

FIRST BUSEY CORP /NV/
Form 10-Q
November 13, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended 9/30/2007

Commission File No. 0-15950

FIRST BUSEY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

37-1078406

(State or other jurisdiction of
Incorporation or organization)

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

201 W. Main St.,
Urbana, Illinois

61801

(Address of principal
executive offices)

(Zip Code)

Registrant's telephone number, including area code: (217) 365-4528

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

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

Class	Outstanding at November 5, 2007
Common Stock, \$.001 par value	36,587,766

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED BALANCE SHEETS
September 30, 2007 and December 31, 2006
(Unaudited)

September 30, 2007 December 31, 2006

(Dollars in thousands)

Assets	September 30, 2007	December 31, 2006
Cash and due from banks	\$ 108,037	\$ 63,316
Federal funds sold	43,000	—
Securities available for sale	697,802	365,608
Loans (net of allowance for loan losses 2007 \$38,198; 2006 \$23,588)	3,002,683	1,933,339
Premises and equipment	70,128	41,001
Cash surrender value of bank owned life insurance	32,456	19,777
Goodwill	239,571	54,386
Other intangible assets	35,117	3,746
Other assets	59,356	28,341
	\$ 4,288,150	\$ 2,509,514

Liabilities and Stockholders' Equity

Liabilities	September 30, 2007	December 31, 2006
Deposits:		
Noninterest bearing	\$ 454,875	\$ 246,440
Interest bearing	2,912,933	1,768,399
	\$ 3,367,808	\$ 2,014,839
Federal funds purchased and securities sold under agreements to repurchase	137,463	54,770
Short-term borrowings	21,023	25,000
Long-term debt	135,825	156,650
Junior subordinated debt owed to unconsolidated trusts	55,000	55,000
Other liabilities	32,757	17,981
	\$ 3,749,876	\$ 2,324,240

Commitments and contingencies (Note 10)

Stockholders' Equity

Preferred stock, no par value, 1,000,000 shares authorized, no shares issued	\$ —	\$ —
Common stock, \$.001 par value, authorized 60,000,000 shares; Shares issued – 2007 37,543,459; 2006 22,082,383	38	22
Surplus	392,739	46,632
Retained earnings	159,404	144,956
Accumulated other comprehensive income	4,911	5,494
	\$ 547,892	\$ 197,104

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

Total stockholders' equity before treasury stock	\$ 557,092	\$ 197,104
Treasury stock, at cost – 2007 958,263; 2006 626,467	(18,818)	(11,830)
	<u> </u>	<u> </u>
Total stockholders' equity	\$ 538,274	\$ 185,274
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 4,288,150	\$ 2,509,514
	<u> </u>	<u> </u>
Common shares outstanding at period end	36,585,196	21,455,916
	<u> </u>	<u> </u>

See accompanying notes to unaudited consolidated financial statements.

FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	2007	2006
(Dollars in thousands, except per share amounts)		
Interest income:		
Interest and fees on loans	\$ 122,937	\$ 97,001
Interest and dividends on investment securities:		
Taxable interest income	12,190	7,021
Non-taxable interest income	2,300	2,458
Interest on Federal funds sold	990	188
Total interest income	\$ 138,417	\$ 106,668
Interest expense:		
Deposits	\$ 58,028	\$ 38,597
Fed funds purchased and securities sold under agreements to repurchase	2,795	2,108
Short-term borrowings	223	57
Long-term debt	5,420	5,707
Junior subordinated debt owed to unconsolidated trusts	3,015	3,049
Total interest expense	\$ 69,481	\$ 49,518
Net interest income	\$ 68,936	\$ 57,150
Provision for loan losses	2,775	1,000
Net interest income after provision for loan losses	\$ 66,161	\$ 56,150
Other income:		
Service charges on deposit accounts	\$ 6,447	\$ 6,011
Trust	6,090	4,470
Other service charges and fees	2,575	2,187
Security gains, net	2,995	1,880
Gain on sales of loans	2,414	1,858
Commissions and brokers fees, net	1,949	1,987
Remittance processing	1,746	—
Other operating income	3,125	1,885
Total other income	\$ 27,341	\$ 20,278
Other expenses:		
Salaries and wages	\$ 25,397	\$ 19,878
Employee benefits	4,995	4,457
Net occupancy expense of premises	4,814	3,814

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

Furniture and equipment expenses	3,049	2,677
Data processing	2,731	1,344
Amortization of intangible assets	1,385	1,057
Other operating expenses	11,244	10,234
	<u> </u>	<u> </u>
Total other expenses	\$ 53,615	\$ 43,461
	<u> </u>	<u> </u>
Income before income taxes	\$ 39,887	\$ 32,967
Income taxes	12,777	11,423
	<u> </u>	<u> </u>
Net income	\$ 27,110	\$ 21,544
	<u> </u>	<u> </u>
Basic earnings per share	\$ 1.09	\$ 1.01
	<u> </u>	<u> </u>
Diluted earnings per share	\$ 1.09	\$ 1.00
	<u> </u>	<u> </u>
Dividends declared per share of common stock	\$ 0.59	\$ 0.48
	<u> </u>	<u> </u>

See accompanying notes to unaudited consolidated financial statements

FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended September 30, 2007 and 2006
(Unaudited)

	2007	2006
(Dollars in thousands, except per share amounts)		
Interest income:		
Interest and fees on loans	\$ 51,190	\$ 34,554
Interest and dividends on investment securities:		
Taxable interest income	6,077	2,367
Non-taxable interest income	832	830
Interest on Federal funds sold	703	66
	\$ 58,802	\$ 37,817
Interest expense:		
Deposits	\$ 24,521	\$ 14,553
Fed funds purchased and securities sold under agreements to repurchase	1,350	824
Short-term borrowings	158	36
Long-term debt	1,748	1,993
Junior subordinated debt owed to unconsolidated trusts	1,013	1,010
	\$ 28,790	\$ 18,416
Net interest income	\$ 30,012	\$ 19,401
Provision for loan losses	1,795	300
	\$ 28,217	\$ 19,101
Other income:		
Service charges on deposit accounts	\$ 2,533	\$ 2,122
Trust	2,691	1,312
Other service charges and fees	900	738
Security gains, net	2,065	794
Gain on sales of loans	994	786
Commissions and brokers fees, net	707	608
Remittance processing	1,746	—
Other operating income	1,376	841
	\$ 13,012	\$ 7,201
Other expenses:		
Salaries and wages	\$ 11,698	\$ 6,609
Employee benefits	2,058	1,509
Net occupancy expense of premises	1,988	1,310

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

Furniture and equipment expenses	1,370	929
Data processing	1,715	450
Amortization of intangible assets	876	353
Other operating expenses	4,690	3,371
	<u> </u>	<u> </u>
Total other expenses	\$ 24,395	\$ 14,531
	<u> </u>	<u> </u>
Income before income taxes	\$ 16,834	\$ 11,771
Income taxes	5,324	4,129
	<u> </u>	<u> </u>
Net income	\$ 11,510	\$ 7,642
	<u> </u>	<u> </u>
Basic earnings per share	\$ 0.37	\$ 0.36
	<u> </u>	<u> </u>
Diluted earnings per share	\$ 0.36	\$ 0.36
	<u> </u>	<u> </u>
Dividends declared per share of common stock	\$ 0.18	\$ 0.16
	<u> </u>	<u> </u>

See accompanying notes to unaudited consolidated financial statements

FIRST BUSEY CORPORATION and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	2007	2006
(Dollars in thousands)		
Cash Flows from Operating Activities		
Net income	\$ 27,110	\$ 21,544
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based and non-cash compensation	611	340
Depreciation and amortization	5,087	4,071
Provision for loan losses	2,775	1,000
Provision for deferred income taxes	(154)	(1,590)
Accretion of security discounts, net	(1,686)	(824)
Gain on sales of investment securities, net	(2,995)	(1,880)
Gain on sales of loans	(2,414)	(1,858)
Net (gain) loss on sale of ORE properties	(71)	6
Increase in cash surrender value of bank owned life insurance	(1,217)	(653)
(Decrease) increase in deferred compensation, net	(2,544)	90
Change in assets and liabilities:		
Decrease in other assets	352	1,057
Increase in other liabilities	(2,108)	(16)
Increase in interest payable	463	1,877
Decrease in income taxes receivable	244	—
Increase in income taxes payable	—	(94)
Net cash provided by operating activities before loan originations and sales	\$ 23,453	\$ 23,070
Loans originated for sale	(175,102)	(124,134)
Proceeds from sales of loans	180,285	127,088
Net cash provided by operating activities	\$ 28,636	\$ 26,024
Cash Flows from Investing Activities		
Proceeds from sales of securities classified available for sale	51,200	8,120
Proceeds from maturities of securities classified available for sale	220,574	79,199
Purchase of securities classified available for sale	(252,001)	(77,805)
Increase in Federal funds sold	(3,500)	(12,029)
Increase in loans	(74,940)	(158,597)
Proceeds from sale of premises and equipment	48	16
Proceeds from sale of ORE properties	846	261
Purchases of premises and equipment	(7,262)	(6,540)
Purchase of subsidiary, net of cash and due from banks acquired	53,461	—

Net cash used in investing activities	<u>\$ (11,574)</u>	<u>\$ (167,375)</u>
--	--------------------	---------------------

(continued on next page)

FIRST BUSEY CORPORATION and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the Nine Months Ended September 30, 2007 and 2006
(Unaudited)

	2007	2006
	(Dollars in thousands)	
Cash Flows From Financing Activities		
Net increase in certificates of deposit	\$ 33,179	\$ 107,187
Net increase in demand, money market and savings deposits	66,108	32,233
Cash dividends paid	(12,662)	(10,249)
Net (decrease) increase in Federal funds purchased and securities sold under agreement to repurchase	(14,074)	7,034
Proceeds from short-term borrowings	9,000	2,000
Principal payments on short-term borrowings	(26,000)	(1,000)
Proceeds from issuance of long-term debt	—	50,325
Principal payments on long-term debt	(20,825)	(58,500)
Proceeds from issuance of junior subordinate debt owed to unconsolidated trusts	—	30,000
Redemption of junior subordinate debt owed to unconsolidated trusts	—	(25,000)
Purchase of treasury stock	(7,685)	(1,329)
Proceeds from sale of treasury stock	618	34
	\$ 27,659	\$ 132,735
Net (decrease) increase in cash and due from banks	\$ 44,721	\$ (8,616)
Cash and due from banks, beginning	\$ 63,316	\$ 60,957
Cash and due from banks, ending	\$ 108,037	\$ 52,341
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Other real estate acquired in settlement of loans	\$ 2,167	\$ 852
Cash payments for:		
Interest	\$ 69,225	\$ 47,869
Income taxes	\$ 12,460	\$ 12,415
See accompanying notes to unaudited consolidated financial statements		

FIRST BUSEY CORPORATION and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Dollars in thousands)			
Net income	\$ 11,510	\$ 7,642	\$ 27,110	\$ 21,544
Other comprehensive income (loss), before tax:				
Unrealized net gains (losses) on securities:				
Unrealized net holding gains arising during period	\$ 2,297	\$ 3,124	\$ 2,027	\$ 1,185
Less reclassification adjustment for gains included in net Income	(2,065)	(794)	(2,995)	(1,880)
Other comprehensive income (loss), before tax	\$ 232	\$ 2,330	\$ (968)	\$ (695)
Income tax expense (benefit) related to items of other comprehensive loss	92	925	(385)	(276)
Other comprehensive income (loss), net of tax	\$ 140	\$ 1,405	\$ (583)	\$ (419)
Comprehensive income	\$ 11,650	\$ 9,047	\$ 26,527	\$ 21,126

See accompanying notes to unaudited consolidated financial statements

FIRST BUSEY CORPORATION and Subsidiaries
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying unaudited consolidated interim financial statements of First Busey Corporation (the Company), a Nevada corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for quarterly reports on Form 10-Q and do not include certain information and footnote disclosures required by U.S. generally accepted accounting principles (U.S. GAAP) for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

The accompanying consolidated balance sheet as of December 31, 2006, which has been derived from audited financial statements, and the unaudited consolidated interim financial statements have been prepared in accordance with U.S. GAAP and reflect all adjustments that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. All such adjustments, except those related to the recent merger, are of a normal recurring nature. The results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current presentation with no effect on net income or stockholders' equity.

Note 2: Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). Under this Standard, the Company may elect to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in earnings. This election is irrevocable. SFAS No. 159 provides an opportunity to mitigate volatility in reported earnings that is caused by measuring hedged assets and liabilities that were previously required to

use a different accounting method than the related hedging contracts when the complex provisions of SFAS No. 133 hedge accounting are not met. This statement is effective

for the Company's fiscal year beginning January 1, 2008. The Company is evaluating the impact of the statement on its financial position and results of operations.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 indicates, among other things, that a fair value measurement assumes the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS No. 157 is effective for the Company's fiscal year beginning January 1, 2008. The Company is evaluating the impact of the statement on its financial position and results of operations.

In September 2006, the Emerging Issues Task Force (EITF) Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," (EITF 06-4) was issued to require that an employer recognize a liability for post-employment benefits promised to the employee based on the arrangement between the employer and the employee. In an endorsement split-dollar arrangement, the employer owns and controls the policy, and the employer and employee split the life insurance policy's cash surrender value and/or death benefits. If the employer agreed to maintain a life insurance policy during the employee's retirement, the present value of the cost of maintaining the insurance policy would be accrued over the employee's active service period. Similarly, if the employer agreed to provide the employee with a death benefit, the present value of the death benefit would be accrued over the employee's active service period. EITF 06-4 is effective for the Company's fiscal year beginning January 1, 2008. The Company is required to adopt EITF 06-4 on January 1, 2008 through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is currently evaluating the impact of adopting EITF 06-4 on its financial position and results of operations.

Note 3: Business Combinations

Following the close of business on July 31, 2007, the Company completed its merger of equals (the merger) transaction with Main Street Trust, Inc. (Main Street). As a result of the merger, Main Street shareholders received shares of the Company's common stock in a fixed exchange ratio of 1.55 shares of the Company for each share of Main Street, totaling 15.5 million shares valued at \$22.17 per share. The value of the shares was calculated based upon the average closing price of First Busey Corporation stock for the two trading days surrounding the announcement date. The total purchase price, including acquisition expenses and the fair value of assumed stock options, was \$350.2 million.

The merger was accounted for under the purchase method of accounting, which resulted in goodwill of \$185.4 million equaling the excess of the purchase price over the fair value of identifiable assets. Goodwill is not amortized, but is subject to at least annual impairment testing. However, a portion of goodwill has been allocated to the future tax benefits arising from stock options assumed in the merger. As these benefits are recorded, an equal adjustment to the allocated goodwill is recorded. As of September 30, 2007, goodwill reductions of \$0.3 million related to stock options assumed were recorded. Identifiable intangibles of \$32.8 million were recorded related to core deposit and customer relationship intangibles. The identifiable intangibles are being amortized using accelerated methods over a period of 10 years.

Two months of earnings of Main Street Bank & Trust and FirsTech, a payment processing subsidiary, are included in the financial statements of the Company as of and for the three and nine months ended September 30, 2007.

The combined company will maintain the "First Busey Corporation" name and NASDAQ Global Select market symbol of "BUSE". Main Street Bank & Trust, Main Street's banking subsidiary, will continue to operate under the Main Street brand until its merger with Busey Bank, which is anticipated to occur in November 2007.

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

The following table summarizes the fair values of Main Street's assets and liabilities assumed at the date of the merger. The Company is in the process of obtaining third-party valuations of certain fixed and intangible assets; therefore, the allocation of purchase price is subject to refinement.

	September 30, 2007
	(Dollars in thousands)
Cash and cash equivalents	\$ 55,879
Federal funds sold	39,500
Investments	350,216
Loans, net	1,002,114
Premises and equipment	25,615
Cash surrender value of bank owned life insurance	11,462
Goodwill	185,438
Identifiable intangibles	32,757
Other assets	29,679
Total assets	\$ 1,732,657
Noninterest-bearing deposits	208,221
Interest-bearing deposits	1,045,461
Federal funds purchased and securities sold under agreements to repurchase	96,767
Short-term borrowings	13,023
Other liabilities	18,965
Total liabilities	\$ 1,382,437
Common stock issued, including fair value of stock options assumed	\$ 347,805
Merger related cash expenditures	2,418
Total purchase price	\$ 350,223

Unaudited pro forma operating results for the three and nine month ended September 30, 2007 and 2006, giving effect to the Main Street merger as if it had occurred as of January 1, 2006, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(In thousands, except per share data)			
Net interest income	\$ 34,263	\$ 31,924	\$ 97,678	\$ 94,350
Other income	15,165	12,689	41,457	36,790
Other expense	28,947	25,724	80,697	76,511

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

Income before income taxes	\$ 18,532	\$ 18,139	\$ 54,459	\$ 52,279
Income taxes	5,893	6,283	17,424	17,941
Net income	<u>\$ 12,639</u>	<u>\$ 11,856</u>	<u>\$ 37,035</u>	<u>\$ 34,338</u>
Shares outstanding:				
Weighted average basic	36,582	36,783	36,582	36,807
Weighted average fully -dilutive	36,842	37,082	36,842	37,086
Earnings per share – basic	<u>\$ 0.35</u>	<u>\$ 0.32</u>	<u>\$ 1.01</u>	<u>\$ 0.93</u>
Earnings per share – diluted	<u>\$ 0.34</u>	<u>\$ 0.32</u>	<u>\$ 1.01</u>	<u>\$ 0.93</u>

10 of 39

In conjunction with the merger, the Company reached an agreement with the U.S. Department of Justice (USDOJ) to divest five Main Street Bank & Trust banking centers located in Champaign County, Illinois to address USDOJ competitive concerns. On July 20, 2007, Main Street reached an agreement to sell the five branches to Freestar Bank, N.A., headquartered in Pontiac, Illinois. The transaction closed on November 2, 2007. Preliminary closing reports indicate approximate loans and deposits of \$14.4 million and \$102.2 million, respectively, were transferred in the divestiture.

Note 4: Unrealized Losses on Investment Securities

Information pertaining to securities with gross unrealized losses as of September 30, 2007, aggregated by investment category and length of time that individual securities have been in continuous loss position follows:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
September 30, 2007:						
U.S. Treasury	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
U.S. Agency	26,807	20	3,217	5	30,024	25
State and municipal	23,563	157	23,730	305	47,293	462
Mortgage-backed	—	—	1,525	1	1,525	1
Corporate	449	3	1,971	24	2,420	27
Subtotal, debt securities	\$ 50,819	\$ 180	\$ 30,443	\$ 335	\$ 81,262	\$ 515
Mutual funds and equity securities	319	59	49	15	368	74
Total temporarily impaired securities	\$ 51,138	\$ 239	\$ 30,492	\$ 350	\$ 81,630	\$ 589

The total number of investment securities in an unrealized loss position as of September 30, 2007 was 228, 141 less than 12 months and 87 greater than 12 months. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Note 5: Loans

The major classifications of loans as of September 30, 2007 and December 31, 2006 were as follows:

	September 30, 2007	December 31, 2006
	(Dollars in thousands)	
Commercial	\$ 392,069	\$ 224,264
Real estate construction	739,610	467,477
Real estate – farmland	49,355	16,237
Real estate - 1-4 family residential mortgage	758,546	531,462
Real estate – multifamily mortgage	184,822	125,544
Real estate - non-farm nonresidential mortgage	808,334	512,339
Installment	58,654	39,477
Agricultural	34,142	22,691
	<u>\$ 3,025,532</u>	<u>\$ 1,939,491</u>
Plus:		
Net deferred loan costs	1,861	1,180
Loans held for sale	13,488	16,256
	<u>3,040,881</u>	<u>1,956,927</u>
Less:		
Allowance for loan losses	38,198	23,588
	<u>\$ 3,002,683</u>	<u>\$ 1,933,339</u>

Loans held for sale are primarily real estate – 1-4 family residential mortgage loans with fair values of \$13.6 million at September 30, 2007 and \$16.5 million at December 31, 2006.

Changes in the allowance for loan losses were as follows:

	Nine Months Ended September 30,	
	2007	2006
	(Dollars in thousands)	
Balance, beginning of year	\$ 23,588	\$ 23,190
Provision for loan losses	2,775	1,000
Allowance as result of merger	12,898	—
Recoveries applicable to loan balances previously charged off	456	125
Loan balances charged off	(1,519)	(763)
	<u>\$ 38,198</u>	<u>\$ 23,552</u>
Balance, September 30	<u>\$ 38,198</u>	<u>\$ 23,552</u>

Note 6: Earnings Per Share

Net income per common share has been computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
(In thousands, except per share data)				
Net income	\$ 11,510	\$ 7,642	\$ 27,110	\$ 21,544
Shares:				
Weighted average common shares outstanding	31,464	21,322	24,834	21,346
Dilutive effect of outstanding options as determined by the application of the treasury stock method	191	119	105	99
Weighted average common shares outstanding, as adjusted for diluted earnings per share calculation	31,655	21,441	24,939	21,445
Basic earnings per share	\$ 0.37	\$ 0.36	\$ 1.09	\$ 1.01
Diluted earnings per share	\$ 0.36	\$ 0.36	\$ 1.09	\$ 1.00

Note 7: Stock-based Compensation

As of September 30, 2007, the Company had two stock-based employee compensation plans, which are described more fully in Note 16 of the Company's Annual Report on Form 10-K. The Company had no material excess cash inflows during the nine months ended September 30, 2007.

In January 1999, the Company adopted the 1999 Stock Option Plan pursuant to which nonqualified stock options for up to 750,000 shares of common stock may be granted by the Executive Compensation and Succession Committee of the Board of Directors to directors and employees of First Busey Corporation and its subsidiaries.

In April 2004, the Company adopted the 2004 Stock Option Plan pursuant to which nonqualified stock options for up to 1,500,000 shares of common stock may be granted by the Executive Compensation and Succession Committee of the Board of Directors to directors and employees of First Busey Corporation and its subsidiaries.

In conjunction with the merger, the Company assumed Main Street's outstanding stock options and associated stock option plans, which convert to approximately 1.3 million First Busey Corporation stock options. The stock options were subject to the 1.55 exchange rate outlined in the merger agreement. Fractional stock options were rounded up to the next whole stock option pursuant to the merger agreement.

Under the terms of the Company's stock option plans, the Company is allowed, but not required to source stock option exercises from its inventory of treasury stock. The Company has historically sourced stock option exercises from its treasury stock inventory, including exercises for the periods presented. As of September 30, 2007, under the Company's 2004 stock repurchase plan, 133,555 additional shares were authorized for repurchase. The repurchase plan has no expiration date and expires when the Company has repurchased all of the remaining authorized shares.

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

In conjunction with the merger, the Company accelerated the vesting of all unvested stock options. The Company's decision to accelerate the vesting of stock options sought to provide the Company's associates with equivalent option treatment as that of Main Street Trust, Inc.'s associates following the closing of the merger.

13 of 39

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

On July 17, 2007, the Company issued 27,000 stock options to the non-employee members of First Busey Corporation's Board of Directors. The stock options have an exercise price of \$19.55 and expire on December 15, 2015. The options' vesting date was accelerated in conjunction with the Company's unvested outstanding stock options, as noted in the preceding paragraph. In July 2007, approximately \$65,000 of stock option expense was recorded related to the acceleration of these stock options.

On September 18, 2007, the Company issued 20,000 stock options to an employee. The stock options have an exercise price of \$21.90, vest on September 21, 2010 and expire on December 15, 2015.

The fair value of the stock options granted has been estimated using the Black-Scholes option pricing model. The components of the Black-Scholes option pricing model are determined on a grant-by-grant basis. Expected life and estimated forfeiture rate is based on historical exercise and termination behavior. Expected stock price volatility is based on historical volatility of the Company's common stock and correlates with the expected life of the options. The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term approximately equal to the expected life of the option. The expected dividend yield represents the annual dividend yield as of the date of grant. Management reviews and adjusts the assumptions used to calculate the fair value of an option on a periodic basis to better reflect expected trends.

	Employee	Directors
Number of options granted	20,000	27,000
Exercise Price	\$ 21.90	\$ 19.55
Estimated forfeiture rate	—	—
Risk-free interest rate	4.20%	5.05%
Expected life, in years	4.7	4.8
Expected volatility	11.2%	13.1%
Expected dividend yield	3.29%	3.65%
Estimated fair value per option	\$ 2.18	\$ 2.40

A summary of the status of and changes in the Company's stock option plan for the nine months ended September 30, 2007 follows:

	Nine Months Ended September 30, 2007		
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of year	780,100	\$ 18.50	
Granted	47,000	20.55	
Assumed through merger	1,310,198	16.08	
Exercised	(79,359)	16.21	
Forfeited	(8,500)	20.03	
Outstanding at end of period	2,049,439	\$ 17.08	4.78
Exercisable at end of period	2,029,439	\$ 17.04	4.75

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

The total intrinsic value of stock options exercised in the nine months ended September 30, 2007 and 2006 was \$385,000 and \$30,000, respectively.

The following table summarizes information about stock options outstanding at September 30, 2007:

Range of Exercise Prices	Options Outstanding				Options Exercisable	
	Number	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Intrinsic Value	Number	Intrinsic Value
(Intrinsic value in thousands)						
\$ 11.29-12.00	472,731	\$ 11.71	3.49		472,731	
14.56-16.03	335,565	15.29	4.74		335,565	
18.07-19.83	360,450	19.43	1.79		360,450	
18.58-21.90	664,193	19.49	8.02		644,193	
20.16-20.71	216,500	20.30	4.21		216,500	
	2,049,439	\$ 17.08	4.78	\$ 5,958	2,029,439	\$ 5,997

The Company recorded stock option based compensation expense of \$367,000, net of \$244,000 tax benefit, and \$191,000, net of \$126,000 tax benefit, for the nine months ended September 30, 2007 and 2006, respectively. For the three months ended September 30, 2007 and 2006, the Company recorded stock option based compensation expense of \$243,000, net of \$164,000 tax benefit, and \$82,000, net of \$54,000 tax benefit, respectively. As of September 30, 2007, the Company had unrecognized stock option expense of approximately \$26,000, net of \$18,000 tax benefit.

Note 8: Income Taxes

The Company is subject to income taxes in the U.S. federal and various state jurisdictions. The Company and its subsidiaries file consolidated Federal and State income tax returns with each subsidiary computing its taxes on a separate entity basis. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state or local tax examinations by tax authorities for the years before 2004. The provision for income taxes is based on income as reported in the financial statements.

Deferred income tax assets and liabilities are computed monthly for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The deferred tax assets and liabilities are computed based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when in the opinion of management it is more likely than not that a portion of deferred tax assets will not be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change in deferred tax assets and liabilities during the period.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN No. 48). FIN No. 48 clarifies the accounting and reporting for income taxes recognized in accordance with SFAS No. 109, "Accounting for Income Taxes." This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns.

Effective January 1, 2007, the Company adopted FIN No. 48. At the adoption date, the Company applied FIN No. 48 to all tax positions for which the statute of limitations remained open. There were no unrecognized tax benefits as of January 1, 2007. There have been no adjustments to unrecognized tax benefits since January 1, 2007. There are no material tax positions for which it is reasonably possible that unrecognized tax benefits will significantly change in the twelve months subsequent to September 30, 2007.

When applicable, the Company recognizes interest accrued related to unrecognized tax benefits and penalties in operating expenses. The Company has no accruals for payments of interest and penalties at September 30, 2007.

At September 30, 2007, the Company was not currently under examination by any tax authorities. However, the Company has received notice from the Illinois Department of Revenue that an examination of tax years 2005-2006 will be performed beginning in the second quarter of 2008.

Note 9: Junior Subordinated Debt Owed to Unconsolidated Trusts

The Company has established statutory trusts for the sole purpose of issuing trust preferred securities and related trust common securities. The proceeds from such issuances were used by the trusts to purchase junior subordinated notes of the Company, which are the sole assets of each trust. Concurrent with the issuance of the trust preferred securities, the Company issued guarantees for the benefit of the holders of the trust preferred securities. As of September 30, 2007, the trust preferred securities qualified, and were treated by the Company, as Tier I regulatory capital. The Company owns all of the common securities of each trust. The trust preferred securities issued by each trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the notes has occurred and is continuing, the preferred securities will rank senior to the common securities in right of payment.

The table below summarizes the outstanding junior subordinated notes and the related trust preferred securities issued by each trust as of September 30, 2007:

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

⁽¹⁾ First Busey Statutory Trust IV maintains a 5-year fixed coupon of 6.94% through June 10, 2011, subsequently converting to a floating 3-month LIBOR +1.55%.

⁽²⁾ All cash distributions are cumulative

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

In March 2005, the Board of Governors of the Federal Reserve System issued a final rule allowing bank holding companies to continue to include qualifying trust preferred securities in their Tier I Capital for regulatory capital purposes, subject to a 25% limitation to all core (Tier I) capital elements, net of goodwill less any associated deferred tax liability. The final rule provides a five-year transition period, ending March 31, 2009, for applications of the aforementioned quantitative limitation. As of September 30, 2007, 100% of the trust preferred securities noted in the table above qualified as Tier I capital under the final rule adopted in March 2005.

Note 10: Outstanding Commitments and Contingent Liabilities

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

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

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

	September 30, 2007	December 31, 2006
	(Dollars in thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 881,771	\$ 536,763
Standby letters of credit	49,837	18,595

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including bond financing and similar transactions and primarily have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral, which may include accounts receivable, inventory, property and equipment, income producing properties, supporting those commitments if deemed necessary. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount shown in the summary above. If the commitment is funded, the Company would be entitled to seek recovery from the customer. As of September 30, 2007, and December 31, 2006, no amounts were recorded as liabilities for the Company's potential obligations under these guarantees.

As of September 30, 2007, the Company had no futures, forwards, swaps or option contracts, or other financial instruments with similar characteristics with the exception of rate lock commitments on mortgage loans to be held for sale.

Note 11: Reportable Segments and Related Information

The Company has five reportable segments, Busey Bank, Main Street Bank & Trust, Busey Bank N.A., FirsTech and Busey Investment Group. Busey Bank provides a full range of banking services to individual and corporate customers through its branch network in Champaign, McLean, Peoria, Tazewell, and Ford Counties in Illinois, through its branch in Indianapolis, Indiana, and through its loan production office in Fort Myers, Florida. Main Street Bank & Trust provides a full range of banking services to individual and corporate customers through its branch network in Champaign, Livingston, Macon, McLean, Shelby, and Tazewell Counties in Illinois. Busey Bank N.A. provides a full range of banking services to individual and corporate customers in Lee, Charlotte, and Sarasota Counties in southwest Florida. FirsTech is our payment processing company. Busey Investment Group is the parent company of: (1) First Busey Trust & Investment Co., which provides a full range of trust and investment management services, including estate and financial planning, tax preparation, custody services and philanthropic advisory services; (2) First Busey Securities, Inc., which is a full-service broker/dealer and provides individual investment advice; and (3) Busey Insurance Services, Inc., which offers a variety of insurance products.

The Company's five reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. Following the merger of Busey Bank and Main Street Bank & Trust, which is anticipated to occur in November 2007, the Company will have four reportable segments.

The segment financial information provided below has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the five segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

Following is a summary of selected financial information for the Company's business segments as of and for the three and nine months ended September 30, 2007, and September 30, 2006:

As of September 30,	Goodwill		Total Assets	
	2007	2006	2007	2006
	(Dollars in thousands)		(Dollars in thousands)	
Goodwill:				
Busey Bank	\$ 30,237	\$ 30,237	\$ 2,085,664	\$ 1,957,575
Main Street Bank & Trust	136,536	—	1,680,280	—
Busey Bank N.A.	22,601	22,601	462,120	443,529
FirsTech	4,538	—	15,760	—
Busey Investment Group, Inc.	—	—	8,186	7,301
All Other	45,659	1,548	36,140	10,816
Total Goodwill	\$ 239,571	\$ 54,386	\$ 4,288,150	\$ 2,419,221
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Dollars in thousands)		(Dollars in thousands)	
Interest Income:				
Busey Bank	\$ 34,843	\$ 31,000	\$ 101,014	\$ 86,728
Main Street Bank & Trust	16,652	—	16,652	—
Busey Bank N.A.	7,253	6,739	20,628	19,810
FirsTech	6	—	6	—
Busey Investment Group, Inc.	78	67	219	190
All Other	(30)	11	(102)	(60)
Total Interest Income	\$ 58,802	\$ 37,817	\$ 138,417	\$ 106,668
Interest Expense:				
Busey Bank	\$ 15,877	\$ 13,873	\$ 46,658	\$ 36,935
Main Street Bank & Trust	7,535	—	7,535	—
Busey Bank N.A.	3,906	3,000	10,950	7,921
FirsTech	—	—	—	—
Busey Investment Group, Inc.	—	—	—	—
All Other	1,472	1,543	4,338	4,662
Total Interest Expense	\$ 28,790	\$ 18,416	\$ 69,481	\$ 49,518
Other Income:				
Busey Bank	\$ 5,164	\$ 5,023	\$ 14,837	\$ 13,917

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

Main Street Bank & Trust	2,430	—	2,430	—
Busey Bank N.A.	419	590	1,433	1,841
FirsTech	1,799	—	1,799	—
Busey Investment Group, Inc.	2,011	1,808	6,082	5,774
All Other	1,189	(220)	760	(1,254)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Other Income	\$ 13,012	\$ 7,201	\$ 27,341	\$ 20,278
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Net Income:

Busey Bank	\$ 7,803	\$ 7,647	\$ 23,821	\$ 21,773
Main Street Bank & Trust	3,437	—	3,437	—
Busey Bank N.A.	366	786	1,008	2,858
FirsTech	306	—	306	—
Busey Investment Group, Inc.	575	474	1,739	1,662
All Other	(977)	(1,265)	(3,201)	(4,749)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Net Income	\$ 11,510	\$ 7,642	\$ 27,110	\$ 21,544
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

The following is management's discussion and analysis of the financial condition of First Busey Corporation and subsidiaries (the Company) at September 30, 2007 (unaudited), as compared with December 31, 2006, and the results of operations for the three and nine months ended September 30, 2007 and 2006 (unaudited). Management's discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto appearing elsewhere in this quarterly report, as well as the Company's 2006 Annual Report on Form 10-K.

SUMMARY

Main Street Trust, Inc. Merger

The Company completed its merger of equals with Main Street Trust, Inc. following the close of business on July 31, 2007. As a result of the merger, two full months of earnings contribution from Main Street Bank & Trust and FirsTech, our payment processing company, are included in the September 30, 2007 results. The next significant step in the process is the bank merger of Main Street Bank & Trust with and into Busey Bank, which is expected to occur in November 2007. Our bank merger will include the launch of an updated Busey brand.

As required by the United States Department of Justice, prior to the closing of our merger, we reached an agreement to sell five Main Street Bank & Trust banking centers. The divestiture of the five branches, which represents approximately 1% of consolidated loans and 3% of consolidated deposits, closed in November 2007. The divestiture is not expected to have a significant impact upon earnings.

Operating Results

Net income was \$11.5 million for the quarter ended September 30, 2007, as compared to \$7.6 million for the comparable period in 2006. For the quarter ended September 30, 2007, earnings per share on a fully-diluted basis were \$0.36, equaling the \$0.36 for the comparable period in 2006. On a year-to-date basis, net income was \$27.1 million as compared to \$21.5 million for the comparable period in 2006. For the nine-month period ended September 30, 2007, earnings per share on a fully-diluted basis were \$1.09, an increase of \$0.09 or 9.0% from \$1.00 for the comparable period in 2006. Two months of Main Street Bank & Trust and FirsTech net earnings are reflected in the results for the periods ended September 30, 2007.

Busey Bank's net income was \$23.8 million for the nine months ended September 30, 2007, as compared to \$21.8 for the comparable period in 2006, an increase of 9.2%. Main Street Bank & Trust contributed \$3.4 million in net income for the two months following the merger. Busey Bank N.A.'s net income was \$1.3 million for the nine months ended September 30, 2007, as compared to \$2.9 million for the comparable period in 2006. The decrease in net income at Busey Bank N.A. is primarily related to the significant decline in the southwest Florida residential real estate market. The decrease is due to the end of a high-margin, short-term construction lending program, decline in residential construction originations and loan loss charges related to the market decline. Busey Bank N.A.'s income was supplemented by two months of FirsTech income of \$0.3 million. Following the merger, FirsTech became a subsidiary of Busey Bank N.A. Due to the unique nature of FirsTech's operations, management identified FirsTech as a segment separate from Busey Bank N.A.

The Company experienced deterioration in its loan portfolio during the third quarter. Total non-performing assets were \$26.0 million at September 30, 2007, compared to \$12.2 million at June 30, 2007 and \$7.1 million at September 30, 2006. The \$26.0 million reflected \$6.6 million of non-performing assets on the books of Main Street Bank & Trust. The remainder of the increase was primarily attributable to southwest Florida real estate loans.

The provision for loan losses was \$1.8 million during the third quarter of 2007 compared to \$300,000 in the comparable period of 2006. The provision was \$2.8 million for the nine months ended September 30, 2007, versus \$1.0 million in the comparable period of 2006. As a percentage of total outstanding loans, the allowance for loan losses was 1.26% as of September 30, 2007, and 1.24% as of September 30, 2006. Total allowance for loan losses was \$38.2 million at September 30, 2007, representing 159.7% coverage of non-performing loans.

At September 30, 2007, the Company had 2,049,439 stock options outstanding, of which 2,029,439 were exercisable.

EARNINGS PERFORMANCE

NET INTEREST INCOME

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

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

Table 1 summarizes the changes in the Company's average interest-earning assets and interest-bearing liabilities as well as the average rates earned and paid on these assets and liabilities, respectively, for the three month periods ended September 30, 2007 and 2006. This table also details increases and decreases in income and expense for each of the major categories of assets and liabilities and analyzes the extent to which such variances are attributable to volume and rate changes.

Table 2 summarizes the same information as Table 1 but for the nine-month periods ended September 30, 2007 and 2006.

**TABLE 1 - AVERAGE BALANCE SHEETS AND INTEREST RATES
THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006**

	2007			2006			Change due to ⁽¹⁾		
	Average Balance	Income/Expense	Yield/Rate	Average Yield/Rate	Average Yield/Rate	Yield/Rate	Average Volume	Average Yield/Rate	Total Change
(Dollars in thousands)									
Assets									
Interest-bearing bank deposits	\$ 366	\$ 4	4.34%	\$ 379	\$ 5	5.23%	\$ —	\$ (1)	\$ (1)
Federal funds sold	57,585	703	4.84%	5,017	66	5.22%	1,213	(576)	637
Investment securities									
U.S. Government obligations	400,148	5,579	5.53%	190,867	1,951	4.06%	2,993	635	3,628
Obligations of states and political subdivisions ⁽¹⁾	84,527	1,281	6.01%	84,807	1,277	5.97%	(4)	8	4
Other securities	72,167	493	2.71%	43,051	410	3.78%	330	(247)	83
Loans (net of unearned interest) ^{(1) (2)}	2,689,472	51,286	7.57%	1,855,980	34,639	7.40%	15,708	939	16,647
Total interest earning assets	\$ 3,304,265	\$ 59,346	7.13%	\$ 2,180,101	\$ 38,348	6.98%	\$ 20,240	\$ 758	\$ 20,998
Cash and due from banks	65,605			54,254					
Premises and equipment	58,564			41,174					
Allowance for loan losses	(32,841)			(23,461)					
Other assets	243,568			105,066					
Total Assets	\$ 3,639,161			\$ 2,357,134					
Liabilities and Stockholders' Equity									
Interest-bearing transaction deposits	\$ 143,045	\$ 603	1.67%	\$ 66,782	\$ 399	2.37%	\$ 349	\$ (145)	\$ 204
Savings deposits	136,847	299	0.87%	106,977	254	0.94%	67	(22)	45
Money market deposits	1,021,184	8,541	3.32%	671,870	5,174	3.06%	2,889	478	3,367
Time deposits	1,241,820	15,078	4.82%	786,949	8,726	4.40%	5,455	897	6,352
Short-term borrowings:									
Federal funds purchased	3,878	42	4.30%	25,536	357	5.55%	(249)	(66)	(315)
Repurchase agreements	122,551	1,308	4.23%	47,538	467	3.90%	797	44	841
Other	11,182	158	5.61%	2,674	36	5.34%	120	2	122
Long-term debt	138,260	1,748	5.02%	160,206	1,993	4.94%	(277)	32	(245)
Junior subordinated debt owed to unconsolidated trusts	55,000	1,013	7.31%	55,000	1,010	7.29%	—	3	3
Total interest-bearing liabilities	\$ 2,873,767	\$ 28,790	3.97%	\$ 1,923,532	\$ 18,416	3.80%	\$ 9,151	\$ 1,223	\$ 10,374

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

Net interest spread			3.16%			3.18%			
Demand deposits	366,280			241,943					
Other liabilities	28,212			15,864					
Stockholders' equity	370,902			175,795					
Total Liabilities and Stockholders' Equity	\$ 3,639,161			\$ 2,357,134					
Interest income / earning assets ⁽¹⁾	\$ 3,304,265	\$ 59,346	7.13%	\$ 2,180,101	\$ 38,348	6.98%			
Interest expense / earning assets	\$ 3,304,265	\$ 28,790	3.46%	\$ 2,180,101	\$ 18,416	3.35%			
Net interest margin ⁽¹⁾	\$ 30,556		3.67%	\$ 19,932		3.63%	\$ 11,089	\$ (465)	\$ 10,624

⁽¹⁾ On a tax-equivalent basis assuming a federal income tax rate of 35% for 2007 and 2006

⁽²⁾ Non-accrual loans have been included in average loans, net of unearned interest.

**TABLE 2 - AVERAGE BALANCE SHEETS AND INTEREST RATES
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006**

	2007			2006			Change due to ⁽¹⁾		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate	Average Volume	Average Yield/Rate	Total Change
(Dollars in thousands)									
Assets									
Interest-bearing bank deposits	\$ 242	\$ 9	4.97%	\$ 505	\$ 18	4.77%	\$ (10)	\$ 1	\$ (9)
Federal funds sold	24,637	990	5.37%	5,178	188	4.85%	990	(188)	802
Investment securities									
U.S. Government obligations	272,940	10,706	5.24%	196,015	5,740	3.92%	2,554	2,412	4,966
Obligations of states and political subdivisions ⁽¹⁾	78,534	3,539	6.02%	84,265	3,782	6.00%	(257)	14	(243)
Other securities	55,948	1,475	3.52%	44,832	1,261	3.76%	318	(104)	214
Loans (net of unearned interest) ^{(1) (2)}	2,199,011	123,205	7.49%	1,799,137	97,254	7.23%	21,791	4,160	25,951
Total interest earning assets	\$ 2,631,312	\$ 139,924	7.11%	\$ 2,129,932	\$ 108,243	6.79%	\$ 25,386	\$ 6,295	\$ 31,681
Cash and due from banks	56,618			53,164					
Premises and equipment	46,927			40,148					
Allowance for loan losses	(26,775)			(23,425)					
Other assets	161,667			103,775					
Total Assets	\$ 2,869,749			\$ 2,303,594					
Liabilities and Stockholders' Equity									
Interest-bearing transaction deposits									
Interest-bearing transaction deposits	\$ 64,122	\$ 781	1.63%	\$ 71,552	\$ 1,188	2.22%	\$ (114)	\$ (293)	\$ (407)
Savings deposits	112,602	782	0.93%	112,218	766	0.91%	3	13	16
Money market deposits	842,004	20,288	3.22%	642,027	13,241	2.76%	4,575	2,472	7,047
Time deposits	1,004,150	36,177	4.82%	760,264	23,402	4.12%	8,343	4,432	12,775
Short-term borrowings:									
Federal funds purchased	7,526	375	6.66%	20,721	823	5.31%	(619)	171	(448)
Repurchase agreements	76,904	2,420	4.21%	48,683	1,285	3.53%	852	283	1,135
Other	5,459	223	5.46%	1,463	57	5.21%	163	3	166
Long-term debt	145,038	5,420	5.00%	160,886	5,707	4.74%	(582)	295	(287)
Junior subordinated debt owed to unconsolidated trusts									
Junior subordinated debt owed to unconsolidated trusts	55,000	3,015	7.33%	52,000	3,049	7.84%	171	(205)	(34)
Total interest-bearing liabilities	\$ 2,312,805	\$ 69,481	4.02%	\$ 1,869,814	\$ 49,518	3.54%	\$ 12,792	\$ 7,171	\$ 19,963

Edgar Filing: FIRST BUSEY CORP /NV/ - Form 10-Q

Net interest spread			3.09%			3.25%		
Demand deposits	276,874			245,000				
Other liabilities	21,724			16,091				
Stockholders' equity	258,346			172,689				
Total Liabilities and Stockholders' Equity	\$ 2,869,749			\$ 2,303,594				
Interest income / earning assets ⁽¹⁾	\$ 2,631,312	\$ 139,924	7.11%	\$ 2,129,932	\$ 108,243	6.79%		
Interest expense / earning assets	\$ 2,631,312	\$ 69,481	3.53%	\$ 2,129,932	\$ 49,518	3.10%		
Net interest margin ⁽¹⁾		\$ 70,443	3.58%		\$ 58,725	3.69%	\$ 12,593	\$ (876) \$ 11,717

⁽¹⁾ On a tax-equivalent basis assuming a federal income tax rate of 35% for 2007 and 2006

⁽²⁾ Non-accrual loans have been included in average loans, net of unearned interest.

The increased average earning assets and interest-bearing liabilities for the three and nine month periods ended September 30, 2007 over the same periods of 2006 related primarily to the merger with Main Street. The merger added an additional \$350.2 million of investments, \$1.02 billion of loans and \$1.25 billion of deposits. The resulting averages from the merger contribution led to significant increases across all line items. The impact is more evident in the three month period ended due to the shortened average time frame.

During the three and nine month periods ended September 30, 2007, the changes in volume had a positive impact on the Company's net interest margin. The positive volume change indicated that earning assets grew at a rate faster than interest-bearing liabilities. However, changes in rates moderately offset the positive volume changes, as rates on interest-bearing liabilities grew faster than rates on earning assets. The changes in rates were consistent with our consolidated short-term liability sensitive position.

Overall, net interest margin has been declining in recent annual periods as evidenced in the decline for the nine month period ended September 30, 2007 as compared to the same period in 2006. However, net interest margins seem to have stabilized over the last twelve months as evidenced by the slight increase for the three month period ended September 30, 2007 as compared to the equivalent period in 2006.

Management attempts to mitigate the effects of an unpredictable interest-rate environment through effective portfolio management, prudent loan underwriting and operational efficiencies. Management expects the current credit environment will present challenges to net interest margin management due to recent growth in delinquent and non-accrual loans. Please refer to the Notes to Consolidated Financial Statement in the Company's 2006 10-K for accounting policies underlying the recognition of interest income and expense.

OTHER INCOME

TABLE 3 - OTHER INCOME
THREE and NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	% Change	2007	2006	% Change
(Dollars in thousands)						
Service charges on deposit accounts	\$ 2,533	\$ 2,122	19.4%	\$ 6,447	\$ 6,011	7.3%
Trust	2,691	1,312	105.1%	6,090	4,470	36.2%
Other service charges & fees	900	738	22.0%	2,575	2,187	17.7%
Security gains, net	2,065	794	160.1%	2,995	1,880	59.3%
Gain on sales of loans	994	786	26.5%	2,414	1,858	29.9%
Commissions and brokers' fees, net	707	608	16.3%	1,949	1,987	(1.9)%
Remittance payment processing	1,746	—	100.0%	1,746	—	100.0%
Other operating income	1,376	841	63.6%	3,125	1,885	65.8%
Total other income	\$ 13,012	\$ 7,201	80.7%			