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FIRST MERCHANTS CORP
Form 8-K
April 22, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

DATE OF REPORT (Date of earliest event reported): April 22, 2008

FIRST MERCHANTS CORPORATION
(Exact name of registrant as specified in its charter)

INDIANA	0-17071	35-1544218
(State or other jurisdiction of incorporation)	(Commission file number)	(IRS Employer Identification No.)

200 East Jackson Street
P.O. Box 792
Muncie, IN 47305-2814
(Address of principal executive offices, including zip code)

(765) 747-1500
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On January 23, 2008, First Merchants Corporation issued a press release to report its financial results for the fourth quarter ended December 31, 2007. A

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copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Current Report on Form 8-K, including Exhibit No. 99.1 hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section. The information in this Current Report shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

- (a) Not applicable.
- (b) Not applicable.
- (c) Exhibits.

Exhibit 99.1 Press Release, dated January 23, 2008, issued by
First Merchants Corporation

SIGNATURES

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

First Merchants Corporation
(Registrant)

By: /s/ Mark K. Hardwick

Mark K. Hardwick
Executive Vice President and
Chief Financial Officer
(Principal Financial and
Principal Accounting Officer)

Dated: April 22, 2008

EXHIBIT INDEX

Exhibit No.	Description
-----	-----
99.1	Press Release, dated April 22, 2008, issued by First Merchants Corporation.

First Merchants Corporation

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Exhibit No. 99.1

Press Release, dated April 22, 2008

N / E / W / S R / E / L / E / A / S / E

April 22, 2008

FOR IMMEDIATE RELEASE

For more information, contact:

Mark K. Hardwick, Executive Vice President/Chief Financial Officer, 765-751-1857
<http://www.firstmerchants.com>

SOURCE: First Merchants Corporation, Muncie, Indiana

FIRST MERCHANTS CORPORATION ANNOUNCES 7 PERCENT INCREASE IN FIRST QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported March 31, 2008 diluted earnings per share totaling \$.45 a 7.1 percent increase over 2007 first quarter earnings per share of \$.42. Net income totaled \$8.1 million, a \$355,000 increase over the \$7.8 million earned in the first quarter of 2007.

Total assets reached \$3.8 billion at quarter-end, an increase of \$212 million, or 6 percent, from March 31, 2007. Loans and investments, the Corporation's primary earning assets, totaled \$3.37 billion, an increase of \$157 million, or 4.9 percent over the prior year.

Net-Interest margin expanded by 24 basis points from 3.50 percent in the first quarter of 2007 to 3.74 percent in 2008. As a result, net-interest income increased by \$3.7 million or 13.8 percent. On March 31, 2008 the Corporation reported on form 8-K the sale of three prime-based interest rate floors. For the quarter, \$236,000 of the \$4.7 million gain was recognized in the Corporation's net interest margin. Due to the accounting treatment of FASB 133, \$277,000 of the gain was accelerated and recognized in non-interest income.

Total non-interest income increased by \$723,000, or 7.4 percent, during the quarter and total expenses increased by \$2.1 million.

Provision expense increased by \$2.2 million, or 139 percent, during the quarter as charge-offs totaled \$3.0 million. Non-performing assets increased from 73 basis points to 93 basis points during the quarter and the allowance for loan losses as a percent of total loans increased to .99 percent.

Michael C. Rechin, President and Chief Executive Officer, stated that, "First Merchants is a stronger banking company because of the work that has taken place over the last 12 months. Our company is structurally more efficient, our sales teams are better equipped to win in the marketplace and our lending discipline and pricing has improved." Rechin also added that, "Given the volatility in the banking sector First Merchants management team is pleased with the quarter-end results. We are managing our loan portfolio rigorously recognizing the softness in the economy. Our Bankers are working with clients actively to identify deterioration in cash flow and real estate values. It's our goal to build earnings momentum while at the same time adding to our allowance for loan losses."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Daylight Time on Tuesday, April 22, 2008. To participate, dial (Toll Free) 800-860-2442 and reference First Merchants Corporation's first quarter earnings.

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A replay will be available until April 30, 2008. To access replay, US/Canada participants should dial (Toll Free) 877-344-7529 or for International participants, dial 412-317-0088. The replay will require the passcode is 417952.

During the call, we may make Forward Looking Statements about our relative business outlook. These Forward Looking Statements and all other statements made during the call that do not concern historical facts are subject to risks and uncertainties that may materially affect actual results.

Specific Forward Looking Statements include, but are not limited to, any indications regarding the Financial Services industry, the economy and future growth of the balance sheet or income statement.

Detailed financial results are reported on the attached pages:

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. Subsidiaries of the Corporation include First Merchants Bank, N.A., First Merchants Bank of Central Indiana, N.A., Lafayette Bank & Trust Company, N.A., Commerce National Bank and First Merchants Trust Company, N.A. The Corporation also operates First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare insurance agency and is a majority member of Indiana Title Insurance Company, LLC, a title insurance agency.

First Merchants Corporation's common stock is traded over-the-counter on the NASDAQ National Market System under the symbol FRME. Quotations are carried in daily newspapers and can be found on the company's Internet web page (<http://www.firstmerchants.com>).

* * * *

CONSOLIDATED BALANCE SHEETS

(in thousands)	March 31,	
	2008	2007
Assets		
Cash and due from banks	\$ 89,961	\$ 43,629
Interest-bearing time deposits	21,280	6,785
Investment securities	426,055	476,199
Mortgage loans held for sale	3,494	2,732
Loans	2,937,710	2,731,140
Less: Allowance for loan losses	(29,094)	(26,819)
	2,908,616	2,704,321
Net loans	2,908,616	2,704,321
Premises and equipment	44,526	43,262
Federal Reserve and Federal Home Loan Bank stock	25,345	23,691
Interest receivable	21,212	21,941
Core deposit intangibles and goodwill	135,056	137,847
Cash surrender value of life insurance	71,663	68,360
Other assets	19,950	26,047
	\$ 3,767,158	\$ 3,554,814
	=====	=====
Liabilities		
Deposits		
Noninterest-bearing	\$ 380,364	\$ 325,615
Interest-bearing	2,432,763	2,361,773
	-----	-----

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Total deposits	2,813,127	2,687,388
Borrowings	574,462	497,188
Interest payable	7,621	10,834
Other liabilities	23,107	30,756
	-----	-----
Total liabilities	3,418,317	3,226,166
Stockholders' equity		
Preferred stock, no-par value		
Authorized and unissued -- 500,000 shares		
Cumulative Preferred Stock, \$1,000 par value:		
Authorized -- 600 shares		
Issued and outstanding -- 125 shares	125	
Common stock, \$.125 stated value		
Authorized -- 50,000,000 shares		
Issued and outstanding -- 17,978,263 and 18,002,787 shares	2,247	2,289
Additional paid-in capital	137,633	143,672
Retained earnings	206,710	191,476
Accumulated other comprehensive loss	2,126	(8,789)
	-----	-----
Total stockholders' equity	348,841	328,648
	-----	-----
Total liabilities and stockholders' equity	\$ 3,767,158	\$ 3,554,814
	=====	=====

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended	
	2008	March 31, 2007
NET CHARGE OFF'S	\$ 2,957	\$ 1,320
AVERAGE BALANCES		
Total Assets	\$3,758,332	\$3,522,334
Total Loans	2,908,162	2,703,134
Total Deposits	2,836,174	2,689,908
Total Stockholders' Equity	344,722	328,342
FINANCIAL RATIOS		
Return on Average Assets	.86	.88
Return on Avg. Stockholders' Equity	9.43	9.47
Avg. Earning Assets to Avg. Assets	90.38	91.13
Allowance for Loan Losses as % Of Total Loans	.99	.98
Net Charge Off's as % Of Avg. Loans (Annualized)	.41	.20
Dividend Payout Ratio	51.10	54.76
Avg. Stockholders' Equity to Avg. Assets	9.17	9.32
Tax Equivalent Yield on Earning Assets	6.78	7.01
Cost of Supporting Liabilities	3.04	3.51
Net Int. Margin (FTE) on Earning Assets	3.74	3.50

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CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Three Months Ended March 31,	
	2008	2007
Interest income		
Loans receivable		
Taxable	\$ 51,101	\$ 49,645
Tax exempt	165	201
Investment securities		
Taxable	3,249	3,282
Tax exempt	1,513	1,661
Federal funds sold	8	1
Deposits with financial institutions	282	123
Federal Reserve and Federal Home Loan Bank stock	335	328
	56,653	55,241
Interest expense		
Deposits	19,433	21,806
Federal funds purchased	669	854
Securities sold under repurchase agreements	816	569
Federal Home Loan Bank advances	3,036	2,936
Subordinated debentures, revolving credit lines and term loans	1,890	2,001
	25,844	28,166
Net interest income	30,809	27,075
Provision for loan losses	3,823	1,599
	26,986	25,476
Other income		
Service charges on deposit accounts	2,931	2,883
Fiduciary activities	2,142	2,036
Other customer fees	1,679	1,491
Commission income	1,669	1,638
Earnings on cash surrender value of life insurance	738	685
Net gains and fees on sales of loans	643	532
Net realized gains (losses) on sale of available-for-sale securities	73	(1)
Other income	652	540
	10,527	9,804
Other expenses		
Salaries and employee benefits	16,098	14,726
Net occupancy	1,805	1,598
Equipment	1,654	1,722
Marketing	484	487
Outside data processing fees	882	951
Printing and office supplies	281	299
Core deposit amortization	790	791

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Other expenses	4,279	3,620
	-----	-----
Total other expenses	26,273	24,194
	-----	-----
Income before income tax	11,240	11,086
Income tax expense	3,114	3,315
	-----	-----
Net income	\$ 8,126	\$ 7,771
	=====	=====

Per Share Data

Basic Net Income	.45	.42
Diluted Net Income	.45	.42
Cash Dividends Paid	.23	.23
Average Diluted Shares Outstanding (in thousands)	18,055	18,497

CONSOLIDATED BALANCE SHEETS

(in thousands)	March 31, 2008	December 31, 2007	September 30, 2007	
Assets				
Cash and due from banks	\$ 89,961	\$ 134,683	\$ 85,645	
Interest-bearing time deposits	21,280	24,931	22,295	
Investment securities		451,167	474,613	
	426,055			
Mortgage loans held for sale	3,494	3,735	4,328	
Loans	2,937,710	2,876,843	2,869,001	
Less: Allowance for loan losses	(29,094)	(28,228)	(27,635)	
	-----	-----	-----	
Net loans	2,908,616	2,848,615	2,841,366	
Premises and equipment	44,526	44,445	44,255	
Federal Reserve and Federal Home Loan Bank stock	25,345	25,250	25,050	
Interest receivable	21,212	23,402	25,954	
Core deposit intangibles and goodwill	135,056	135,856	136,266	
Cash surrender value of life insurance	71,663	70,970	70,082	
Other assets	19,950	19,033	24,446	
	-----	-----	-----	
Total assets	\$ 3,767,158	\$ 3,782,087	\$ 3,754,300	\$
	=====	=====	=====	=====
Liabilities				
Deposits				
Noninterest-bearing	\$ 380,364	\$ 370,397	\$ 355,339	\$
Interest-bearing	2,432,763	2,473,724	2,403,836	2,
	-----	-----	-----	-----
Total deposits	2,813,127	2,844,121	2,759,175	2,
Borrowings	574,462	568,774	620,469	
Interest payable	7,621	8,325	9,170	
Other liabilities	23,107	20,931	32,745	
	-----	-----	-----	-----
Total liabilities	3,418,317	3,442,151	3,421,559	3,
Stockholders' equity				
Preferred stock, no-par value				
Authorized and unissued -- 500,000 shares				

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Cumulative Preferred Stock, \$1,000 par value:

Authorized -- 600 shares				
Issued and outstanding	125			
Common stock, \$.125 stated value				
Authorized -- 50,000,000 shares				
Issued and outstanding	2,247	2,250	2,269	
Additional paid-in capital	137,633	137,801	140,642	
Retained earnings	206,710	202,750	197,609	
Accumulated other comprehensive loss	2,126	(2,865)	(7,779)	
	-----	-----	-----	-----
Total stockholders' equity	348,841	339,936	332,741	
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$ 3,767,158	\$ 3,782,087	\$ 3,754,300	\$ 3,754,300
	=====	=====	=====	=====

NON-PERFORMING ASSETS

	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Non Accrual Loans	\$ 27,465	\$ 29,031	\$ 30,165	
Renegotiated Loans	142	145	58	
	-----	-----	-----	-----
Non Performing Loans (NPL)	27,607	29,176	30,223	
Real Estate Owned and Repossessed Assets	7,372	2,573	2,081	
	-----	-----	-----	-----
Non Performing Assets (NPA)	34,979	31,749	32,304	
90+ Days Delinquent	4,996	3,578	3,132	
	-----	-----	-----	-----
NPAs & 90 Day Delinquent	39,975	35,327	35,436	
Loan Loss Reserve	29,094	28,228	27,635	
YTD Charge-offs	2,957	6,819	4,962	
NPAs / Actual Assets %	0.93%	0.84%	0.86%	
NPAs & 90 day / Actual Assets %	1.06%	0.93%	0.94%	
NPAs / Actual Loans & REO (%)	1.19%	1.10%	1.12%	
Loan Loss Reserves / Actual Loans (%)	0.99%	0.98%	0.96%	
NCOs / YTD Average Loans (%)	0.10%	0.24%	0.18%	

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Loans receivable				
Taxable	\$51,101	\$ 53,338	\$ 53,081	
Tax exempt	165	302	368	
Investment securities				
Taxable	3,249	3,487	3,581	
Tax exempt	1,513	1,623	1,613	
Federal funds sold	8	39	41	
Deposits with financial institutions	282	194	145	
Federal Reserve and Federal Home Loan				

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Bank stock	335	344	328
	-----	-----	-----
Total interest income	56,653	59,327	59,157
	-----	-----	-----
Interest expense			
Deposits	19,433	22,398	23,327
Federal funds purchased	669	692	996
Securities sold under repurchase agreements	816	1,182	1,195
Federal Home Loan Bank advances	3,036	3,250	3,302
Subordinated debentures, revolving credit lines and term loans	1,890	1,910	1,802
	-----	-----	-----
Total interest expense	25,844	29,432	30,622
	-----	-----	-----
Net interest income	30,809	29,895	28,535
Provision for loan losses	3,823	2,450	2,810
	-----	-----	-----
Net interest income after provision for loan losses	26,986	27,445	25,725
	-----	-----	-----
Other income			
Service charges on deposit accounts	2,931	3,206	3,241
Fiduciary activities	2,142	2,094	1,985
Other customer fees	1,679	1,686	1,767
Commission income	1,669	1,031	1,175
Earnings on cash surrender value of life insurance	738	1,186	998
Net gains and fees on sales of loans	643	546	749
Net realized gains (losses) on sales of available-for-sale securities	73	1	
Other income	652	383	933
	-----	-----	-----
Total other income	10,527	10,133	10,848
	-----	-----	-----
Other expenses			
Salaries and employee benefits	16,098	14,738	14,583
Net occupancy	1,805	1,619	1,818
Equipment	1,654	1,619	1,645
Marketing	484	505	560
Outside data processing fees	882	872	972
Printing and office supplies	281	329	394
Core deposit amortization	790	789	789
Write-off of unamortized underwriting expense			
Other expenses	4,279	4,776	4,241
	-----	-----	-----
Total other expenses	26,273	25,247	25,002
	-----	-----	-----
Income before income tax	11,240	12,331	11,571
Income tax expense	3,114	3,021	3,221
	-----	-----	-----
Net income	\$8,126	\$9,310	\$8,350
	=====	=====	=====
Per Share Data			
Basic Net Income	\$.45	\$.51	\$.46
Diluted Net Income	.45	.51	.46
Cash Dividends Paid		.23	.23
	.23		

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Average Diluted Shares			
Outstanding (in thousands)	18,055	18,138	18,276

FINANCIAL RATIOS

Return on Average Assets	.86%	1.00%	.90%
Return on Avg. Stockholders' Equity	9.43	11.10	10.14
Avg. Earning Assets to Avg. Assets	90.38	90.70	90.88
Allowance for Loan Losses as % Of Total Loans	.99	.98	.96
Net Charge Off's as % Of Avg. Loans (Annualized)	.41	.26	.39
Dividend Payout Ratio	51.10	45.10	50.00
Avg. Stockholders' Equity to Avg. Assets	9.17	8.98	8.91
Tax Equivalent Yield on Earning Assets	6.78	7.13	7.17
Cost of Supporting Liabilities	3.04	3.47	3.65
Net Int. Margin (FTE) on Earning Assets	3.74	3.66	3.52

LOANS

(in thousands)	March 31, 2008	December 31, 2007	September 30, 2007	
Commercial and industrial loans	\$ 724,643	\$662,701	\$626,301	
Agricultural production financing and other loans to farmers	123,314	114,324	113,132	
Real estate loans:				
Construction	178,171	165,425	160,624	
Commercial and farmland	961,431	947,234	912,063	
Residential	728,956	744,627	769,890	
Individuals' loans for household and other personal expenditures	174,857	187,880	194,181	
Tax exempt loans	11,646	16,423	28,726	
Lease financing receivables, net of unearned income	8,438	8,351	8,932	
Other loans	26,254	29,878	55,152	
	-----	-----	-----	
Allowance for loan losses	2,937,710 (29,094)	2,876,843 (28,228)	2,869,001 (27,635)	2,869,001
	-----	-----	-----	
Total loans	\$2,908,616	\$2,848,615	\$2,841,366	\$2,841,366
	=====	=====	=====	

DEPOSITS

(in thousands)	March 31, 2008	December 31, 2007	September 30, 2007	
Demand deposits	\$881,498	\$903,380	\$825,185	\$825,185
Savings deposits	562,942	552,379	508,139	
Certificates and other time deposits of \$100,000 or more	459,038	470,733	472,842	
Other certificates and time deposits	909,649	917,629	953,009	
	-----	-----	-----	
Total deposits	\$2,813,127	\$2,844,121	\$2,759,175	\$2,759,175
	=====	=====	=====	

