or repricing characteristics of interest-bearing liabilities.

The Company monitors its interest rate sensitivity position to maintain a balance between rate sensitive assets and rate sensitive liabilities. This balance serves to limit the adverse effects of changes in interest rates. The Company's asset liability management committee (ALCO) oversees the interest rate sensitivity position and directs the overall allocation of funds.

In the banking industry, a traditional way to measure potential net interest income exposure to changes in interest rates is through a technique known as "static GAP" analysis which measures the cumulative differences between the amounts of assets and liabilities maturing or repricing at various intervals. By comparing the volumes of interest-bearing assets and liabilities that have contractual maturities and repricing points at various times in the future, management can gain insight into the amount of interest rate risk embedded in the balance sheet.

The following table sets forth the Company's interest rate repricing GAP for selected maturity periods at June 30, 2010 (dollars in thousands):

	Rate Sensitive Within							Fair
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter	Total	Value
Interest-earning assets:								
Federal funds sold and other interest-bearing deposits	$78,102	$-	$-	$-	$-	$-	$78,102	$78,102
Certificates of deposit investments	10,000	-	-	-	-	-	10,000	10,013
Taxable investment securities	25,422	30,463	2,797	3,699	13,073	166,874	242,328	242,328
Nontaxable investment securities	810	655	697	1,109	113	20,858	24,242	24,246
Loans	333,384	125,987	125,242	57,144	18,035	14,853	674,645	682,252
Total	$447,718	$157,105	$128,736	$61,952	$31,221	$202,585	$1,029,317	$1,036,941
Interest-bearing liabilities:								
Savings and N.O.W. accounts	$93,824	$18,146	18,842	$26,494	$27,285	$161,794	$346,385	$346,385
Money market accounts	185,959	1,449	1,489	1,932	1,972	10,426	203,227	203,227
Other time deposits	159,949	13,461	13,611	4,442	6,272	339	198,074	199,180
Short-term borrowings/debt	75,258	-	-	-	-	-	75,258	75,260
Long-term borrowings/debt	13,310	10,000	15,060	-	-	5,000	43,370	35,549
Total	$528,300	$43,056	$49,002	$32,868	$35,529	$177,559	$866,314	$859,601
Rate sensitive assets – rate sensitive liabilities	$(80,582)	$114,049	$79,734	$29,084	$(4,308)	$25,026	$163,003	
Cumulative GAP	$(80,582)	$33,467	$113,201	$142,285	$137,977	$163,003		
Cumulative amounts as % of total Rate sensitive assets	-7.8 %	11.1 %	7.7 %	2.8 %	-0.4 %	2.4 %		

Cumulative Ratio	-7.8	%	3.3	%	11.0	%	13.8	%	13.4	%	15.8	%

The static GAP analysis shows that at June 30, 2010, the Company was liability sensitive, on a cumulative basis, through the twelve-month time horizon. This indicates that future increases in interest rates, if any, could have an adverse effect on net interest income.

There are several ways the Company measures and manages the exposure to interest rate sensitivity, including static GAP analysis. The Company's ALCO also uses other financial models to project interest income under various rate scenarios and prepayment/extension assumptions consistent with First Mid Bank's historical experience and with known industry trends. ALCO meets at least monthly to review the Company's exposure to interest rate changes as indicated by the various techniques and to make necessary changes in the composition terms and/or rates of the assets and liabilities. Based on all information available, management does not believe that changes in interest rates, which might reasonably be expected to occur in the next twelve months, will have a material adverse effect on the Company's net interest income.

Capital Resources

At June 30, 2010, the Company's stockholders' equity had increased $4.2 million, or 3.8%, to $115,387,000 from $111,221,000 as of December 31, 2009. During the first six months of 2010, net income contributed $4,330,000 to equity before the payment of dividends to common stockholders. The change in market value of available-for-sale investment securities increased stockholders' equity by $1,780,000, net of tax. Additional purchases of treasury stock (30,927 shares at an average cost of $18.11 per share) decreased stockholders' equity by approximately $560,000.

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Bank holding companies follow minimum regulatory requirements established by the Board of Governors of the Federal Reserve System ("Federal Reserve System"), and First Mid Bank follows similar minimum regulatory requirements established for national banks by the Office of the Comptroller of the Currency ("OCC"). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Quantitative measures established by each regulatory agency to ensure capital adequacy require the reporting institutions to maintain a minimum total risk-based capital ratio of 8%, a minimum Tier 1 risk-based capital ratio of 4% and a minimum leverage ratio of 3% for the most highly rated banks that do not expect significant growth. All other institutions are required to maintain a minimum leverage ratio of 4%. Management believes that, as of June 30, 2010 and December 31, 2009, the Company and First Mid Bank met all capital adequacy requirements.

As of June 30, 2010, both the Company and First Mid Bank had capital ratios above the required minimums for regulatory capital adequacy, and First Mid Bank had capital ratios that qualified it for treatment as well-capitalized under the regulatory framework for prompt corrective action with respect to banks. To be categorized as well-capitalized, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios must be maintained as set forth in the following table (dollars in thousands).

	Actual		Required Minimum For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2010						
Total Capital (to risk-weighted assets)						
Company	$126,697	16.60 %	$61,124	> 8.00%	N/A	N/A
First Mid Bank	123,251	16.28 %	60,639	> 8.00%	$75,798	>10.00%
Tier 1 Capital (to risk-weighted assets)						
Company	117,634	15.42 %	30,562	> 4.00%	N/A	N/A
First Mid Bank	114,264	15.10 %	30,319	> 4.00%	45,479	> 6.00%
Tier 1 Capital (to average assets)						
Company	117,634	10.86 %	43,337	> 4.00%	N/A	N/A
First Mid Bank	114,264	10.60 %	43,114	> 4.00%	53,893	> 5.00%
December 31, 2009						
Total Capital (to risk-weighted assets)						
Company	$123,977	15.76 %	$62,949	> 8.00%	N/A	N/A
First Mid Bank	112,982	14.50 %	62,367	> 8.00%	$77,958	> 10.00%
Tier 1 Capital (to risk-weighted assets)						
Company	114,635	14.57 %	31,474	> 4.00%	N/A	N/A
First Mid Bank	103,730	13.31 %	31,183	> 4.00%	46,775	> 6.00%
Tier 1 Capital (to average assets)						
Company	114,635	10.63 %	43,150	> 4.00%	N/A	N/A
First Mid Bank	103,730	9.67 %	42,886	> 4.00%	53,607	> 5.00%

Stock Plans

Participants may purchase Company stock under the following four plans of the Company: the Deferred Compensation Plan, the First Retirement and Savings Plan, the Dividend Reinvestment Plan, and the SI Plan. For more detailed information on these plans, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

At the Annual Meeting of Stockholders held May 23, 2007, the stockholders approved the SI Plan. The SI Plan was implemented to succeed the Company's 1997 Stock Incentive Plan, which had a ten-year term that expired October 21,

2007. The SI Plan is intended to provide a means whereby directors, employees, consultants and advisors of the Company and its Subsidiaries may sustain a sense of proprietorship and personal involvement in the continued development and financial success of the Company and its Subsidiaries, thereby advancing the interests of the Company and its stockholders. Accordingly, directors and selected employees, consultants and advisors may be provided the opportunity to acquire shares of Common Stock of the Company on the terms and conditions established herein. A maximum of 300,000 shares may be issued under the SI Plan. As of December 31, 2009, the Company had awarded 59,500 shares under the plan. There were no shares awarded during the first six months of 2010.

Stock Repurchase Program

Since August 5, 1998, the Board of Directors has approved repurchase programs pursuant to which the Company may repurchase a total of approximately $56.7 million of the Company's common stock. The repurchase programs approved by the Board of Directors are as follows:

- On August 5, 1998, repurchases of up to 3%, or $2 million, of the Company's common stock.
- In March 2000, repurchases up to an additional 5%, or $4.2 million of the Company's common stock.
- In September 2001, repurchases of $3 million of additional shares of the Company's common stock.
- In August 2002, repurchases of $5 million of additional shares of the Company's common stock.
- In September 2003, repurchases of $10 million of additional shares of the Company's common stock.
- On April 27, 2004, repurchases of $5 million of additional shares of the Company's common stock.
- On August 23, 2005, repurchases of $5 million of additional shares of the Company's common stock.
- On August 22, 2006, repurchases of $5 million of additional shares of the Company's common stock.
- On February 27, 2007, repurchases of $5 million of additional shares of the Company's common stock.
- On November 13, 2007, repurchases of $5 million of additional shares of the Company's common stock.
- On December 16, 2008, repurchases of $2.5 million of additional shares of the Company's common stock.
- On May 26, 2009, repurchases of $5 million of additional shares of the Company's common stock.

During the six-month period ending June 30, 2010, the Company repurchased 30,927 shares at a total cost of approximately $560,000. Since 1998, the Company has repurchased a total of 2,806,253 shares at a total price of approximately $53,850,000. As of June 30, 2010, the Company was authorized per all repurchase programs to purchase $2,857,000 in additional shares.

Liquidity

Liquidity represents the ability of the Company and its subsidiaries to meet all present and future financial obligations arising in the daily operations of the business. Financial obligations consist of the need for funds to meet extensions of credit, deposit withdrawals and debt servicing. The Company's liquidity management focuses on the ability to obtain funds economically through assets that may be converted into cash at minimal costs or through other sources. The Company's other sources of cash include overnight federal fund lines, Federal Home Loan Bank advances, deposits of the State of Illinois, the ability to borrow at the Federal Reserve Bank of Chicago, and the Company's operating line of credit with The Northern Trust Company. Details for the sources include:

- First Mid Bank has $35 million available in overnight federal fund lines, including $10 million from U.S. Bank, N.A., $10 million from Wells Fargo Bank, N.A. and $15 million from The Northern Trust Company. Availability of the funds is subject to First Mid Bank meeting minimum regulatory capital requirements for total capital to risk-weighted assets and Tier 1 capital to total average assets. As of June 30, 2010, First Mid Bank met these regulatory requirements.

- First Mid Bank can also borrow from the Federal Home Loan Bank as a source of liquidity. Availability of the funds is subject to the pledging of collateral to the Federal Home Loan Bank. Collateral that can be pledged includes one-to-four family residential real estate loans and securities. At June 30, 2010, the excess collateral at the FHLB would support approximately $63 million of additional advances.

- First Mid Bank also receives deposits from the State of Illinois. The receipt of these funds is subject to competitive bid and requires collateral to be pledged at the time of placement.

- First Mid Bank is also a member of the Federal Reserve System and can borrow funds provided that sufficient collateral is pledged.

    - In addition, as of June 30, 2010, the Company had a revolving credit agreement in the amount of $20 million with The Northern Trust Company with an outstanding balance of $1.5 million and $18.5 million in available funds. This loan was renewed on April 23, 2010 for one year as a revolving credit agreement with a maximum available balance of $20 million. The interest rate is floating at 2.25% over the federal funds rate. The loan is unsecured and subject to a borrowing agreement containing requirements for the Company and First Mid Bank, including requirements for operating and capital ratios. The Company and its subsidiary bank were in compliance with the existing covenants at June 30, 2010 and 2009. The Company was in compliance with all of the existing covenants at December 31, 2009 except the Company's return on assets ratio was .74% as of December 31, 2009 which was below the covenant ratio required of .75%. The Company has received a waiver from Northern Trust Company for this covenant as of December 31, 2009.

Management continues to monitor its expected liquidity requirements carefully, focusing primarily on cash flows from:

- lending activities, including loan commitments, letters of credit and mortgage prepayment assumptions;
- deposit activities, including seasonal demand of private and public funds;
- investing activities, including prepayments of mortgage-backed securities and call provisions on U.S. Treasury and government agency securities; and
- operating activities, including scheduled debt repayments and dividends to stockholders.

The following table summarizes significant contractual obligations and other commitments at June 30, 2010 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Time deposits	$198,074	$153,136	$29,145	$15,452	$341
Debt	22,120	1,500	-	-	20,620
Other borrowings	96,508	91,758	4,750	-	-
Operating leases	3,777	656	1,126	959	1,036
Supplemental retirement	908	50	200	200	458
	$321,387	$247,100	$35,221	$16,611	$22,455

For the six-month period ended June 30, 2010, net cash of $2.0 million and $10.5 million was provided from operating activities and financing activities, respectively. In total, cash and cash equivalents increased by $12.5 million since year-end 2009.

Off-Balance Sheet Arrangements

First Mid Bank enters into 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 lines of credit, letters of credit and other commitments to extend credit. Each of these instruments involves, to varying degrees, elements of credit, interest rate and liquidity risk in excess of the amounts recognized in the consolidated balance sheets. The Company uses the same credit policies and requires similar collateral in approving lines of credit and commitments and issuing letters of credit as it does in making loans. The exposure to credit losses on financial instruments is represented by the contractual amount of these instruments. However, the Company does not anticipate any losses from these instruments.

The off-balance sheet financial instruments whose contract amounts represent credit risk at June 30, 2010 and December 31, 2009 were as follows (in thousands):

	June 30, 2010	December 31, 2009

Unused commitments and lines of credit:		
Commercial real estate	$13,820	$7,341
Commercial operating	71,555	68,178
Home equity	19,929	19,150
Other	28,098	30,515
Total	$133,402	$125,184
Standby letters of credit	$7,789	$7,738

Commitments to originate credit represent approved commercial, residential real estate and home equity loans that generally are expected to be funded within ninety days. Lines of credit are agreements by which the Company agrees to provide a borrowing accommodation up to a stated amount as long as there is no violation of any condition established in the loan agreement. Both commitments to originate credit and lines of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the lines and some commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the financial performance of customers to third parties. Standby letters of credit are primarily issued to facilitate trade or support borrowing arrangements and generally expire in one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending credit facilities to customers. The maximum amount of credit that would be extended under letters of credit is equal to the total off-balance sheet contract amount of such instrument.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the market risk faced by the Company since December 31, 2009. For information regarding the Company's market risk, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective. Further, there have been no changes in the Company's internal control over financial reporting during the last fiscal quarter that have materially affected or that are reasonably likely to affect materially the Company's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

Since First Mid Bank acts as a depository of funds, it is named from time to time as a defendant in lawsuits (such as garnishment proceedings) involving claims as to the ownership of funds in particular accounts. Management believes that all such litigation as well as other pending legal proceedings in which the Company is involved constitute ordinary, routine litigation incidental to the business of the Company and that such litigation will not materially adversely affect the Company's consolidated financial condition.

ITEM 1A. RISK FACTORS

Various risks and uncertainties, some of which are difficult to predict and beyond the Company's control, could negatively impact the Company. As a financial institution, the Company is exposed to interest rate risk, liquidity risk, credit risk, operational risk, risks from economic or market conditions, and general business risks among others. Adverse experience with these or other risks could have a material impact on the Company's financial condition and results of operations, as well as the value of its common stock. See the risk factors described in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Additionally, see the following risk factor.

- The impact of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act is uncertain. The act institutes a wide range of reforms that will have an impact on many types of financial institutions. Many of these reforms, or other aspects of the act, may impact the profitability of the Company, require the Company to make changes to its business practices or require significant management attention to achieve compliance.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2010 -- April 31, 2010	-	$ -	-	$3,315,000
May 1, 2010 -- May 28, 2010	18,011	$17.97	18,011	$2,991,000
June 1, 2010 – June 30, 2010	6,972	$19.33	6,972	$2,857,000
Total	24,983	$18.35	24,983	$2,857,000

See heading "Stock Repurchase Program" for more information regarding stock purchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits required by Item 601 of Regulation S-K and filed herewith are listed in the Exhibit Index that follows the Signature Page and that immediately precedes the exhibits filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST MID-ILLINOIS BANCSHARES, INC.
(Registrant)

Date: August 5, 2010

/s/ William S. Rowland
William S. Rowland
President and Chief Executive Officer

/s/ Michael L. Taylor
Michael L. Taylor
Chief Financial Officer

Exhibit Index to Quarterly Report on Form 10-Q

Exhibit Number	Description and Filing or Incorporation Reference
4.1	The Registrant agrees to furnish to the Commission, upon request, a copy of each instrument with respect to issues of long-term debt involving a total amount which does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis
10.1	Branch Purchase and Assumption Agreement between First Mid-Illinois Bank & Trust, N.A. and First Bank, dated May 7, 2010 (incorporated by reference to Exhibit 10.1 to First Mid's Current Report on Form 8-K filed May 7, 2010)
11.1	Statement re: Computation of Earnings Per Share (Filed herewith on page 9)
31.1	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002