

FIRST MID ILLINOIS BANCSHARES INC  
Form DEF 14A  
March 16, 2012

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. \_\_\_\_)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material pursuant to Rule 14a-12

FIRST MID-ILLINOIS BANCSHARES, INC.  
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement; if other than the Registrant)

Payment of filing fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

- (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:
-

March 16, 2012

Dear Fellow Stockholder:

On behalf of the Board of Directors and management of First Mid-Illinois Bancshares, Inc. (the "Company"), I cordially invite you to attend the Annual Meeting of Stockholders of First Mid-Illinois Bancshares, Inc. to be held at 4:00 p.m. on April 25, 2012, in the lobby of First Mid-Illinois Bank & Trust, 1515 Charleston Avenue, Mattoon, Illinois.

Pursuant to the Securities and Exchange Commission's "notice and access" rules, on or about March 16, 2012, you received in the mail our Notice of Internet Availability of Proxy Materials (the "Notice"), which provided you with instructions on how to access on an internet website this Proxy Statement, the Company's 2011 annual report to stockholders and the Company's Annual Report on Form 10-K for the recently completed fiscal year. Details regarding the business to be conducted at the meeting are described in the Notice and in this Proxy Statement.

At the meeting, we will report on Company operations and the outlook for the year ahead. Directors and officers of the Company, as well as a representative of BKD, LLP, the Company's independent auditors, will be present to respond to any appropriate questions stockholders may have.

The 2012 annual meeting of stockholders is being held for the following purposes:

1. The election of Joseph R. Dively, Holly A. Bailey and William S. Rowland as directors of the Company (Proposal 1);
2. Such other matters as may properly come before the meeting or any adjournments thereof.

I encourage you to attend the meeting in person. Whether or not you plan to attend the meeting, please act promptly to vote your shares. You may vote your shares over the Internet or, if you receive or request to receive proxy materials, by mailing, completing, signing and dating a proxy card and returning it in the accompanying postage paid envelope provided. You may also vote your shares by telephone or by following the instructions set forth on the proxy card. Please review the instructions for each of your voting options described in the Notice you may have received in the mail and in this Proxy Statement. If you attend the meeting, you may vote your shares in person, even if you have previously submitted a proxy in writing, by telephone or through the Internet. Submitting a proxy will ensure that your shares are represented at the meeting. If you have any questions concerning these matters, please contact me at (217) 258-0415 or Lee Ann Perry, Manager of Shareholder Services, at (217) 258-0493. We look forward with pleasure to seeing and visiting with you at the meeting.

Very truly yours,

FIRST MID-ILLINOIS BANCSHARES, INC.

William S. Rowland  
Chairman and Chief Executive Officer

1421 Charleston Avenue • P.O. Box 499 • Mattoon, IL 61938 • Phone: (217) 258-0493



Proxy Statement  
Annual Meeting of Stockholders  
To Be Held April 25, 2012

First Mid-Illinois Bancshares, Inc.  
1421 Charleston Avenue, P.O. Box 499  
Mattoon, Illinois 61938  
(217) 258-0493

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of First Mid-Illinois Bancshares, Inc. (the "Company") to be voted at the Annual Meeting of Stockholders to be held in the lobby of First Mid-Illinois Bank & Trust, 1515 Charleston Avenue, Mattoon, Illinois, on Wednesday, April 25, 2012 at 4:00 p.m. local time. The Board of Directors would like to have all stockholders represented at the meeting.

Whether or not you plan to attend the Annual Meeting of Stockholders, we encourage you to read this Proxy Statement and submit your proxy as soon as possible. For specific instructions on how to vote your shares, please refer to the instructions on the Notice of Internet Availability of Proxy Materials you may have received in the mail and if you receive or request to receive printed proxy materials, the proxy card. The Company's annual report to stockholders and its Annual Report on Form 10-K for the recently completed fiscal year, which includes the consolidated financial statements of the Company, have been made available with this Proxy Statement.

The Company is a diversified financial services company which serves the financial needs of central Illinois. The Company owns all the outstanding capital stock of First Mid-Illinois Bank & Trust, N.A., a national banking association (the "Bank"), with offices in Mattoon, Charleston, Effingham, Altamont, Neoga, Sullivan, Arcola, Taylorville, Tuscola, Monticello, Urbana, Decatur, Highland, Pocahontas, Champaign, Maryville, Mansfield, Mahomet, Weldon, Bloomington, Bartonville, Peoria, Galesburg, Quincy and Knoxville Illinois; Mid-Illinois Data Services, Inc., a data processing company ("Data Services"); and The Checkley Agency, Inc. doing business as First Mid Insurance Group, an insurance agency ("Insurance Group").

Only holders of record of the Company's Common Stock at the close of business on March 1, 2012 (the "Record Date") will be entitled to vote at the annual meeting or any adjournments or postponements of such meeting. On the Record Date, the Company had 6,019,986 shares of Common Stock issued and outstanding. In the election of directors, and for any other matters to be voted upon at the annual meeting, each issued and outstanding share of Common Stock is entitled to one vote.

You may revoke your proxy at any time before it is voted. Unless so revoked, the shares represented by such proxies will be voted at the annual meeting and all adjournments thereof. You may revoke your proxy at any time before it is voted by delivering written notice of revocation to the Secretary of the Company at 1421 Charleston Avenue, P.O. Box 499, Mattoon, Illinois 61938, by executing and delivering a subsequently dated proxy, or by attending the annual meeting and voting in person. Proxies solicited by the Board of Directors of the Company will be voted in accordance with the directions given therein. Where no instructions are indicated, proxies will be voted in accordance with the recommendations of the Board of Directors with respect to the proposals described herein.



A quorum of stockholders is necessary to take action at the annual meeting. The presence, in person or by proxy, of the holders of a majority of the shares of Common Stock of the Company entitled to vote at the meeting will constitute a quorum. Votes cast by proxy or in person at the meeting will be tabulated by the inspector of election appointed for the meeting and will be counted as present for purposes of determining whether a quorum is present. The inspector of election will treat broker non-votes as present and entitled to vote for purposes of determining whether a quorum is present. "Broker non-votes" refers to a broker or other nominee holding shares for a beneficial owner not voting on a particular proposal because the broker or other nominee does not have discretionary voting power regarding that item and has not received instructions from the beneficial owner.

The expenses of solicitation, including the cost of printing and mailing, will be paid by the Company. Proxies are being solicited principally via the Internet and by mail. In addition, directors, officers and regular employees of the Company may solicit proxies personally, by telephone, by fax or by special letter. The Company may also reimburse brokers, nominees and other fiduciaries for their reasonable expenses in forwarding proxy materials to beneficial owners.

#### VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The following table sets forth, as of February 1, 2012, the number of shares of Common Stock beneficially owned by each person known by the Company to be the beneficial owner of more than five percent of the outstanding shares of Common Stock (who are not also directors), each director nominee of the Company, each director, the "named executive officers" (as defined below) and all director nominees, directors and executive officers of the Company as a group. For certain individuals listed below, the number of shares of Common Stock beneficially owned includes the shares of Common Stock into which such individuals may convert their shares of the Company's Series B 9% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series B Preferred Stock") and Series C 8% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series C Preferred Stock"). The Series B Preferred Stock and Series C Preferred Stock are non-voting stock except with respect to certain fundamental changes in the terms of the stock and with respect to certain matters following the Company's failure to pay dividends on the stock during four dividend payment periods. Please refer to the footnotes of the following table, and the "Certain Relationships and Related Transactions" section of the Proxy for details.

| Name and Address<br>of Beneficial Owner(1)                 | Title of Class     | Amount and Nature<br>of Beneficial<br>Ownership(2) | Percentage of<br>Class<br>Outstanding | Percentage of<br>Voting Power |
|--|--------------------|--|---------------------------------------|-------------------------------|
| Principal Stockholders:                                    |                    |  |                                       |                               |
| David R. Hodgman   | Common             | 383,948(3)   | 6.3%(18)                              | 8.3%(20)                      |
| c/o Schiff Hardin LLP                                      | Series B Preferred | 540(3)   | 11.0%                                 |                               |
| 233 S. Wacker Dr., Suite<br>6600                           | Series C Preferred | -  | -                                     |                               |
| Chicago, Illinois 60606                                    |                    |  | (18)                                  |                               |
| Richard Anthony<br>Lumpkin                                 | Common             | 565,915(4)   | 9.4%                                  | 10.4%(20)                     |
| 121 South 17th Street                                      | Series B Preferred | 280(4)   | 5.7%                                  |                               |
| Mattoon, Illinois 61938                                    | Series C Preferred | -  | -                                     |                               |
| Director Nominees, Directors and Named Executive Officers: |                    |  |                                       |                               |
| Charles A. Adams   | Common             | 489,207(5)   | 8.1%(18)                              | 9.9%(20)                      |
| 1020 North 13th Street                                     | Series B Preferred | 200(5)   | 4.1%                                  |                               |
| Mattoon, Illinois 61938                                    | Series C Preferred | 300(5)   | 7.8%                                  |                               |





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| Name and Address<br>of Beneficial Owner(1)   | Title of Class     | Amount and Nature<br>of<br>Beneficial<br>Ownership(2) | Percentage of<br>Class<br>Outstanding | Percent of<br>Voting Power |
|--|--------------------|---|---------------------------------------|----------------------------|
| Director Nominees, Directors and Named Executive Officers<br>(continued):  |                    |   |                                       |                            |
| Holly A. Bailey  | Common             | 22,523(6)   | *%(18)                                | 1.6 %(20)                  |
|  | Series B Preferred | 200(6)  | 4.1%                                  |                            |
|  | Series C Preferred | 125(6)  | 3.2%                                  |                            |
| Joseph R. Dively   | Common             | 17,147(7)   | *%(18)                                | * %(20)                    |
|  | Series B Preferred | 40(7)   | *%                                    |                            |
|  | Series C Preferred | 20(7)   | *%                                    |                            |
| Steven L. Grissom<br>121 South 17th Street<br>Mattoon, Illinois 61938  | Common             | 438,389(8)  | 7.3%(18)                              | 9.4%(20)                   |
|  | Series B Preferred | 620(8)  | 12.6%                                 |                            |
|  | Series C Preferred | -   | -                                     |                            |
| Benjamin I. Lumpkin<br>121 South 17th Street<br>Mattoon, IL 61938  | Common             | 281,412(9)  | 4.7%(18)                              | 5.2%(20)                   |
|  | Series B Preferred | 150(9)  | 3.0%                                  |                            |
|  | Series C Preferred | -   | -                                     |                            |
| Gary W. Melvin<br>RR 1, Box 226<br>Sullivan, IL 61951  | Common             | 349,777(10)   | 5.8%(18)                              | 8.3%(20)                   |
|  | Series B Preferred | 200(10)   | 4.1%                                  |                            |
|  | Series C Preferred | 489   | 12.7%                                 |                            |
| Sara Jane Preston  | Common             | 23,036(11)  | *%(18)                                | * %(20)                    |
|  | Series B Preferred | 40(11)  | *%                                    |                            |
|  | Series C Preferred | 10(11)  | *%                                    |                            |
| William S. Rowland   | Common             | 101,782(12)   | 1.7%(18)                              | 1.9%(20)                   |
|  | Series B Preferred | 50(12)  | 1.0%                                  |                            |
|  | Series C Preferred | 20(12)  | *%                                    |                            |
| Ray Anthony Sparks<br>30 South Country Club<br>Road<br>Mattoon, IL 61938   | Common             | 254,600(13)   | 4.2%(18)                              | 6.8%(20)                   |
|  | Series B Preferred | 470(13)   | 9.5%                                  |                            |
|  | Series C Preferred | 230(13)   | 6.0%                                  |                            |
| Michael L. Taylor  | Common             | 22,862(14)  | *%(18)                                | * %(20)                    |
|  | Series B Preferred | 4(14)   | *%                                    |                            |
|  | Series C Preferred | 4(14)   | *%                                    |                            |
| John W. Hedges   | Common             | 40,684(15)  | *%(18)                                | * %(20)                    |
|  | Series B Preferred | 10(15)  | *%                                    |                            |
|  | Series C Preferred | 5(15)   | *%                                    |                            |
| Eric S. McRae  | Common             | 14,758(16)  | *%(18)                                | * %(20)                    |
|  | Series B Preferred | 15(16)  | *%                                    |                            |
|  | Series C Preferred | 2(16)   | *%                                    |                            |
| All director nominees,<br>directors, named<br>executive officers and<br>other executive officers<br>as a group<br>(17 persons) | Common             | 2,089,772(17)   | 34.7%(19)                             | 41.0%(21)                  |
|  | Series B Preferred | 2,007(17)   | 40.7%                                 |                            |
|  | Series C Preferred | 1,205(17)   | 31.3%                                 |                            |



- (1) Addresses are provided for those beneficial owners owning more than 5% of the Company's Common Stock.
- (2) Unless otherwise indicated, the nature of beneficial ownership for shares shown in this column is sole voting and investment power. The information contained in this column is based upon information furnished to the Company by the persons named above.
- (3) The above Common Stock amount includes 191,974 shares held by the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Benjamin Iverson Lumpkin dated April 20, 1990, and 191,974 shares held by the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Elizabeth Lumpkin Celio dated April 20, 1990, over which Mr. Hodgman has shared voting and investment power. The above Series B Preferred Stock amount includes 250 shares of Series B Preferred Stock held by the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Benjamin Iverson Lumpkin dated April 20, 1990, and 290 shares of Series B Preferred Stock held by the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Elizabeth Lumpkin Celio dated April 20, 1990. Mr. Hodgman, who serves as co-trustee of the aforementioned trusts, disclaims beneficial ownership of the foregoing shares held by these trusts.
- (4) The above Common Stock amount includes 46,159 shares held by Mr. Richard Lumpkin individually; 100,483 shares held by SKL Investment Group, of which Mr. Richard Lumpkin is a voting member and of which Mr. Richard Lumpkin has shared voting and investment power; 112,467 shares held by The Lumpkin Family Foundation, of which Mr. Richard Lumpkin serves as Treasurer and has shared voting and investment power, and of which beneficial ownership is disclaimed; and 306,806 shares held by the Richard Adamson Lumpkin Trust dated February 6, 1970 for the benefit of Richard Anthony Lumpkin, under which Mr. Richard Lumpkin has sole voting and investment power. The above Series B Preferred Stock amount includes 100 shares of Series B Preferred Stock held by The Lumpkin Family Foundation and of which beneficial ownership is disclaimed; 80 shares of Series B Preferred Stock held by the Richard Adamson Lumpkin Trust dated February 6, 1970 for the benefit of Margaret Keon, of which Mr. Richard Lumpkin has sole voting and investment power and of which beneficial ownership is disclaimed; and 100 shares of Series B Preferred Stock held by the Richard Adamson Lumpkin Trust dated February 6, 1970 for the benefit of Richard Anthony Lumpkin.
- (5) The above Common Stock amount includes 134,114 shares held by Mr. Adams individually; 276,146 shares of Common Stock held by a corporation which Mr. Adams is deemed to control; 19,000 shares held by the Howell-Adams Foundation over which Mr. Adams has shared voting and investment power; 56,572 shares held for the account of Mr. Adams under the Company's Deferred Compensation Plan; and options to purchase 3,375 shares of Common Stock. The above Series B Preferred Stock amount includes 200 shares of Series B Preferred Stock held by Mr. Adams individually. The above Series C Preferred Stock amount includes 300 shares of Series C Preferred Stock held by Mr. Adams individually.
- (6) The above Common Stock amount includes 23,523 shares held by Ms. Bailey individually. The above Series B Preferred Stock amount includes 200 shares of Series B Preferred Stock held by Ms. Bailey individually. The above Series C Preferred Stock amount includes 125 shares of Series C Preferred Stock held by Ms. Bailey individually.
- (7) The above amount includes 5,939 shares held by Mr. Dively individually; 7,662 shares held for the account of Mr. Dively under the Company's Deferred Compensation Plan; and options to purchase 3,375 shares of Common Stock. The above Series B Preferred Stock amount includes 40 shares of Series B Preferred Stock held by Mr. Dively individually. The above Series C Preferred Stock amount includes 20 shares of Series C Preferred Stock held by Mr. Dively individually.
- (8)

The above Common Stock amount includes 33,930 shares held by Mr. Grissom individually; 9,213 shares held jointly with his spouse; 2,298 shares held for the account of Mr. Grissom under the Company's Deferred Compensation Plan; and options to purchase 9,000 shares of Common Stock. The above Common Stock amount also includes 191,974 shares held by the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Benjamin Iverson Lumpkin dated April 20, 1990, and 191,974 shares held by the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Elizabeth Lumpkin Celio dated April 20, 1990, over which Mr. Grissom has shared voting and investment power. The above Series B Preferred Stock amount includes 80 shares of Series B Preferred Stock held by Mr. Grissom jointly with his spouse; 250 shares of Series B Preferred Stock held by the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Benjamin Iverson Lumpkin dated April 20, 1990; and 290 shares of Series B Preferred Stock held by the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Elizabeth Lumpkin Celio dated April 20, 1990. Mr. Grissom, who serves as co-trustee of the aforementioned trusts, disclaims beneficial ownership of the foregoing shares held by these trusts.

- (9) The above Common Stock amount includes 281,412 shares held by Mr. Benjamin Lumpkin individually. The above Series B Preferred Stock amount includes 150 shares of Series B Preferred Stock held by Mr. Benjamin Lumpkin individually. Mr. Benjamin Lumpkin is also the beneficiary of the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Benjamin Iverson Lumpkin dated April 20, 1990 which holds 191,974 Common Stock shares and 250 shares of Series B Preferred Stock. Mr. Benjamin Lumpkin does not have beneficial ownership of the shares held by this trust.
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- (10) The above Common Stock amount includes 306,228 shares held by Mr. Melvin individually; 40,174 shares held for the account of Mr. Melvin under the Company's Deferred Compensation Plan; and options to purchase 3,375 shares of Common Stock. The above Series B Preferred Stock amount includes 200 shares of Series B Preferred Stock held jointly by Mr. Melvin and his spouse. The above Series B Preferred Stock amount includes 489 shares of Series C Preferred Stock held by Mr. Melvin individually.
- (11) The above Common Stock amount includes 8,324 shares held by Ms. Preston individually; 7,962 shares held for the account of Ms. Preston under the Company's Deferred Compensation Plan; and options to purchase 6,750 shares of Common Stock. The above Series B Preferred Stock amount includes 40 shares of Series B Preferred Stock held by Ms. Preston individually. The above Series C Preferred Stock amount includes 10 shares of Series C Preferred Stock held by Ms. Preston individually.
- (12) The above Common Stock amount includes 16,701 shares held by Mr. Rowland individually; 24,844 shares for the account of Mr. Rowland under an Individual Retirement Account; 9,118 shares held for the account of Mr. Rowland under the Company's 401(k) Plan; 6,749 shares held for the account of Mr. Rowland under the Company's Deferred Compensation Plan; and options to purchase 44,000 shares of Common Stock. The above Series B Preferred Stock amount includes 50 shares of Series B Preferred Stock held jointly by Mr. Rowland and his spouse. The above Series C Preferred Stock amount includes 20 shares of Series C Preferred Stock held jointly by Mr. Rowland and his spouse.
- (13) The above Common Stock amount includes 123,732 held by Mr. Sparks individually; 86,523 shares held by Sparks Investment Group, LP, and 18,880 shares held by the Sparks Foundation over which Mr. Sparks shares voting and investment power; 1,822 shares by Mr. Sparks' child, over which Mr. Sparks has shared voting and investment power; 20,268 shares held for the account of Mr. Sparks under the Company's Deferred Compensation Plan; and options to purchase 3,375 shares of Common Stock. The above Series B Preferred Stock amount includes 370 shares of Series B Preferred Stock held by Mr. Sparks individually and 100 shares of Series B Preferred Stock held by Sparks Investment Group, LP. The above Series C Preferred Stock amount includes 220 shares of Series C Preferred Stock held by Mr. Sparks individually, and 10 shares of Series C Preferred Stock held by Sparks Investment Group, LP.
- (14) The above Common Stock amount includes 65 shares held by Mr. Taylor individually; 2,621 shares held for the account of Mr. Taylor under the Company's 401(k) Plan and options to purchase 20,062 shares of Common Stock. The above Series B Preferred Stock amount includes 4 shares of Series B Preferred Stock held by Mr. Taylor individually. The above Series C Preferred Stock amount includes 4 shares of Series C Preferred Stock held by Mr. Taylor individually.
- (15) The above Common Stock amount includes 5,566 shares held by Mr. Hedges individually and 337 shares held jointly with his spouse; 1,472 shares held for the account of Mr. Hedges under the Company's 401(k) Plan; 6,001 shares held for the account of Mr. Hedges under the Company's Deferred Compensation Plan; and options to purchase 26,812 shares of Common Stock. The above Series B Preferred Stock amount includes 5 shares of Series B Preferred Stock held by Mr. Hedges individually, and 5 shares of Series B Preferred Stock held jointly by Mr. Hedges and his spouse. The above Series C Preferred Stock amount includes 5 shares of Series C Preferred Stock held by Mr. Hedges individually.
- (16) The above Common Stock amount includes 627 shares held by Mr. McRae individually; 2,178 shares held for the account of Mr. McRae under the Company's 401(k) Plan; 494 shares held for the account of Mr. McRae under the Company's Deferred Compensation Plan; 400 shares held for the account of Mr. McRae under an Individual Retirement Account and options to purchase 10,968 shares of Common Stock. The above Series B Preferred Stock amount includes 15 shares of Series B Preferred Stock held by Mr. McRae individually. The

above Series C Preferred Stock amount includes 2 shares of Series C Preferred Stock held by Mr. McRae individually.

- (17) The above amounts include additional shares for five executive officers not included in above table. The above Common Stock amount includes an aggregate of 157,578 shares obtainable upon the exercise of options.
- (18) Percentage is calculated on a partially diluted basis, assuming only the exercise of stock options which are exercisable within 60 days by each individual.
- (19) Percentage is calculated on a partially diluted basis, assuming only the exercise of stock options which are exercisable within 60 days by all director nominees, directors, named executive officers and other executive officers.
- (20) Percentage is calculated on a partially diluted basis, assuming only the exercise of stock options by such individual which are exercisable within 60 days, and the conversion of Series B Preferred Stock and Series C Preferred Stock held by such individual.
-

(21) Percentage is calculated on a partially diluted basis, assuming the exercise of all stock options which are exercisable within 60 days by all director nominees, directors, named executive officers and other executive officers; the conversion of 462,222 shares obtainable through the conversion of 2,007 shares of Series B Preferred Stock held by such individuals; and the conversion of 296,940 shares obtainable through the conversion of 1,205 shares of Series C Preferred Stock held by such individuals.

\* Less than 1%.

As of February 1, 2012, the Bank acted as sole or co-fiduciary with respect to trusts and other fiduciary accounts which own or hold 183,684 shares or 3.1% of the outstanding Common Stock of the Company, over which the Bank has sole voting and investment power with respect to 165,101 shares, or 2.7% of the outstanding Common Stock and shared voting and investment power with respect to 18,583 shares or 0.3% of the outstanding Common Stock.

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## PROPOSAL I - ELECTION OF DIRECTORS

The directors of the Company are divided into Classes I, II and III having staggered terms of three years. For this year's annual stockholders meeting, the Board of Directors has nominated for election as Class II directors, for a term expiring in 2015, Joseph R. Dively, William S. Rowland and Holly A. Bailey. Because Sara Jane Preston is retiring from the Board of Directors at the annual meeting, she was not nominated as a Class II director. Messrs. Dively and Rowland have served as directors of the Company since 2004 and 1991, respectively. Ms. Bailey is being nominated as Class II director for the first time in 2012. Ms. Bailey is the daughter of Charles A. Adams, a director of the Company. The three individuals receiving the highest number of votes cast will be elected as directors of the Company and will serve as Class II directors for a three-year term. Broker non-votes, because they are not considered votes cast, will not be counted in the vote totals. The Company has no knowledge that any of the nominees will refuse or be unable to serve, but if any of the nominees becomes unavailable for election, the holders of the proxies reserve the right to substitute another person of their choice as a nominee when voting at the meeting. Following Ms. Preston's retirement, the number of directors will be eight, comprised of two Class I directors, three Class II directors, and three Class III directors.

The following table sets forth as to each nominee and director continuing in office, his or her name, age, principal occupation and the year he or she first became a director of the Company. Unless otherwise indicated, the principal occupation listed for each person below has been his or her occupation for the past five years.

| Name                     | Age at March<br>16, 2012 | Principal Occupation   | Year First<br>Became<br>Director | Year<br>Term<br>Expires |
|--------------------------|--------------------------|--|----------------------------------|-------------------------|
| <b>DIRECTOR NOMINEES</b> |                          |  |                                  |                         |
| Joseph R. Dively         | 52                       | Senior Executive Vice President of the Company (since May 2011); President of the Bank (since May 2011); Senior Vice President of Consolidated Communications Holdings, Inc., a telecommunications holding company (2003-2011), and President of Illinois Telephone Operations, a local telecommunications provider (until 2008); Director of the Bank and the Company (since 2004); Director of Data Services (since 2009); Director of Insurance Group (since 2009). | 2004                             | 2012                    |
| Holly A. Bailey          | 41                       | President of Howell Asphalt Company and Executive Vice President of Howell Paving, Inc., a road construction company (since 2008); Vice President of Howell Asphalt Company and Vice President of Howell Paving (1997-2008).   | 2012                             | 2015                    |



|                       |    |  |      |      |
|-----------------------|----|--|------|------|
| William S.<br>Rowland | 65 | Chairman, President, Chief Executive Officer and Director of the Company (since 1999); Executive Vice President (1997-1999), Treasurer and Chief Financial Officer (1989-1999) of the Company; Director of Data Services (since 1989); Director (since 1999), Chairman (since 1999), and Executive Vice President (1989-1999) of the Bank; Director of Insurance Group (since 2002). | 1991 | 2012 |
|-----------------------|----|--|------|------|

The Board of Directors recommends a vote "FOR" the election of Directors Dively, Bailey and Rowland for a term of three years.

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| Name                                  | Age at March 16,<br>2012 | Principal Occupation   | Year First<br>Became<br>Director | Year<br>Term<br>Expires |
|---------------------------------------|--------------------------|--|----------------------------------|-------------------------|
| <b>DIRECTORS CONTINUING IN OFFICE</b> |                          |  |                                  |                         |
| Charles A. Adams                      | 70                       | President, Howell Paving, Inc., (since 1983); Director of the Bank (since 1989) and of the Company (since 1984); Director of Data Services (since 1987); Director of Insurance Group (since 2002).   | 1984                             | 2013                    |
| Ray Anthony Sparks                    | 55                       | Private investor (since 1997); former President of Elasco Agency Sales, Inc. and Electric Laboratories and Sales Corporation, a distributor of electrical supplies (until 1997); Director of the Bank (since 1997) and of the Company; Director of Data Services (since 1996); Director of Insurance Group (since 2002); Executive Director, Mattoon Area Family YMCA (since 2009).  | 1994                             | 2013                    |
| Benjamin I. Lumpkin                   | 39                       | Owner of Big Toe Press, LLC, a video content production company (since 2004); Member of the finance committee of SKL Investment Group, LLC, a private investment company (since 2000); Director of the Bank (since 2009) and of the Company (since 2009); Director of Data Services (since 2009); Director of Insurance Group (since 2009).  | 2009                             | 2013                    |
| Steven L. Grissom                     | 59                       | Administrative Officer of SKL Investment Group, LLC, a private investment company (since 1997); Director of the Bank and the Company (since 2000); Director of Data Services (since 2009); Director of Insurance Group (since 2009); Treasurer and Secretary of Consolidated Communications Holdings, Inc., and its predecessors, a telecommunications holding company (2003-2006); Treasurer of Illinois Consolidated Telephone Company, a local telecommunications provider (until 2006); Secretary of Illinois Consolidated Telephone Company, a local telecommunications provider (2003-2006). | 2000                             | 2014                    |

|                |    |   |      |      |
|----------------|----|---|------|------|
| Gary W. Melvin | 63 | President and Co-Owner, Rural King Farm & Home Supplies stores, a retail farm and home supply store chain (since 1979); Director of the Bank (since 1984) and of the Company; Director of Data Services (since 1987); Director of Insurance Group (since 2009). | 1990 | 2014 |
|----------------|----|---|------|------|

RETIRING DIRECTOR

|                   |    |   |      |      |
|-------------------|----|---|------|------|
| Sara Jane Preston | 71 | Director of the Bank (since 1999) and of the Company (since 2000); Director of Data Services (since 2009); Director of Insurance Group (since 2002); retired President and CEO of Charleston National Bank and the southern Illinois lending operations of its successor organizations (Boatmen's National Bank, NationsBank and BankAmerica)(1985-1998). | 2000 | 2012 |
|-------------------|----|---|------|------|

## CORPORATE GOVERNANCE MATTERS

### BOARD OF DIRECTORS

The Board of Directors concluded that except for Mr. Rowland and Mr. Dively, the members of the Board of Directors satisfy the independence requirements of the New York Stock Exchange. Although the Company's Common Stock and Preferred Stock are not listed on the New York Stock Exchange, the Company has elected to use its independence standards when determining the independence of the members of its Board of Directors. The Board of Directors has established an audit committee and a compensation committee. The Board of Directors has concluded that all current members of the audit committee satisfy the independence requirements of the New York Stock Exchange, as required by the charter of the audit committee. The Board of Directors has also concluded that all current members of the compensation committee satisfy the independence requirements of the New York Stock Exchange. The Board has also created other company-wide committees composed of officers of the Company and its subsidiaries.

A total of 12 regularly scheduled and special meetings were held by the Board of Directors during 2011. During 2011, all directors attended at least 75 percent of the meetings of the Board and the committees on which they served. All directors attended the 2011 Annual Meeting of Stockholders.

### BOARD DIRECTOR QUALIFICATIONS

The Board of Directors seeks to be composed of a diverse group of persons with a variety of experience, qualifications, attributes and skills that enable it to meet the governance needs of the Company. The Board of Directors consists of a group of individuals which have a mix of skills and knowledge in the areas of banking, finance, accounting and business. All members of the Board of Directors have an understanding of finance and accounting, are able to understand fundamental financial statements and generally accepted accounting principles and their application to the accounting of the Company. In addition, members of the Board of Directors are active in, and knowledgeable about, the local communities in which the Company operates. A number of the members of the Company's Board of Directors are also among the largest of the Company's shareholders.

Following is a description of each director's specific experience and qualifications that led the Board to conclude that the person should serve as a director for the Company.

Charles A. Adams has served as a director of the Company since 1984. Mr. Adams has a bachelor's degree in Economics from DePauw University and is the President and majority owner of his own company, Howell Paving, Inc., a road construction company (since 1983) which consists of the main entity as well as multiple subsidiaries. Through his entrepreneurial experiences within the communities served by the Company, Mr. Adams provides the Board of Directors with a strong and experienced perspective on local businesses. Mr. Adams is the father of Holly A. Bailey.

Holly A. Bailey is nominated to serve as a director of the Company beginning in May 2012. Ms. Bailey has a bachelor's degree in Economics from DePauw University and an MBA degree from Texas Christian University. She is the President of Howell Asphalt Company, Wabash Asphalt Company, Inc., General Contractors and Prosser Company, subsidiaries of Howell Paving, Inc., of which she is Executive Vice President (since 2008). She served as Vice President of Howell Asphalt Company and Vice President of Howell Paving from 1997 until 2008. Her leadership experience and the business knowledge gained in her work with these companies and her experiences within the communities served by the Company will assist the Board of Directors in various areas of its oversight. Ms.

Bailey is the daughter of Charles A. Adams.

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Joseph R. Dively has served as a director of the Company since 2004. Mr. Dively has a bachelor's degree in Business from Eastern Illinois University and has also completed a "Finance for Executives" program through the graduate school of business at the University of Chicago. Mr. Dively has held a variety of management positions in diverse business units which included financial statement responsibilities since 1991. He has served as Senior Executive Vice President of the Company and President of the Bank since May 2011. Prior to employment with the Company, Mr. Dively was Senior Vice President of Consolidated Communications Holdings, Inc., a publicly traded telecommunications holding company. Mr. Dively has also served on the boards of directors of several other companies and organizations where his duties included working with investors, executive teams and other board members. Mr. Dively's current and previous experiences also assist the Board of Directors in dealing with issues related to the Company's local communities and the Board of Directors also benefits from his perspective serving as a former executive officer of a publicly traded company.

Steven L. Grissom has served as a director of the Company since 2000 and has been determined by the Board of Directors to be an audit committee financial expert. Mr. Grissom has a bachelor's degree in Business with an Accounting major from Eastern Illinois University, and has passed the Certified Public Accountant ("CPA") and Personal Financial Specialist ("PFS") exams. He was employed by a regional CPA firm from 1974 to 1981 where his experience included review of internal control procedures and analysis of major financial transactions including evaluation of appropriate accounting treatment under generally accepted accounting principles. From 1981 to 2005, Mr. Grissom held various positions at Illinois Consolidated Telephone Company which included tax and treasury responsibilities. Mr. Grissom is currently the Administrative Officer of SKL Investment Group, LLC, a private investment company where his responsibilities include tax and accounting functions and evaluation of financial statements for various investment opportunities. These skills serve the Board of Directors in its assessment of complex financial and investment matters.

Benjamin I. Lumpkin has served as a director of the Company since 2009. Mr. Lumpkin has a bachelor's degree in History from Yale University and a Master's degree in Journalism from Northwestern University. He is the owner of Big Toe Press, LLC, a video content production company (since 2004). Mr. Lumpkin is a member of the finance committee of SKL Investment Group, LLC, a private investment company, and a trustee and Vice President of the Lumpkin Family Foundation, a 501(c)(3) organization, where his experience includes reviewing financial statements and other financial data. These experiences assist the Board of Directors in various aspects of its work. Also, by virtue of the significant stock ownership in the Company by Mr. Lumpkin and members of his immediate and extended family, Mr. Lumpkin represents a strong voice for stockholders in the Board of Directors' deliberations.

Gary W. Melvin has served as a director of the Company since 1990. Mr. Melvin has a bachelor's degree in Economics from Western Illinois University and for the past thirty years has been the president and majority owner of Rural King Farm & Home Supplies, Inc., a retail farm and home supply store chain where he is actively involved with management in all aspects of the business. Mr. Melvin's ownership and leadership role in an important local and regional retailer provides the Board of Directors with a knowledgeable and skilled local business outlook.

Sara Jane Preston has served as a director of the Company since 2000. Ms. Preston has taken relevant coursework and seminars at Eastern Illinois University, Lake Land College and various banking schools. She is the retired President and CEO of a community bank in the Company's community for over fifteen years and has a good understanding of the community and how banking impacts it. Ms. Preston served on the Board of Directors of the local hospital for over fifteen years, as well as several other community boards. Ms. Preston has also served on several committees for the Illinois Bankers Association. Ms. Preston's banking experience and knowledge assists the Board of Directors in all aspects of its work.

William S. Rowland has served as a director of the Company since 1991. Mr. Rowland has a bachelor's degree in Accounting from St. Ambrose University. He currently serves as Chairman of the Board and Chief Executive Officer of the Company (since 1999). He was previously Treasurer and Chief Financial Officer of the Company (1989-1999).

Prior to employment with the Company, Mr. Rowland was a CPA with the accounting firm KPMG, LLP. Mr. Rowland is and has been a member of several community boards, as well as the Illinois Bankers Association. As President and Chief Executive Officer of the Company, Mr. Rowland brings to the Board of Directors his substantial institutional knowledge regarding the Company, including its operations and strategies.

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Ray Anthony Sparks has served as a director of the Company since 1994. Mr. Sparks has a bachelor's degree in Business Administration with an accounting major from Millikin University and an MBA degree from Eastern Illinois University. He is the Executive Director of the Mattoon Area Family YMCA (since 2009) and a private investor (since 1997). He was President of Elasco Agency Sales, Inc. and Electric Laboratories and Sales Corporation, a distributor of electrical supplies until 1997. He has also served as a director and officer for various not-for-profit organizations in the community. Mr. Sparks has been a user of financial statements in these positions and has experience dealing with CPAs, investment bankers and attorneys. These experiences and his strong financial background assist the Board of Directors in all areas of its oversight.

#### BOARD LEADERSHIP

Mr. William S. Rowland serves as President and Chief Executive Officer and Chairman of the Board of the Company. The Board believes that this allows Mr. Rowland to have multiple perspectives about the Company and its operations while optimizing the ability of the Board members to communicate with Company management. In the Board's view, splitting the roles of Chief Executive Officer and Chairman of the Board could potentially have the consequence of making our management and governance processes less effective than they are today through undesirable duplication of work without any clear offsetting benefits. Also, because the members of the Board of Directors other than Mr. Rowland and Mr. Dively are independent, the knowledge of the Company that Mr. Rowland brings to the Board helps to enhance the Board's leadership of the Company. The Board does not have a lead independent director.

#### BOARD ROLE IN RISK OVERSIGHT

The Board oversees the risk management of the Company through its committees, management committees and the Chief Executive Officer. The Board's Audit Committee monitors risks related to (1) the effectiveness of the Company's disclosure controls and internal controls over financial reporting, (2) the integrity of its Consolidated Financial Statements and (3) compliance with laws and regulations, (4) risks and exposures relating to financial reporting, particularly disclosure and SEC reporting, (5) internal and independent auditors and (6) tax, investment, credit and liquidity matters. In addition, the Audit Committee oversees the internal audit function and communicates with the independent registered public accountant. The compensation committee is also involved in risk management through its review of risks in the Company's compensation policies and practices for employees. The Board's recognition of the importance of risk management oversight and their role in representing the interests of stockholders is enhanced as a result of the Board members' collective beneficial ownership of 39.8% of the outstanding shares of Common Stock of the Company.

At its monthly meetings, the Board receives the minutes from each management committee meeting as well as, various reports from key senior management, including the senior Risk Management officer. The Board reviews and discusses these reports with each of the senior managers. The Board reviews the status of all classified assets and trends in loan delinquency, and reviews the allowance for loan losses each quarter. In addition, three members of the Board serve on the senior loan committee each for a term of two years. The Senior Loan Committee approves all loan underwriting decisions in excess of \$2 million and up to 75% of the legal lending limit which was \$13.9 million at December 31, 2011. The Board of Directors approves all underwriting decisions in excess of 75% of the legal lending limit.

The Board also reviews the policies and practices of the Company on a regular basis. In addition, the Board reviews corporate strategies and objectives, evaluates business performance and reviews the annual business plan.



NOMINATIONS FOR DIRECTOR

The Company does not maintain a standing nominating committee and does not have any policies regarding diversity when identifying director nominees, however, the Company believes the diverse backgrounds and perspectives of its current directors, as described above under “Board Director Qualifications,” are appropriate to the oversight of the Company’s management team and performance. The entire Board performs the functions of a nominating committee, and considers and acts on all matters relating to the nomination of individuals for election as directors. The Board does not believe it needs a separate nominating committee because the Board has the time and resources to perform the function of selecting director nominees. Also, all but two of the directors satisfy the independence requirements of the New York Stock Exchange. The Board acts in accordance with the Company’s Certificate of Incorporation when it performs its nominating function.

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In the consideration of director nominees, the Board of Directors considers, at a minimum, the following factors for new directors, or the continued service of existing directors: (1) the ability of the prospective nominee to represent the interests of the stockholders of the Company; (2) the prospective nominee's standards of integrity, commitment and independence of thought and judgment; (3) the prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties; (4) the extent to which the prospective nominee contributes to the diversity of talent, skill and expertise appropriate for the Board; and (5) the prospective nominee's contributions to the Board of Directors as a whole.

Any stockholder who wishes to recommend a director candidate for consideration by the Board should submit such recommendation in writing to the Board at the address set forth below under "Communications with Directors." A candidate recommended for consideration must be highly qualified and must be willing and able to serve as director. Director candidates recommended by stockholders will receive the same consideration given to other candidates and will be evaluated against the criteria above.

#### NOTICE PROVISIONS FOR STOCKHOLDER NOMINATIONS OF DIRECTORS

Any stockholder wishing to nominate an individual for election as a director at the Annual Meeting must comply with certain provisions in the Company's Certificate of Incorporation. The Company's Certificate of Incorporation establishes an advance notice procedure with regard to the nomination, other than by or at the direction of the Board of Directors, of candidates for election as directors. If the notice is not timely and in proper form, the proposed nomination will not be considered at the Annual Meeting. Generally, such notice must be delivered to or mailed to and received by the Secretary of the Company not fewer than 14 days or more than 60 days before a meeting at which directors are to be elected. To be in proper form, each written nomination must set forth: (1) the name, age business address and, if known, the residence address of the nominee, (2) the principal occupation or employment of the nominee for the past five years, and (3) the number of shares of stock of the Company beneficially owned by the nominee and by the nominating stockholder. The stockholder must also comply with certain other provisions set forth in the Company's Certificate of Incorporation relating to the nomination of an individual for election as a director. For a copy of the Company's Certificate of Incorporation, which includes the provisions relating to the nomination of an individual for election as a director, an interested stockholder should contact the Secretary of the Company at 1421 Charleston Avenue, P.O. Box 499, Mattoon, Illinois 61938.

#### AUDIT COMMITTEE

The members of the audit committee of the Company during the fiscal year ended December 31, 2011 were Messrs. Adams, Diepholz (until April 2011), Dively (until April 2011), Grissom, Lumpkin, Melvin and Sparks, and Ms. Preston. The audit committee met 5 times in 2011. The audit committee assists the Board of Directors with the review of the Company's financial statements and the Company's compliance with applicable legal and regulatory requirements. Additionally, the audit committee appoints, and is directly responsible for the oversight of, the independent auditor, pre-approves all services performed for the Company by the independent auditor and oversees the Company's internal audit function. The audit committee may also retain independent legal, accounting or other advisors as it may deem necessary in order to carry out its duties.

The Board of Directors determined that each member of the audit committee satisfies the independence requirements of the New York Stock Exchange and the Federal Deposit Insurance Act. The Securities and Exchange Commission requires that boards of directors determine whether any audit committee member qualifies as an "audit committee financial expert." The Board of Directors determined that Steven L. Grissom is an audit committee financial expert.

The audit committee acts pursuant to a written charter that was reviewed and reassessed for adequacy and reaffirmed by the Board of Directors on January 24, 2012. A copy of the audit committee charter may be found on the Company's website at [www.firstmid.com](http://www.firstmid.com). The audit committee will continue to review and reassess the charter from time to time but not less than annually.

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## COMPENSATION COMMITTEE

The members of the compensation committee of the Company during the fiscal year ended December 31, 2011 were Messrs. Adams, Diepholz (until April 2011), Dively (until April 2011), Grissom, Lumpkin, Melvin and Sparks, and Ms. Preston. The compensation committee does not have a charter. The compensation committee met 4 times in 2011. The compensation committee reports to the Board of Directors and has responsibility for all matters related to compensation of executive officers of the Company, including reviewing and approving base salaries and annual bonuses, conducting a review of executive officers' salary, incentive compensation, retirement benefits and fringe benefits compared to other financial services companies in the region, and using its best judgment in determining that total executive compensation reflects the Company's mission, strategy and performance.

Additionally, the Board of directors, or if the Board so delegates, a sub-committee of the compensation committee, has responsibility for administering the stock incentive plans of the Company. For information about the role of the compensation committee with respect to executive compensation, see the "Compensation Discussion and Analysis" section of this proxy statement.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year ended December 31, 2011, Messrs. Hedges and Sparks served as directors, and Mr. Grissom served as President and director, of Mattoon Area Industrial Development Corporation, a not-for-profit industrial development corporation; Mr. Rowland served as director and Mr. Grissom served as director and compensation committee member of Coles Together, an economic development not-for-profit; and Mr. Sparks served as executive director and Mr. Rowland and Ms. Bailey served as board members of the Mattoon Area Family YMCA. See also "Certain Relationships and Related Transactions."

## COMMUNICATIONS WITH DIRECTORS

Any stockholder or other interested person may communicate with any director by sending written correspondence addressed to such director in care of the Secretary of the Company at First Mid-Illinois Bancshares, Inc., 1421 Charleston Avenue, Mattoon, Illinois 61938. The Secretary or the designee thereof will forward such correspondence to the relevant director.

The Company expects directors to attend the annual meeting, absent scheduling or other similar conflicts. All of the then current directors attended the Company's 2011 Annual Meeting of Stockholders.

## SECTION 16 - BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon its review of reports on Forms 3, 4 and 5 and any amendments furnished to the Company under Section 16 of the Securities Exchange Act of 1934, and written representations from the executive officers and directors that no other reports were required, the Company believes that all of these Forms were filed on a timely basis by reporting persons during the fiscal year ended December 31, 2011.



REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The audit committee reviewed and discussed with management the Company's audited financial statements as of and for the fiscal year ended December 31, 2011.

The audit committee also discussed with the independent auditors, BKD, LLP, the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The audit committee received the written disclosures and the letter from BKD, LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding BKD, LLP's communications with the audit committee concerning independence, and discussed with BKD, LLP the independence of that firm.

Based on the review and discussion referred to above, the audit committee recommended to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

This audit committee report is submitted by the audit committee of the Board of Directors:

|                              |                     |
|------------------------------|---------------------|
| Ray Anthony Sparks, Chairman | Steven L. Grissom   |
| Charles A. Adams             | Benjamin I. Lumpkin |
| Gary W. Melvin               | Sara Jane Preston   |

FEES OF INDEPENDENT AUDITORS

**Audit Fees.** The aggregate fees billed for professional services rendered by BKD, LLP for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2011 and 2010, the audit of the Company's internal control over financial reporting as of December 31, 2011 and 2010, and the review of the financial statements included in the Company's Quarterly Reports on Form 10-Q for 2011 and 2010 were \$192,000 and \$191,885 respectively.

**Audit-Related Fees.** The aggregate fees billed for professional services rendered by BKD, LLP for audit-related services for the fiscal years ended December 31, 2011 (namely, employee benefit plan audit) and 2010 (namely, acquisition related services and employee benefit plan audit) were \$18,546 and \$29,064 respectively.

**Tax Fees.** The aggregate fees billed for professional services rendered by BKD, LLP for the fiscal years ended December 31, 2011 and 2010 (namely preparation of consolidated tax return and tax advice) were \$26,105 and \$27,843 respectively.

**All Other Fees.** The aggregate fees billed for professional services rendered by BKD, LLP for the fiscal years ended December 31, 2011 (namely cost segregation study) and 2010 (namely forensic data mining) were \$41,543 and \$352 respectively.

The audit committee pre-approves all auditing services and permitted non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The audit committee pre-approved all services performed by the independent auditors in 2011.



### INDEPENDENT PUBLIC ACCOUNTANTS

BKD, LLP acted as independent certified public accountants of the Company and its subsidiaries for the fiscal years ending December 31, 2011 and 2010. BKD, LLP has served as the Company's independent auditors since July 26, 2005.

A representative from BKD, LLP is expected to be present at the annual meeting, will have the opportunity to make a statement and will be available to respond to appropriate questions. The Company has not yet appointed its independent auditors for the fiscal year ending December 31, 2012. The Company expects to appoint its independent auditors for 2012 at its March meeting of the Board of Directors.

### COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed with the Company's management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and, based on such review and discussion, the compensation committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

This compensation committee report is submitted by the compensation committee of the Board of Directors:

|                                  |                    |
|----------------------------------|--------------------|
| Benjamin I. Lumpkin,<br>Chairman | Ray Anthony Sparks |
| Charles A. Adams                 | Gary W. Melvin     |
| Steven L. Grissom                | Sara Jane Preston  |



## EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis explains the objectives and philosophy underlying the Company's executive compensation program and the material elements of the compensation paid to the Company's executive officers, including the executive officers named in the Summary Compensation Table of this proxy statement (the "named executive officers").

#### Executive Compensation Objectives

It is the policy of the Company to compensate its executives in a manner that is equitable and competitive based on their responsibilities, performance and market conditions. The Company's compensation objectives with respect to its named executive officers are to:

- Provide incentive to maximize stockholder value by aligning the executives' interests with those of the stockholders.
  - Enable the Company to attract and retain the best available executive talent.
    - Reward individual performance and contributions to the Company.

#### Setting Executive Compensation

The compensation committee attempts to meet these objectives by providing a mix of key compensation elements that include base salary, annual cash incentives and equity-based compensation. In setting aggregate compensation for each of the named executive officers, the compensation committee first establishes appropriate levels of base salary for the executives, and then establishes the opportunity for the executives to earn additional compensation through annual cash incentives and longer-term equity compensation. The amount of such additional compensation varies with position and, in the case of annual cash incentives, is also conditioned on attainment of both individual and corporate performance measures. The Company also provides retirement benefits, severance and change in control benefits, and a limited number of perquisites and other personal benefits in order to ensure a complete and competitive compensation plan.

The compensation committee uses the key elements of compensation to meet the objectives of its executive compensation program as follows:

Provide incentive to maximize stockholder value by aligning the executives' interests with those of the stockholders. In the past, the compensation committee has used stock options as a way to unify the interests of the executives and stockholders. Issuing options that have a 10 year term and incrementally vest over time, but only so long as the executive remains employed by the Company, encourages an executive to increase the Company's stock value over time. Due to financial performance of the Company in 2010 and 2009, however, the compensation committee did not grant any options to executives of the Company during these years. During 2011, the compensation committee approved an executive long term incentive plan pursuant to the Company's 2007 Stock Incentive Plan. The plan includes annual performance awards and cumulative performance awards that consist of restricted stock awards and restricted stock units. The compensation committee also bases a significant portion of an executive's cash incentive on attainment of certain corporate and individual performance metrics, which encourages the executive to work to increase the Company's profitability and in turn, its stock value.

The compensation committee believes that the components of the long term incentive plan more closely align key executive compensation with the Company's performance goals than the previously granted stock options. The long term incentive plan also includes single and multiple year goals which ensure that the executives are focused on longer term sustainability of earnings and growth in the book value of the Company. Lastly, the restricted stock and restricted stock units issued from the long term incentive plan awards offer less market risk for executives and less dilutive potential to the current owners of the Company's stock.

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Enable the Company to attract and retain the best available talent. In order to achieve this objective, the compensation committee believes it must pay compensation that is competitive. As described below, the compensation committee reviews and monitors the compensation paid by companies that are comparable to the Company to ensure that compensation packages are competitive.

Reward individual performance and contributions to the Company. The compensation committee's evaluation of the individual performance of each executive affects his or her compensation. Individual performance is an important factor in determining base salary, which in turn affects the amount of cash incentive compensation that can be earned. Individual performance is also a component of the cash incentive compensation and, when awarded, equity compensation.

The compensation committee makes all compensation decisions for the CEO and all other executive officers of the Company. The CEO annually reviews the performance of each executive officer (other than himself) and makes recommendations to the compensation committee. The compensation committee considers the CEO's recommendations when making its final compensation decisions for all executives other than the CEO. Although the compensation committee has the discretion to make all final decisions, the recommendation of the CEO is an important factor. The compensation committee believes that its ability to exercise discretion in setting the elements of compensation for its executives provides flexibility to establish appropriate overall compensation levels and achieve the Company's objectives.

#### Key Elements of Compensation

Each year the compensation committee reviews compensation data of the most highly paid executives of other comparable banking institutions. For 2011, the data consisted of a salary survey, prepared by the Company's human resources director, of publicly traded banks in non-urban markets in the upper Midwest who directly compete with the Company or who have market capitalization comparable to that of the Company. (The banks included in the 2011 analysis ranged in size from approximately \$1.1 billion to \$4.4 billion in assets). Because these institutions frequently recruit individuals for senior executive positions requiring similar skills and backgrounds to the individuals recruited by the Company, the compensation committee uses this information as a general guide in establishing the base salaries, cash incentives and equity compensation of the named executive officers. The compensation committee generally aligns compensation components with those used by the peer institutions and attempts to maintain a comparable level of total compensation (i.e., salary, annual cash incentives and equity compensation). However, the compensation committee does not rely solely on this information and does not benchmark its decisions regarding total compensation or elements of compensation to any particular percentile range of the comparator groups of companies.

In addition, the compensation committee considers each executive's current salary, his or her individual performance, the financial performance of the Company, the anticipated difficulty of replacing the executive with a person of comparable experience and skill and the recommendation of the CEO. The compensation committee also may periodically engage the services of independent consultants with knowledge and experience in such matters, although it did not do so for 2011.

#### Base Salary

Executives are paid an annual salary. The compensation committee reviews salaries annually in the beginning part of each year. Based on the guidelines and factors described above, the compensation committee in early 2011 concluded that adjustments to base salaries for certain named executive officers were necessary in order to keep compensation for named executive officers competitive. In addition to the factors noted above, the compensation committee considered the accomplishment level of individual goals set at the beginning of the year, the number of individuals the executive supervises and the strategic implications of the decisions the executive is required to make. The

compensation committee established the 2011 base salary for the named executive officers as follows (salary increases for the continuing named executive officers were effective as of February 1, 2011 and the salary for Mr. Dively was effective when he joined the Company in May 2011):

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| Executive   | 2011        | \$ Increase                 |
|-------------|-------------|-----------------------------|
|             | Salary Rate | from<br>2010 Salary<br>Rate |
| Mr. Rowland | \$325,000   | \$15,000                    |
| Mr. Taylor  | \$200,000   | \$5,000                     |
| Mr. Dively  | \$300,000   | --                          |
| Mr. Hedges  | \$210,000   | \$10,000                    |
| Mr. McRae   | \$185,000   | \$15,000                    |

Increases were based on individual performance during the previous year (if applicable), as well as the level of duties and responsibilities assumed by the individuals in their respective positions. The actual salaries paid to the named executive officers in 2011 are set forth in the "Salary" column of the Summary Compensation Table of this proxy statement.

#### Annual Cash Incentives

The named executive officers are eligible to participate in the Company's Incentive Compensation Plan ("the Plan"), which is designed to reward executives in increasing Company profitability and achieving individual accomplishments which create stockholder value. The Company reserves the right to require its executives to return all or a portion of incentive cash compensation paid in the event of an earnings restatement of previously issued financial statements.

In January 2011, the compensation committee determined the target cash incentive opportunity each named executive officer was entitled to receive as a percentage of his or her base salary rate in effect for 2011. This amount was based on individual performance during the previous year (if applicable), as well as the level of duties and responsibilities assumed by the individuals in their respective positions. Mr. Dively's target opportunity was set in April 2011 in connection with his commencement of employment. The percentage of salary payable as cash incentive was consistent with the amounts in each named executive officer's employment agreement.

Since successful execution of the Company's strategic plan requires that members of the executive management team work closely together (sometimes to the detriment of individual personal goals) and because senior management has the potential greatest influence on Company profitability, the compensation committee determined each executive's incentive opportunity for 2011 would continue to be based entirely on the Company's net income (exclusive of non-recurring costs associated with acquisitions).

The target cash incentive opportunity for each named executive officer established for 2011 was as follows:

| Executive   | % of Salary Payable as Cash Incentive |   | % of Cash Incentive Tied to Net Income |   |
|-------------|---------------------------------------|---|--|---|
|             | %                                     |   | %                                      |   |
| Mr. Rowland | 50                                    | % | 100                                    | % |
| Mr. Taylor  | 35                                    | % | 100                                    | % |
| Mr. Dively  | 50                                    | % | 100                                    | % |
| Mr. Hedges  | 35                                    | % | 100                                    | % |

Mr. McRae

35 % 100 %

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At the same time, the compensation committee established the net income target using the prior year's net income (adjusted for costs associated with acquisitions) as a starting point. In 2010, the Company's net income (adjusted for costs associated with acquisitions), was \$9.2 million. Using this as a base line, the compensation committee determined the following 2011 criteria:

|            | Performance  | Net Income     | Payout |   |
|------------|--|----------------|--------|---|
|            | Equal to previous year<br>(adjusted for acquisition costs) | \$9.2 million  | none   |   |
| Minimum:   |  |                |        |   |
| Threshold: | 10% increase   | \$10.2 million | 25     | % |
| Budget:    | 19% increase   | \$11.0 million | 60     | % |
| Superior:  | 37% increase   | \$12.7 million | 100    | % |

The compensation committee has the discretion to pay a prorated portion of the cash incentive opportunity for attainment of levels between minimum, threshold, budget and superior, or for attainment of levels above superior. Operations for 2011 resulted in net income of \$11.4 million. The compensation committee exercised its discretion to pay a pro rata amount to reflect attainment between the budget and superior levels, which, using straight-line interpolation, resulted in executives receiving 69% of their target bonus opportunity.

#### Equity Compensation

The compensation committee has historically granted long-term equity compensation in order to motivate executives to increase stockholder value over the long term and more closely link the financial interests of the Company's executives with those of its stockholders. Historically, the compensation committee paid selected named executive officers equity compensation in the form of stock options. The compensation committee believes that the stock options served their intended purposes as the profitability of the Company and the value of the Company's stock increased significantly through 2008. Due to the financial performance of the Company during 2009 and 2010, no options were awarded in these years. All options have a 10 year term and vest ratably over a four year period. The Company reserves the right to require its executives to return all or portion of compensation paid in the event of an earnings restatement of previously issued financial statements.

In September, 2011, the compensation committee approved the Executive Long-Term Incentive Program (LTIP), which provides a framework for granting awards of restricted stock and restricted stock units under the 2007 Stock Incentive Plan. The compensation committee believes that the components of the LTIP more closely align key executive compensation with the Company's performance goals than the previously granted stock options. The LTIP also includes single and multiple year goals which ensure that the executives are focused on longer term sustainability of earnings and growth in the value of the Company. The LTIP also gives the compensation committee the ability to change the types and weightings of the metrics used for the performance goals to which the awards are subject.

Under the LTIP for 2011, the compensation committee set an aggregate target value of the awards to be made to the executive. In determining these values, the compensation committee did not use a formulaic approach, but took into account historic grants, Company performance and individual levels of responsibility. The value of equity awarded to each executive is intended to be proportionate to the individual's responsibility to influence the strategic direction of the Company and create stockholder value. Of this target value, 50% was granted as an Annual Performance Award and 50% was granted as a Cumulative Performance Award. Each Award consists of restricted stock (50%) and restricted stock units (50%), except that Awards to retirement-eligible executives (which include Messrs. Rowland and Hedges) consist solely of restricted stock units (RSUs). The number of shares of restricted stock and RSUs subject to each Award is determined by dividing the target value by the closing price of the common stock on the date of grant.





The compensation committee also set performance goals to which each Award is subject. The target number of shares or RSUs subject to each of the Awards is adjusted by the compensation committee at the end of each applicable performance period. The Annual Performance Award has a one-year performance period, and the adjusted number of shares of restricted stock and RSUs vest 25% as of the end of the performance period and 25% on each of the next three anniversaries. If the goals for the Annual Performance Award are not met at threshold level and thus are 100% forfeited, the Annual Performance Award granted in the following year will be increased by the target number of shares subject to the forfeited Award. The Cumulative Performance Award has a three-year performance period, and the adjusted number of shares of restricted stock and RSUs vest as of such date. When the vested Award is settled, the restricted stock is settled in shares and the RSUs are settled in cash, except that RSUs held by retirement-eligible executives are settled half in shares and half in cash. Until an executive's Award vests or is forfeited, it is credited with dividends and/or dividend equivalents which are paid to the executive only to the extent the Award vests.

The awards granted to named executive officers in 2011 were as follows:

| Executive   | Percentage of Salary | Target Value | Target Number of Shares Subject to Award |                  |                               |                  |
|-------------|----------------------|--------------|--|------------------|-------------------------------|------------------|
|             |                      |              | Annual Performance Award                 |                  | Cumulative Performance Awards |                  |
|             |                      |              | Stock Award                              | Stock Unit Award | Stock Award                   | Stock Unit Award |
| Mr. Rowland | 30                   | % \$97,500   | --                                       | 1,304            | --                            | 1,303            |
| Mr. Taylor  | 15                   | % \$30,000   | 402                                      | 401              | 402                           | 401              |
| Mr. Dively  | 15                   | % \$45,000   | 602                                      | 602              | 602                           | 602              |
| Mr. Hedges  | 20                   | % \$42,000   | --                                       | 1,123            | --                            | 1,123            |
| Mr. McRae   | 13                   | % \$24,050   | 322                                      | 322              | 322                           | 322              |

At the same time, the compensation committee established the 2011 performance goals for the annual and cumulative periods based on historical and expected performance. These goals were established using two performance ratios: return on assets and book value per share. The compensation committee believes use of these ratios shifts the dependency of incentive compensation from the single measure of net income used in cash incentives and encourages growth and increased value for the Company's stockholders. Using those metrics, the compensation committee determined the following 2011 criteria:

| Performance Level                         | Annual Performance Award |   | Cumulative Performance Award |          |
|---|--------------------------|---|------------------------------|----------|
| Return on Assets (50% goal weighting)     |                          |   |                              |          |
| < Threshold                               | 0                        | % |                              |          |
| Threshold                                 | 70                       | % | 0.60                         | % 0.65   |
| Target                                    | 100                      | % | 0.75                         | % 0.80   |
| Maximum                                   | 125                      | % | 0.90                         | % 1.00   |
| Book Value per Share (50% goal weighting) |                          |   |                              |          |
| < Threshold                               | 0                        | % |                              |          |
| Threshold                                 | 70                       | % | \$ 14.71                     | \$ 15.26 |
| Target                                    | 100                      | % | \$ 14.90                     | \$ 15.96 |
| Maximum                                   | 125                      | % | \$ 15.06                     | \$ 16.56 |

For achievement of levels between threshold and target and between target and maximum, the percentages are adjusted on the basis of straight line interpolation. Fractional shares are rounded up.

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Operations for 2011 resulted in return on assets of 0.76% and book value per share of \$16.18, which, using a straight-line interpolation, resulted in executives receiving 113.3% of their Annual Performance Award. Executives were vested in 25% of the adjusted Award, which was settled 50% in shares and 50% in cash, and the remainder of the Award will vest 25% on December 31, 2012, December 31, 2013 and December 31, 2014. The actual level of performance for the Cumulative Performance Award will be determined as of December 31, 2013.

#### Retirement Plans

The Company sponsors various retirement plans that cover eligible employees, including certain named executive officers. The Company believes that these benefits are a valuable incentive for attracting and retaining top executives.

**401(k) Plan.** The Company's 401(k) plan is a tax-qualified retirement plan that covers all employees generally, including the named executive officers. An employee can elect to defer a percentage of his or her compensation on a pre-tax basis, up to a maximum in 2011 of \$16,500, or \$22,000 if age 50 or over, and the Company contributes a matching contribution of up to 2% of the employee's deferral contributions. The Company also provides a discretionary annual contribution equal to 4% of each eligible employee's compensation, whether or not the employee makes elective deferral contributions. (Amounts paid to the plan reflect the Internal Revenue Code's limit on the amount of compensation that can be taken into account in determining contributions, which was \$245,000 in 2011). The Company's contributions under the Plan on behalf of each named executive officer are included in the "All Other Compensation" column of the Summary Compensation Table of this proxy statement.

**Deferred Compensation Plan.** The Deferred Compensation Plan is a non-qualified retirement plan that covers selected employees, including the named executive officers. The plan provides higher paid employees with the opportunity to defer compensation in addition to compensation that can be deferred under the 401(k) plan. For each calendar year, each executive can defer a portion of his or her salary and cash incentive opportunity. The deferred amounts are invested in Company Common Stock and are paid to the executive in shares of Common Stock after termination of employment. The Company does not contribute to this plan. The Deferred Compensation Plan is described in greater detail in the "Non-Qualified Deferred Compensation" section of this proxy statement.

**Supplemental Executive Retirement Plan.** The Company provides supplemental retirement benefits to selected executives under its Supplemental Executive Retirement Plan (the "SERP"). To date, the Company has only extended participation in the SERP to individuals designated as CEO, and the current CEO is the only active participant in the SERP. The SERP, which is a non-qualified defined benefit pension plan, provides the CEO with an annual benefit of \$50,000 payable to him or his beneficiary for 20 years following his retirement at age 65 or later. (The Company maintains, and is the beneficiary of, a life insurance policy covering the CEO, which will continue past his retirement and could provide funding for this benefit.) The SERP is described in greater detail in the "Pension Benefits" section of this proxy statement.

#### Employment Agreements

The Company has employment agreements with certain of its executives, including each named executive officer. The agreements provide for a minimum base salary which cannot be reduced, and a maximum cash incentive opportunity. The agreements also provide for severance benefits upon certain terminations of employment. If the named executive officer's employment is terminated by the Company without cause, he or she is entitled to continued payment of base salary for 12 months and continued health coverage for the severance period. If following a change in control of the Company, either the named executive officer's employment is terminated by the Company without cause, or the named executive officer terminates his or her employment due to a reduction in base salary or a substantial diminution of his or her position or responsibilities, the named executive officer is entitled to continued payment of base salary for 12 months (24 months for Messrs. Rowland, Taylor, Dively and Hedges), a lump sum payment equal to the cash incentive paid for the prior year, and continued health coverage for 12 months. The

agreements contain restrictive covenants that prohibit the named executive officers from disclosing confidential information and from competing with the Company. The employment agreements are described in greater detail in the “Potential Payments Upon Termination or Change in Control of the Company” section of this proxy statement.

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In connection with entering into a new agreement with Mr. McRae on February 29, 2012 when his existing agreement terminated, some terms of the agreement were amended so that (i) he can terminate for good reason after a change in control and receive the severance benefits and (ii) the noncompete and nonsolicitation period has been shortened to one year. These amended provisions will also be added to new agreements with the other named executives as their existing agreements expire.

The compensation committee believes these severance benefits reflect market levels of benefits when they were negotiated and represent fair and appropriate consideration for the executive's agreement to the post-termination restrictive covenants. The Company believes that the protections afforded by the agreements are a valuable incentive for attracting and retaining top executives. The Company also believes that in the event of an extraordinary corporate transaction, the agreements could prove important to the Company's ability to retain top management through the transaction process and to provide motivation to the executives to act in the best interests of the Company and its stockholders before, during and after the transaction.

#### Perquisites and Other Benefits

The Company provides limited perquisites and other benefits to its executives. Messrs. Dively, Hedges and McRae have Company-owned automobiles agreements and Mr. Rowland receives a monthly auto allowance pursuant to their employment. The determination as to whether a Company-owned car is appropriate for an executive is based on the amount of business travel undertaken by the executive and the relative cost involved. The Company also pays for annual country club membership dues for Messrs. Rowland, Dively and Hedges. Because no named executive officer had perquisites that exceeded \$10,000 in the aggregate, they are not reported in the "All Other Compensation" column of the Summary Compensation Table of this proxy statement.

#### Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code limits the deductibility of executive compensation paid to the CEO and to each of the three other most highly compensated officers (other than the chief financial officer) of a public company to \$1 million per year, but contains an exception for "performance-based compensation." Annual salary, by its nature, does not qualify as performance-based compensation under Section 162(m), and the Company's annual cash incentive payments and 2011 grants of restricted stock and restricted stock units do not qualify as performance-based compensation. Stock options previously granted by the Company do qualify as performance based compensation. Due to the amounts and forms of compensation currently paid to the Company's executive officers, the tax deductibility of such compensation under Section 162(m) is not an important factor at this time in making compensation decisions.

#### Subsequent Compensation Decisions

At the 2011 Annual Meeting of Stockholders, the "Advisory Vote on Executive Compensation" proposal (the "say on pay" vote) received support from approximately 95% of the votes cast. The Board considered these results and, based on the overwhelming support from stockholders, determined to not make any major changes to the executive compensation plans and programs already in place for 2011 or for 2012.

## 2011 SUMMARY COMPENSATION TABLE

This table shows the compensation of the Company's Chief Executive Officer, Chief Financial Officer and the three other most highly-compensated executive officers of the Company (the "named executive officers") during the years ended December 31, 2011, 2010 and 2009.

| Name and Principal Position  | Year | Salary<br>(\$) | Stock Awards<br>(\$)(1) | Non-Equity Incentive Plan Compensation<br>(\$)(2) | Change in Pension Value & Nonqualified Deferred Compensation<br>Earnings<br>(\$) | All Other Compensation<br>(3) | Total<br>(\$) |
|--|------|----------------|-------------------------|---|--|-------------------------------|---------------|
| William S. Rowland<br>Chairman,<br>President &<br>Chief Executive Officer  | 2011 | 328,070        | 96,850                  | 112,125   | 62,242   | (3)                           | 613,987       |
|  | 2010 | 309,039        | -                       | 80,600  | 57,052   | (3)                           | 461,391       |
|  | 2009 | 310,385        | -                       | -   | 52,252   | (3)                           | 377,337       |
| Michael L. Taylor<br>Executive Vice President &<br>Chief Financial Officer | 2011 | 199,423        | 29,832                  | 48,300  | -  |                               | 291,025       |
|  | 2010 | 195,000        | -                       | 45,490  | -  |                               | 241,215       |
|  | 2009 | 169,615        | -                       | -   | -  |                               | 180,157       |
| Joseph R. Dively (5)<br>Senior Executive Vice President                    | 2011 | 190,384        | 44,729                  | 103,500   | -  |                               | 340,690       |
|  | 2010 | -              | -                       | -   | -  |                               | -             |
|  | 2009 | -              | -                       | -   | -  |                               | -             |
| John W. Hedges<br>Executive Vice President                                 | 2011 | 208,846        | 41,720                  | 50,715  | -  |                               | 313,886       |
|  | 2010 | 197,885        | -                       | 36,400  | -  |                               | 244,997       |
|  | 2009 | 184,269        | -                       | -   | -  |                               | 195,799       |
|  | 2011 | 185,074        | 23,925                  | 44,678  | -  |                               | 265,422       |
| Eric S. McRae<br>Vice President  | 2010 | 169,038        | -                       | 40,940  | -  |                               | 209,536       |
|  | 2009 | 164,762        | -                       | -   | -  |                               | 174,181       |

(1) Stock Awards. The amounts in this column represent the aggregate grant date fair value of stock awards and stock unit awards granted in 2011 in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. See Note 13 to the consolidated financial statements in the Company's 2011 Form 10-K for a description of the valuation.

(2) Non-Equity Incentive Plan Compensation. All amounts in this column are based on performance in 2011, 2010 and 2009 and reflect the amounts actually paid in February 2012, 2011 and 2010, respectively, under the Company's Incentive Compensation Plan. See "Cash Incentives" in the Compensation Discussion and Analysis section of the Proxy Statement for a discussion of this Plan. For 2009, there was no incentive compensation paid in February 2010

to any officer of the Company.

(3) Change in Pension Value and Nonqualified Deferred Compensation Earnings. The 2011 amount reflects the increase in the present value of Mr. Rowland's accumulated benefit under the Company's SERP from December 31, 2010 to December 31, 2011. The 2010 amount reflects the increase in the present value of Mr. Rowland's accumulated benefit under the Company's SERP from December 31, 2009 to December 31, 2010, and the 2009 amount reflects such increase from December 31, 2008 to December 31, 2009.

(4) All Other Compensation. These amounts represent the Company's contributions to its 401(k) Plan during 2011, 2010 and 2009 on behalf of each named executive officer. Because no named executive officer had perquisites that exceeded \$10,000 in the aggregate, they are not reported in the All Other Compensation Table.

(5) Mr. Dively joined the Company as Senior Executive Vice President in May 2011.

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Employment Agreements. The Company is a party to employment agreements with each of the named executive officers that provide for certain compensation and benefits during employment:

Mr. Rowland: The employment agreement with Mr. Rowland was renewed in 2010 and has a term through December 31, 2013 that can be extended upon mutual agreement and provides for (i) an initial base salary that can be increased but not decreased, (ii) a bonus under the Company's Incentive Compensation Plan of up to 50% of base salary, (iii) participation in the Company's SERP that provides an annual retirement benefit of \$50,000 upon retirement at age 65 or later, (iv) participation in the Company's Deferred Compensation Plan and 2007 Stock Incentive Plan, (v) a monthly auto allowance and payment of annual country club membership dues, and (vi) other benefits made available to Company executive or management employees.

Mr. Taylor: The employment agreement with Mr. Taylor was renewed in 2010 and has a term through December 31, 2012 that can be extended upon mutual agreement and provides for (i) an initial base salary that can be increased but not decreased, (ii) a bonus under the Company's Incentive Compensation Plan of up to 35% of base salary, (iii) participation in the Company's Deferred Compensation Plan, and (iv) other benefits made available to Company executives or management employees.

Mr. Dively: The employment agreement with Mr. Dively was entered into effective May 9, 2011 and has a term through December 31, 2014 that can be extended upon mutual agreement and provides for (i) an initial base salary that can be increased but not decreased, (ii) a bonus under the Company's Incentive Compensation Plan of up to 50% of base salary, (iii) participation in the Company's Deferred Compensation Plan and 2007 Stock Incentive Plan, (iv) use of a Company owned or leased automobile and payment of annual country club membership dues, and (v) other benefits made available to Company executive or management employees.

Mr. Hedges: The employment agreement with Mr. Hedges was renewed in 2011 and has a term through December 31, 2014 that can be extended upon mutual agreement and provides for (i) an initial base salary that can be increased but not decreased, (ii) a bonus under the Company's Incentive Compensation Plan of up to 35% of base salary, (iii) participation in the Company's Deferred Compensation Plan, (iv) use of a Company owned or leased automobile and payment of annual country club membership dues, and (v) other benefits made available to Company executive or management employees.

Mr. McRae: The employment agreement with Mr. McRae has a term through February 29, 2012 that can be extended upon mutual agreement and provides for (i) an initial base salary that can be increased but not decreased, (ii) a bonus under the Company's Incentive Compensation Plan of up to 35% of base salary, (iii) participation in the Company's Deferred Compensation Plan, (iv) use of a Company owned or leased automobile and (v) other benefits made available to Company executive or management employees.

On February 29, 2012 when his existing agreement terminated, Mr. McRae's employment agreement was renewed. The compensation provisions discussed above remain the same.

First Retirement and Savings Plan ("401k plan"). The Company has a tax-qualified defined contribution retirement plan that covers all employees generally and provides for a base contribution by the Company of 4% of compensation and a matching contribution by the Company of up to 50% of the first 4% of employee contributions.





## GRANTS OF PLAN-BASED AWARDS

This table sets forth information for each named executive officer with respect to estimated payouts under non-equity incentive plans during the year ended December 31, 2011.

| Name               | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1) |             |              | Estimated Future Payouts Under Equity Incentive Plan Awards(2) |            |             | Grant Date Fair Value of Stock Awards (\$) |
|--------------------|--|-------------|--------------|--|------------|-------------|--|
|                    | Threshold (\$)   | Target (\$) | Maximum (\$) | Threshold (#)  | Target (#) | Maximum (#) |  |
| William S. Rowland | 40,625   | 97,500      | 162,500      | 3,650  | 5,214      | 6,518       | 96,850                                     |
| Michael L. Taylor  | 17,500   | 42,000      | 70,000       | 1,124  | 1,606      | 2,008       | 29,832                                     |
| Joseph R. Dively   | 37,500   | 90,000      | 150,000      | 1,686  | 2,408      | 3,010       | 44,729                                     |
| John W. Hedges     | 18,375   | 44,100      | 73,500       | 1,572  | 2,246      | 2,808       | 41,720                                     |
| Eric S. McRae      | 16,188   | 38,850      | 64,750       | 902  | 1,288      | 1,610       | 23,925                                     |

- (1) Estimated Possible Payouts Under Non-Equity Incentive Plan Awards. Payouts under the Company's Incentive Compensation Plan were based on performance in 2011, which has now occurred. Thus, the information in the "Threshold," "Target" and "Maximum" columns reflect the range of potential payouts when the performance goals were set in January 2011. The amounts actually paid under the Company's Incentive Compensation Plan for 2011 appear in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table. A description of the plan can be found in the "Compensation Discussion and Analysis" section of this Proxy Statement.
- (2) Estimated Future Payouts Under Equity Incentive Plan Awards. The target amounts represent the number of shares of restricted stock and/or restricted stock units granted in 2011 under the 2007 Stock Incentive Plan as Annual Performance Awards (50% of the number) and Cumulative Performance Awards (50% of the number). The threshold and maximum amounts represent the potential adjustment to the target number of shares of restricted stock and/or restricted stock units that can result based on the level of attainment of performance goals for the applicable performance period. The Annual Performance Award had a one-year performance period that ended December 31, 2011, which resulted in an adjustment to one-half of the target number so that the named executive officers received 113.3% of the target number: Mr. Rowland: 2,955; Mr. Taylor: 910; Mr. Dively: 1,364; Mr. Hedges: 1,273; and Mr. McRae: 730. Of this adjusted Award, 25% vested as of December 31, 2011 and the remainder vests 25% of each of December 31, 2012, 2013 and 2014. The Cumulative Performance Award has a three year performance period that ends on December 31, 2013. A description of the Plan can be found in the "Compensation Discussion and Analysis" section of this Proxy Statement.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

This table sets forth the information for each named executive officer with respect to each grant of stock options outstanding as of December 31, 2011.

| Name               | Option Awards                                       |                   |                            |                        | Stock Awards   |   |
|--------------------|---|-------------------|----------------------------|------------------------|--|---|
|                    | Number of Securities Underlying Unexercised Options |                   |                            |                        | Equity Incentive Plan Awards                                   |   |
|                    | Exercisable (#)                                     | Unexercisable (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Unearned Shares or Units that have not Vested (#)(3) | Market Value of Unearned Shares or Units that have not Vested (\$)(4) |
| William S. Rowland | 18,000  | 0                 | 20.67                      | 12/16/13               |  |   |
|                    | 18,000  | 0                 | 27.33                      | 12/14/14               |  |   |
|                    | 3,750   | 1,250(1)          | 26.10                      | 12/11/17               |  |   |
|                    | 2,000   | 2,000(2)          | 23.00                      | 12/16/18               |  |   |
|                    |   |                   |                            |                        | 4,839  | 89,280  |
| Michael L. Taylor  | 5,062.5   | 0                 | 12.11                      | 12/16/12               |  |   |
|                    | 5,062.5   | 0                 | 20.67                      | 12/16/13               |  |   |
|                    | 5,062.5   | 0                 | 27.33                      | 12/14/14               |  |   |
|                    | 2,250   | 750(1)            | 26.10                      | 12/11/17               |  |   |
|                    | 1,250   | 1,250(2)          | 23.00                      | 12/16/18               |  |   |
|                    |   |                   |                            |                        | 1,489  | 27,472  |
| Joseph R. Dively   | 3,375   | 0                 | 27.33                      | 12/14/14               |  |   |
|                    |   |                   |                            |                        | 2,232  | 41,180  |
| John W. Hedges     | 7,312.5   | 0                 | 12.11                      | 12/16/12               |  |   |
|                    | 7,312.5   | 0                 | 20.67                      | 12/16/13               |  |   |
|                    | 7,312.5   | 0                 | 27.33                      | 12/14/14               |  |   |
|                    | 2,250   | 750(1)            | 26.10                      | 12/11/17               |  |   |
|                    | 1,250   | 1,250(2)          | 23.00                      | 12/16/18               |  |   |
|                    |   |                   |                            |                        | 2,084  | 38,450  |
| Eric S. McRae      | 843.75  | 0                 | 12.11                      | 12/16/12               |  |   |
|                    | 3,375   | 0                 | 20.67                      | 12/16/13               |  |   |
|                    | 3,375   | 0                 | 27.33                      | 12/14/14               |  |   |
|                    | 1,125   | 375(1)            | 26.10                      | 12/11/17               |  |   |
|                    | 1,250   | 1,250(2)          | 23.00                      | 12/16/18               |  |   |
|                    |   |                   |                            |                        | 1,196  | 22,066  |

(1) One-fourth of these options became fully exercisable on January 1, 2009, one-fourth became fully exercisable on January 1, 2010, one-fourth became fully exercisable on January 1, 2011 and one-fourth became fully exercisable on January 1, 2012.

(2) One-fourth of these options became fully exercisable on January 1, 2010, one-fourth became fully exercisable on January 1, 2011, one-fourth became fully exercisable on January 1, 2012 and one-fourth become fully exercisable on January 1, 2013.

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(3) The restricted stock and restricted stock units that are subject to Cumulative Stock Awards will vest at the end of a three year performance period (December 31, 2013). The restricted stock and restricted stock units that are subject to Annual Performance Awards were adjusted at the end of their one year performance period (December 31 2011) to reflect actual attainment of the performance goals, and 25% of the adjusted amount vested as of such date (and is not shown in this table), with the remainder vesting 25% on each of December 31, 2012, 2013 and 2014. If an executive terminates prior to the end of a performance period, he will forfeit his Award, unless such termination is due to termination on or after attaining age 66 (in which case he will vest in the target number) or termination due to death or disability (in which case he will vest in a pro rata portion of the target number). If an executive with an Annual Performance Award terminates after the performance period but prior to the end of the vesting period when he has attained age 66 or due to death or disability, he will vest in the remaining shares or units.

(4) The market rate is based on the closing price of the Company's stock on December 31, 2011 (\$18.45).

### OPTION EXERCISES AND STOCK VESTED

This table sets forth information relating to the exercise of stock options and the vesting of restricted stock and restricted stock units during 2011 by each named executive officer and the amount realized upon such exercise or vesting.

| Name               | Option Awards                             |                                     | Stock Awards                |  |
|--------------------|---|-------------------------------------|-----------------------------|--|
|                    | Number of Shares Acquired On Exercise (#) | Value Realized on Exercise (1) (\$) | Number of Shares Vested (#) | Value Realized when Shares Vested (2) (\$) |
| William S. Rowland | 0   | 0                                   | 739                         | 13,635                                     |
| Michael L. Taylor  | 3,797                                     | 28,496                              | 228                         | 4,207                                      |
| Joseph R. Dively   | 0   | 0                                   | 342                         | 6,310                                      |
| John W. Hedges     | 5,063                                     | 41,161                              | 318                         | 5,867                                      |
| Eric S. McRae      | 0   | 0                                   | 182                         | 3,358                                      |

(1) Represents the difference between the closing market price of the Common Stock at the date of exercise and the option exercise price, multiplied by the number of shares covered by the options exercised.

(2) Represents the number of shares vested on December 31, 2011 multiplied by the market value of the underlying shares on the vesting date.

### PENSION BENEFITS

This table sets forth information relating to the defined benefit pension benefits provided under the Company's SERP.

| Name | Plan Name | Number of Years Credited Service | Present Value of Accumulated Benefit (\$) | Payments During Last Fiscal Year (\$) |
|------|-----------|----------------------------------|---|---------------------------------------|
|------|-----------|----------------------------------|---|---------------------------------------|

|                    |      |    |     |         |     |   |
|--------------------|------|----|-----|---------|-----|---|
| William S. Rowland | SERP | 21 | (1) | 575,814 | (2) | 0 |
|--------------------|------|----|-----|---------|-----|---|

- (1) The number of years of service credited to Mr. Rowland under the SERP, computed as of December 31, 2011, which is the same measurement date used for financial statement reporting purposes in the Company's 2011 Form 10-K.
- (2) The actuarial present value of Mr. Rowland's accumulated benefits under the SERP, computed as of the same December 31, 2010 measurement date used for financial statement reporting purposes in the Company's 2011 Form 10-K. This number amount represents the present value of receiving \$50,000 per year (his current accrued benefit) for 20 years, beginning in March 2012 when Mr. Rowland attains age 65 and is entitled to begin receiving unreduced benefits. A discount rate of 6% was used to determine the present value.
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The SERP is a non-qualified pension plan that provides benefits to senior management employees recommended by the President of the Company and designated by the compensation committee. Mr. Rowland is the only employee who is currently eligible to participate in the SERP. The SERP provides for Mr. Rowland to receive an annual benefit of \$50,000 (payable in monthly installments) for a 20-year period following his termination of employment on or after age 65. The benefit accrues at a rate of 5% per year beginning with Mr. Rowland's date of hire, with a fully accrued benefit at age 63. As of December 31, 2011, Mr. Rowland had accrued a SERP benefit equal to \$50,000 per year.

Mr. Rowland can elect to receive the portion of his SERP benefit accrued prior to 2005 following his termination of employment and prior to age 65, in which case the accrued benefit will be reduced by 0.0083% for each month the benefit is paid prior to age 65. Mr. Rowland can also elect to defer payment of his entire benefit past retirement at age 65 or to have the benefit paid in a lump sum instead of monthly installments. Any elections must be made in accordance with the terms of the SERP.

In the event of Mr. Rowland's disability (as defined in the Plan), the full accrued benefit of \$50,000 per year will be paid for 20 years to Mr. Rowland, beginning at age 65. In the event of Mr. Rowland's death, benefits will be paid to a designated beneficiary as described in the SERP. Upon termination of the SERP, Mr. Rowland's full accrued benefit will be paid to him, in accordance with the distribution provisions of the SERP as discussed above.

The SERP contains provisions whereby Mr. Rowland forfeits any right to benefits if he is terminated for "cause" (as defined in the SERP), if during employment or the two-year period following employment he engages in competition with the Company or interferes with business relationships of the Company, or if he discloses confidential information about the Company.

#### NONQUALIFIED DEFERRED COMPENSATION

This table shows information regarding each named executive officer's account balance at December 31, 2011 under the Company's Deferred Compensation Plan ("DCP") including contributions and earnings credited to such account.

| Name               | Executive Contributions In Last FY<br>(\$)(1) | Registrant Contributions in Last FY<br>(\$) | Aggregate Earnings in Last FY<br>\$(2) | Aggregate Withdrawals/<br>Distributions<br>(\$) | Aggregate Balance at Last FYE<br>\$(3) |
|--------------------|---|---|--|---|--|
| William S. Rowland | 0   | 0   | 10,526                                 | 0   | 124,533                                |
| Michael L. Taylor  | 0   | 0   | 0                                      | 0   | 0                                      |
| Joseph R. Dively   | 11,250  | 0   | 11,198                                 | 0   | 141,367                                |
| John W. Hedges     | 0   | 0   | 9,358                                  | 0   | 110,714                                |
| Eric S. McRae      | 0   | 0   | 771                                    | 0   | 9,120                                  |

(1) The contribution reported in this column is not in the Summary Compensation Table. It represents a deferral by Mr. Dively of his director fees which were paid to him in 2011 until he became an employee of the Company.

(2) The earnings reported in this column are not reported on the Summary Compensation Table.

(3) The amounts in this column have previously been reported as compensation on the Summary Compensation Tables for prior years, except for the following amounts of earnings or deferrals included in the account balances: Mr. Rowland: \$71,166 (includes earnings and losses and deferrals of director fees which were not previously reported on the Summary Compensation Table); Mr. Dively: \$141,367 (includes earnings and losses

and deferrals of director fees which were not reported in the Summary Compensation Table); Mr. Hedges: \$15,468 (includes earnings and losses that were not previously reported in the Summary Compensation Table); Mr. McRae: \$899 (includes earnings that were not previously reported in the Summary Compensation Table).

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Non-Qualified Deferred Compensation. The DCP is a nonqualified defined contribution plan that covers certain eligible employees and directors, including the named executive officers. For each calendar year, the named executive officers can defer 5%, 10% or 15% of their base salary and/or 25% increments of their cash incentive compensation, and non-employee directors can elect to defer their director fees. The deferred amounts are deposited into a rabbi trust and credited to a DCP account established for the participant as soon as practicable after the date they would otherwise have been paid to the participant. Such amounts are invested in the Northern Institutional Prime Obligation Fund #887 until the next quarterly window trading period established by the Company, at which point each participant's account balance is invested in shares of Common Stock of the Company. Dividends paid on Common Stock are credited to the participant's DCP account and invested in additional shares. The Northern Institutional Prime Obligation Fund #887 had an annual return for 2011 of .02%. The Company's Common Stock had an annual return for 2011 of 9.16%.

A participant is 100% vested in his or her DCP account at all times. A participant's DCP account is paid to him or her in five annual installments beginning on the March 15 following the date the participant terminates employment, provided that the Board in its sole discretion can decide to pay the portion of the DCP account earned as of December 31, 2004 in a lump sum payment. An participant may also request at any time a distribution from the DCP account of an amount necessary to satisfy an unforeseeable emergency. In the case of the death of a participant, the DCP account will be paid to his or her designated beneficiary in a single payment. Upon a Change in Control of the Company (as defined in the Plan), each participant's DCP account will be paid in an immediate lump sum. All distributions are in full shares of Common Stock, and cash for fractional shares.

#### POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL OF THE COMPANY

The Company provides certain benefits to eligible employees, including the named executive officers, upon certain terminations of employment or a change in control of the Company. These benefits are in addition to the benefits to which the executive would be entitled upon a termination of employment generally (i.e., vested retirement benefits accrued as of the date of termination, stock-based awards that are vested as of the date of termination and the right to elect continued health coverage pursuant to COBRA).

#### Employment Agreements

The employment agreements with the named executive officers provide benefits to them upon certain types of termination of employment during the term of the agreement. The incremental benefits payable to the named executive officers in effect at December 31, 2011 include the following:

- If the executive's employment is terminated by the Company for other than "cause" (and a Change in Control of the Company has not occurred), the executive is entitled to the following:
  - (i) Continued payment of the executive's then current base salary for 12 months.
  - (ii) Continued coverage of the executive under the Company's health plan for the 12 month severance period at active employee rates if the executive elects COBRA (the full COBRA rate applies for the remainder of the COBRA period and with respect to coverage for the executive's spouse and dependents).
- If following a Change in Control of the Company (as defined in the 2007 Stock Incentive Plan), the executive's employment is terminated by the Company for other than "cause," or the executive terminates his or her employment because of a decrease in his or her then current salary or a substantial diminution in his or her position and responsibilities, the executive is entitled to the following:

- (i) For Messrs. Rowland, Taylor, Dively and Hedges, payment equal to two times the executive's then current base annual salary. For Mr. McRae, continued salary for one year.
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- (ii) An immediate lump sum payment equal to the incentive compensation earned by or paid to the executive for the immediately preceding fiscal year.
- (iii) Continued coverage of the executive under the Company's health plan for the first 12 months following termination at active employee rates if the executive elects COBRA (the full COBRA rate applies for the remainder of the COBRA period and with respect to coverage for the executive's spouse and dependents).

"Cause" means the executive's (i) conviction (or guilty or no contest plea) for a felony or any crime involving fraud, dishonesty or breach of trust; (ii) performance that would materially and adversely affect the Company's business; (iii) act or omission that results in a regulatory body to demand the executive to be suspended or removed; (iv) substantial nonperformance of his or her duties; (v) misappropriation or intentional material damage to the Company's property or business; or (vi) violation of the agreement's restrictions with respect to confidential information, noncompetition and nonsolicitation.

The agreements contain restrictive covenants that prohibit the executive from (i) disclosing confidential information; (ii) becoming involved with a business similar to that of the Company within any county in which the Company conducts business; and (iii) soliciting for sale or selling competing products or services to any person or entity who was a customer or client of the Company during the last two years of the executive's employment (or during the last year in the case of named executive officers other than Mr. Rowland, Mr. Dively or Mr. Hedges). The restrictive covenants regarding confidential information are indefinite, and the restrictive covenants regarding noncompetition and nonsolicitation continue in effect for two years following the executive's termination of employment or the end of the term of the agreement (or one year for named executive officers other than Mr. Rowland, Mr. Dively or Mr. Hedges).

#### 2007 Stock Incentive Plan

The stock option agreements that set forth the terms and conditions of stock options provide that upon a termination of employment for any reason other than death, disability or retirement, an executive's outstanding and then vested stock options can be exercised for three months following termination, and upon a termination of employment due to death, disability or retirement (as defined in the Plan) an executive's outstanding and then vested stock options can be exercised for 12 months following such termination.

The agreements that set forth the terms and conditions of the restricted stock awards and restricted stock unit awards provide that an executive will not become vested in any restricted stock or restricted stock units if the executive does not remain continuously employed from the grant date until the last day of the applicable performance period, except that upon a voluntary termination of employment due to termination after attaining age 66, an executive will vest in the target number of outstanding shares or units and upon a termination of employment due to death or disability (as defined in the Plan), an executive will vest in a pro rata portion of the target number of outstanding shares. If an executive with an Annual Performance Award terminates after the end of the one-year performance period but prior to the end of the vesting period when he has attained age 66 or due to death or disability, he will vest in the remaining shares or units subject to the Award.

Upon a Change in Control of the Company (as defined in the Plan), the Plan provides that all outstanding stock option awards will become fully vested and exercisable and all restricted stock and stock units will full vest at the target or higher level as determined by the compensation committee.

#### 2011 Potential Severance Payments

The table set forth below quantifies the additional benefits as described above that would be paid to each named executive officer, assuming a Change in Control of the Company occurred and the executives subsequently become eligible for benefits following a termination of employment on December 31, 2011.

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| Change in Control                              |                    |                   |                  |                |               |
|--|--------------------|-------------------|------------------|----------------|---------------|
| Name:  | William S. Rowland | Michael L. Taylor | Joseph R. Dively | John W. Hedges | Eric S. McRae |
| Base Salary:                                   | \$650,000          | \$400,000         | \$600,000        | \$420,000      | \$185,000     |
| Incentive Compensation(1):                     | \$80,600           | \$45,490          | \$0              | \$36,400       | \$40,940      |
| Continued Health Coverage(2):                  | \$4,017            | \$4,017           | \$4,017          | \$4,017        | \$4,017       |
| Value of Vesting of Unvested Stock Options(3): | \$0                | \$0               | \$0              | \$0            | \$0           |
| Value of Vesting of Unvested Stock Awards(4):  | \$82,564           | \$25,424          | \$38,118         | \$35,572       | \$20,406      |
| No Change in Control                           |                    |                   |                  |                |               |
| One Time Base Salary:                          | \$325,000          | \$200,000         | \$300,000        | \$210,000      | \$185,000     |
| Continued Health Coverage(5)                   | \$4,017            | \$4,017           | \$4,017          | \$4,017        | \$4,017       |

(1) Represents an amount equal to incentive compensation (cash and equity) earned by executive in 2011.

(2) Represents the Company's portion of premiums paid for the executive's coverage during the applicable severance period.

(3) The value of the options that vest upon a change in control occurring on December 31, 2011 is based on the difference between the applicable exercise price and the closing market price of the Common Stock on December 31, 2011 (\$18.45). As of December 31, 2011, none of the unvested options had an exercise price lower than \$18.45.

(4) The value of the stock and stock unit awards that vest upon a change in control is calculated based on the target number of outstanding shares and/or units multiplied by the closing price of the Company's Common Stock on December 31, 2011.

(5) Represents the Company's portion of premiums paid for the executive's coverage during the 12-month severance period.

## DIRECTOR COMPENSATION

Non-employee directors of the Company received a \$4,000 quarterly retainer for the first quarter of 2011 and a \$4,500 quarterly retainer for each remaining calendar quarter for their services in 2011. Directors of the Company were not granted any form of stock-based compensation in 2011. Non-employee directors can also elect to receive health coverage under the Company's group health plan, in which case the Company pays all of the required premiums.

Audit committee members received \$500 for each audit committee meeting attended in 2011. The audit committee chairman also received a \$2,000 annual retainer and the audit committee financial expert received a \$1,500 annual retainer in 2011.

Compensation committee members received \$250 for each compensation committee meeting attended in 2011 and the compensation committee chairman also received a \$1,000 annual retainer.

Members of the senior loan committee received \$500 for each senior loan committee meeting attended in 2011.

Non-employee directors who also served on the board of directors of the Bank received a \$1,500 quarterly retainer fee for such services in 2011. Non-employee directors who also served on the board of directors of Data Services or Insurance Group each received \$250 per meeting attended in 2011.

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This table shows all compensation provided to each non-employee director of the Company for the year ended December 31, 2011.

|                     | Fees<br>Earned Or<br>Paid in<br>Cash<br>(\$) |     | Portion of<br>Fees<br>Deferred<br>(\$) | Option<br>Awards<br>\$(9) | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|---------------------|--|-----|--|---------------------------|-----------------------------------|---------------|
| Charles A. Adams    | 26,750                                       | (1) | 26,750                                 | 0                         | 0                                 | 26,750        |
| Kenneth R. Diepholz | 12,250                                       | (2) | 0                                      | 0                         | 0                                 | 12,250        |
| Joseph R. Dively    | 11,250                                       | (3) | 11,250                                 | 0                         | 0                                 | 11,250        |
| Steven L. Grissom   | 32,450                                       | (4) | 0                                      | 0                         | 0                                 | 32,450        |
| Benjamin I. Lumpkin | 27,250                                       | (5) | 0                                      | 0                         | 0                                 | 27,250        |
| Gary W. Melvin      | 29,750                                       | (6) | 0                                      | 0                         | 0                                 | 29,750        |
| Sara Jane Preston   | 29,750                                       | (7) | 0                                      | 0                         | 0                                 | 29,750        |
| Ray Anthony Sparks  | 29,000                                       | (8) | 0                                      | 0                         | 0                                 | 29,000        |

(1) This amount represents the compensation earned for serving as a director of the Company, the Bank, Data Services and Insurance Group of \$17,500, \$5,500, \$250 and \$0, respectively, and for serving as a member of the audit committee and the compensation committee of \$2,500 and \$1,000 respectively.

(2) This amount represents the compensation earned for service as a director of the Company and the Bank, Data Services and Insurance Group of \$9,500, \$2,000, \$0 and \$0, respectively, and for serving as a member of the audit committee and the compensation committee of \$500 and \$250, respectively, and for serving as the compensation committee chairman of \$1,000. Mr. Diepholz retired in April 2011.

(3) This amount represents the compensation earned for serving as a director of the Company and the Bank, Data Services and Insurance Group of \$8,500, \$2,000, \$0 and \$0 respectively, and for serving as a member of the audit committee and the compensation committee of \$500 and \$250, respectively. Effective May 2011, Mr. Dively became an employee of the Company and was no longer eligible to receive compensation for serving as a director.

(4) This amount represents the compensation earned for serving as a director of the Company and the Bank, Data Services and Insurance Group of \$17,500, \$6,000, \$250 and \$0 respectively, for serving as a member of the audit committee, the compensation committee and the senior loan committee of \$2,500, \$1,000 and \$2,500, respectively, and for serving as the audit committee financial expert of \$1,500. Mr. Grissom also received \$100 per meeting attended as a member of the trust investment committee. He received a total of \$1,200 for attending 12 of the 12 meetings held in 2011.

(5) This amount represents the compensation earned for serving as a director of the Company, the Bank, Data Services and Insurance Group of \$17,500, \$6,000, \$250 and \$0 respectively, and for serving as a member of the audit committee and the compensation committee of \$2,500 and \$1,000, respectively.

(6) This amount represents the compensation earned for serving as a director of the Company, the Bank, Data Services and Insurance Group of \$17,500, \$6,000, \$250 and \$0 respectively, for serving as a member of the audit committee, the compensation committee and the senior loan committee of \$2,500, \$1,000 and \$2,500, respectively.

(7) This amount represents the compensation earned for serving as a director of the Company, the Bank, Data Services and Insurance Group of \$17,500, \$6,000, \$250 and \$0 respectively, for serving as a member of the audit committee, the compensation committee and the senior loan committee of \$2,500, \$1,000 and \$2,500, respectively.

(8) This amount represents the compensation earned for serving as a director of the Company, the Bank, Data Services, and Insurance Group of \$17,500, \$6,000, \$250 and \$0, respectively, for serving as a member of the audit committee and the compensation committee of \$2,500 and \$1,000, respectively, and for serving as the audit committee chairman of \$2,000.

(9) No options were granted to non-employee directors in 2011. All outstanding options are vested. The number of options held by each non-employee director is contained in the footnotes to the stock ownership table on page 2 of this proxy statement.

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## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Various Company policies and procedures, which are generally in writing and which include the Code of Ethics for Senior Financial Management and the Code of Conduct for all employees, annual questionnaires completed by all Company directors and executive officers, and regulatory compliance requirements (including Regulation O, which restricts loans by the Bank to directors, executive officers, principal stockholders and their affiliates and requires approval by the Board of Directors of the Bank for certain such loans), identify to the Company transactions or relationships that may constitute conflicts of interest or otherwise require disclosure under applicable SEC rules. Although the Company's processes vary with the particular transaction or relationship, when such a transaction or relationship is identified, the Board of Directors of the Company or the Bank, or the appropriate committee of the Board of Directors, evaluates the transaction or relationship and approves or ratifies it (without the vote of any interested person) only if it is judged to be fair and in the best interests of the Company. In addition, it is the practice of the Board of Directors of the Company, although not part of a written policy, to review each of the transactions specifically disclosed as a related person transaction in connection with its review of the proxy statement for the annual meeting of stockholders, to the extent any such transaction has not previously been reviewed, applying the same standard. All of the transactions described below were considered and approved or ratified by the Board of Directors of the Company or the Bank, or the appropriate committee of the Board.

Directors, executive officers, principal stockholders, members of their immediate families, and entities in which one or more of them have a material interest had extensions of credit from the Bank during 2011. All such extensions of credit were on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated persons, and did not involve more than the normal risk of collectability or present other unfavorable features. In addition, directors, executive officers, principal stockholders, members of their immediate families and entities in which one or more of them have a material interest obtained in 2011, and may in the future be expected to obtain, depositary or other banking services, trust, custody or investment management services, individual retirement account services or insurance brokerage services from the Company and its subsidiaries, on terms no less favorable to the Company and its subsidiaries than those prevailing at the time for comparable transactions involving persons unrelated to the Company.

Consolidated Communications Holdings, Inc. and its affiliates provided paging, mobile, long distance/800 and private line services, voice mail, customer premise equipment services and repair services to the Company in the amount of \$531,917. With regard to Consolidated Communications Holdings, Inc., Mr. Grissom has an indirect beneficial ownership, as co-trustee of certain trusts, of .8% of its outstanding voting stock, and until April 2011, Mr. Dively was Senior Vice President and beneficial owner of less than 1% of its outstanding voting stock. Additionally, Mr. Benjamin Lumpkin's father, Richard A. Lumpkin, is Chairman of the Board of Directors of Consolidated Communications Holdings and also may be deemed to have beneficial ownership of approximately 6.7% of Consolidated Communications Holdings' outstanding voting stock. Beginning in February 2011, the Bank entered into a sublease agreement with Illinois Consolidated Telephone Company, a subsidiary of Consolidated Communications Holdings, Inc. The lease was for a term of six months and included approximately 6,826 square feet of office space located in Mattoon, Illinois. The monthly rent for this lease was \$9,670. In July 2011, the Company purchased this building for a purchase price of \$2,400,000.

In 2009, the Company sold Series B Preferred Stock, offered at \$5,000 per share, in a private placement offering. In addition, in 2011, the Company sold Series C Preferred Stock, offered at \$5,000 per share, in a private placement offering. Purchasers of the Company's Preferred Stock included directors, executive officers, principal stockholders, members of their immediate families, and entities in which one or more of them have a material interest.



In addition to those sales of Preferred Stock disclosed in the table and footnotes thereto under "Voting Securities and Principal Holders Thereof," the Company also sold Preferred Stock to the following related parties:

| Name of Individual or Entity and Relation to the Company | Shares of Series C Preferred Stock Purchased |
|--|--|
| Linda K. Adams, spouse of director Mr. Adams             | 125  |
| Alex Melvin, son of director Mr. Melvin                  | 203  |
| David Melvin, son of director Mr. Melvin                 | 203  |
| Laura A. Voyles, daughter of director Mr. Melvin         | 203  |
| Debra A. Sparks, spouse of director Mr. Sparks           | 70   |
| Teresa A. Grissom, spouse of director Mr. Grissom        | 80   |

As previously disclosed in the Company's Current Report on Form 8-K dated November 21, 2011, \$19,250,000 of the Series C Preferred Stock had been issued and sold by the Company to certain investors as of May 13, 2011. The remaining investors that have not yet been issued the Series C Preferred Stock are (a) individuals who are members of the Lumpkin family, including Benjamin I. Lumpkin, a director of the Company, and (b) entities controlled by, and trusts created for the benefit of, individuals who are members of the Lumpkin family (collectively, the "Remaining Investors"). The Company has previously accepted from the Remaining Investors subscriptions for \$8,250,000 of the Series C Preferred Stock pursuant to their respective subscription agreements. The Remaining Investors have not yet been issued the Series C Preferred Stock subscribed for because of unanticipated delays in applying for and obtaining the approval of the Federal Reserve Board, which the Remaining Investors must secure to be issued their shares of Series C Preferred Stock.

Pursuant to the terms of the Series C Preferred Stock, the Series C Preferred Stock is both redeemable and mandatorily convertible at the Company's discretion into Common Stock of the Company, subject to certain conditions being met, no earlier than 60 months following the date on which a majority of the Series C Preferred Stock has been issued. The date on which a majority of the Series C Preferred Stock became issued was May 13, 2011 (the "Majority Issuance Date"). As a result of the Remaining Investors not being issued their subscribed for shares of Series C Preferred Stock by the Majority Issuance Date, it is possible that, if certain conditions are met, the Company could redeem or mandatorily convert the Series C Preferred Stock into Common Stock of the Company prior to the Remaining Investors holding their subscribed shares of Series C Preferred Stock for 60 months, thus resulting in the Remaining Investors receiving less than 60 months of 8% dividends on the Series C Preferred Stock subscribed for.

The disinterested members of the Board of Directors of the Company, which does not include Benjamin I. Lumpkin and Steve L. Grissom, approved and authorized, and the Remaining Investors agreed to, certain amendments to the subscription agreements for the Remaining Investors resulting in the release to the Company of the funds escrowed by the Remaining Investors for their subscribed shares of the Series C Preferred Stock and, in lieu thereof, the issuance by the Company of short-term unsecured promissory notes to the Remaining Investors (the "Notes"). On November 21, 2011, the Company and the Remaining Investors agreed to the release of the escrowed funds in exchange for the Notes, which are dated November 21, 2011. The Notes collectively have an aggregate principal amount of \$8,250,000 and each have an 8% annual interest rate. Each Note also contains a prepayment provision applicable when approval from the Federal Reserve Board is received to allow a Remaining Investor to purchase the shares of Series C Preferred Stock originally subscribed for such that the Remaining Investor may use the funds represented by the Notes to purchase the subscribed for shares of the Series C Preferred Stock. Additionally, if the Company experiences an Event

of Default as defined in the Note, such as becoming insolvent or generally failing to pay its debts as they become due, then a Remaining Investor may, at his, her or its option, declare the entire unpaid amount of the Note immediately due and payable, without presentment, demand, portents or notice of any kind, and the Remaining Investor shall be entitled to recover from the Company all costs and expenses, including reasonable attorneys' fees and disbursements and court costs, incurred in enforcing the Remaining Investor's rights under the Note.

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Under a stock repurchase program previously authorized by the Board of Directors, the Company can repurchase shares of its Common Stock from time to time either in the open market or in private transactions in accordance with applicable securities laws. Pursuant to this stock repurchase program, the Company may repurchase shares of the Company's Common Stock from, among others, certain directors, executive officers and greater than 5% beneficial owners of the Company's Common Stock, and certain members of immediate family of the foregoing persons.

During 2011, the Company repurchased the following shares of Common Stock from the following former director and executive officers:

| Director or<br>Executive Officer | Shares | Aggregate<br>Consideration |
|----------------------------------|--------|----------------------------|
| Kenneth R. Diepholz              | 22,842 | \$ 433,998                 |
| Michael L. Taylor                | 3,797  | \$ 70,245                  |
| John W. Hedges                   | 3,669  | \$ 67,987                  |

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#### INCLUSION OF STOCKHOLDER PROPOSALS IN PROXY MATERIALS

In order to be eligible for inclusion in the Company's proxy materials for next year's Annual Meeting of Stockholders, any stockholder proposal to take action at such meeting must be received at the Company's main office at 1421 Charleston Avenue, P.O. Box 499, Mattoon, Illinois 61938, no later than November 16, 2012. Any such proposal shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934.

#### OTHER MATTERS

The Board of Directors of the Company does not intend to present any other matters for action at the annual meeting, and the Board has not been informed that other persons intend to present any other matters for action at the annual meeting. However, if any other matters should properly come before the annual meeting, the persons named in the accompanying proxy intend to vote thereon, pursuant to the proxy, in accordance with the recommendation of the Board of Directors of the Company.

#### BY ORDER OF THE BOARD OF DIRECTORS

William S. Rowland  
Chairman and Chief Executive Officer

Mattoon, Illinois  
March 16, 2012

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PROXY CARD