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FIRST MERCHANTS CORP
Form 8-K
October 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): October 22, 2008

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

INDIANA (State or other jurisdiction of incorporation)	0-17071 (Commission file number)	35-1544218 (IRS Employer Identification No.)
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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 October 22, 2008 First Merchants Corporation issued a press release to report its financial results for the second quarter ended September 30, 2008. 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 October 22, 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: October 22, 2008

EXHIBIT INDEX

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

First Merchants Corporation

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Exhibit No. 99.1

Press Release, dated October 22, 2008

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

October 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 3rd QUARTER YEAR-TO-DATE NET INCOME OF \$20.4 MILLION.

First Merchants Corporation (NASDAQ - FRME) has reported third quarter 2008 diluted earnings per share of \$.32, a decline from 2007 third quarter earnings per share of \$.46. Net Income for the quarter totaled \$5.7 million, a decrease from the 3rd quarter 2007 total of \$8.3 million.

Year-to-date diluted earnings per share totaled \$1.13, a decrease of 7.4 percent, from 2007 earnings per share of \$1.22. Net Income totaled \$20.4 million, a decline of \$1.9 million from the prior year total of \$22.3 million.

Total assets reached \$3.8 billion at quarter-end, an increase of \$110 million, or 2.9 percent, from September 30, 2007. Loans and investments, the Corporation's primary earning assets, totaled \$3.47 billion, an increase of \$122 million, or 3.6 percent, over the prior year. Loans accounted for \$208 million of the increase as investment securities declined by \$86 million as spreads between investment securities and borrowings remain below historical levels. At September 30, 2008, the Corporation's tangible capital was 5.9%, tier 1 capital was 7.3%, tier 1 risk based capital was 8.5% and total risk based capital was 11.2%.

Net-Interest margin expanded by 39 basis points from 3.52 percent in the third quarter of 2007 to 3.91 percent in 2008. As a result, net-interest income increased by \$4.7 million, or 16.5 percent. Year-to-date net interest margin improved by 32 basis points as net interest income increased by \$13 million or 15.6 percent.

Provision expense totaled \$7.1 million for the quarter, an increase of \$4.3 million, as net charge-offs totaled \$3.7 million. Year-to-date provision expense totaled \$18 million, an increase of \$12 million over the prior year, as charge-off's totaled \$11.2 million. Non-performing assets increased from 84 basis points of total assets to 142 basis points during the year.

The Corporation's allowance for loan losses as a percent of total loans increased from .96 to 1.14 percent since September 30, 2007. The increase totals \$7.4 million in additional reserves. The increased allowance for loan losses total is comprised of a \$2.0 million increase in the general historical loss component, a \$6.3 increase in environmental factors and a decline in specific reserves of \$924,000.

Total non-interest income decreased by \$1.6 million, during the quarter, due primarily to a \$1.5 million write-off of FHLMC preferred stock. Total expenses increased during the quarter by \$2.1 million totaling \$27.1 million. Year-to-date non-interest income declined by \$337,000 and non-interest expense

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increased \$2,857,000.

Michael C. Rechin, President and Chief Executive Officer, stated that, "First Merchants has the people, strategies, capital, liquidity, and commitment to weather the current environment. While our short-term earnings have been impacted by credit costs, the strengthening of our balance sheet by building our loan loss reserve is prudent for the future and warranted by the economic trends we see in the Midwest. The volatility in our local markets and the capital markets does create opportunity and we have been successful in the strategic building of relationships and revenues."

Rechin continued, "First Merchants exceeds the Federal Reserve's capital adequacy requirements and continues to meet their definition of "well capitalized". Despite prudent provisioning, the Corporation's earnings and liquidity remain strong." Rechin also added that, "We look forward to the conclusion of our announced acquisition of Lincoln Bancorp. All required applications for approval have been filed and, at this time, no delays are expected in completing the transaction by our announced target date of December 31, 2008."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Daylight Time on Wednesday, October 22, 2008. To participate, dial (Toll Free) 800-860-2442 and reference First Merchants Corporation's third quarter earnings. A replay will be available until October 29, 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 420850.

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., and 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>).

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CONSOLIDATED BALANCE SHEETS
(in thousands)

	2008	September 30,	2007
Assets			
Cash and due from banks	\$ 69,846		\$ 83,845
Federal funds sold	7,818		1,800
	-----		-----
Cash and cash equivalents	77,664		85,645
Interest-bearing time deposits	15,623		22,295
Investment securities	388,808		474,613
Mortgage loans held for sale	2,062		4,328
Loans	3,078,768		2,869,001
Less: Allowance for loan losses	(34,985)		(27,635)
	-----		-----
Net loans	3,043,783		2,841,366
Premises and equipment	44,402		44,255
Federal Reserve and Federal Home Loan Bank stock	25,494		25,050
Interest receivable	21,569		25,954
Core deposit intangibles and goodwill	135,701		136,266
Cash surrender value of life insurance	73,448		70,082
Other real estate owned	16,916		2,081
Other assets	18,604		22,365
	-----		-----
Total assets	\$ 3,864,074		\$ 3,754,300
	=====		=====
Liabilities			
Deposits			
Noninterest-bearing	384,928		355,339
Interest-bearing	2,529,355		2,403,836
	-----		-----
Total deposits	2,914,283		2,759,175
Borrowings			
Fed funds purchased	57,600		95,697
Securities sold under repurchase agreements	100,227		103,846
Federal Home Loan Bank advances	237,225		310,100
Subordinated debentures, revolving credit lines and term loans	176,256		110,826
	-----		-----
Total borrowings	571,308		620,469
Interest payable	6,529		9,170
Other liabilities	19,861		32,745
	-----		-----
Total liabilities	3,511,981		3,421,559
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 - 18,125,090 and			

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18,153,828 shares	2,266	2,269
Additional paid-in capital	141,777	140,642
Retained earnings	210,605	197,609
Accumulated other comprehensive loss	(2,680)	(7,779)
	-----	-----
Total stockholders' equity	352,093	332,741
	-----	-----
Total liabilities and stockholders' equity	\$ 3,864,074	\$ 3,754,300
	=====	=====

FINANCIAL HIGHLIGHTS

(in thousands)	Three Months Ended September 30,	
	2008	2007
NET CHARGE OFF'S	\$ 3,706	\$ 2,783
AVERAGE BALANCES		
Total Assets	\$ 3,844,905	\$ 3,696,382
Total Loans	3,045,672	2,835,639
Total Deposits	2,929,774	2,776,346
Total Stockholders' Equity	349,652	329,474

FINANCIAL RATIOS

Return on Average Assets	.60%	.90%
Return on Avg. Stockholders' Equity	6.58	10.14
Avg. Earning Assets to Avg. Assets	91.02	90.88
Allowance for Loan Losses as % of Total Loans	1.14	.96
Net Charge Off's as % of Avg. Loans (Annualized)	.49	.39
Dividend Payout Ratio	71.88	50.00
Avg. Stockholders' Equity to Avg. Assets	9.09	8.91
Tax Equivalent Yield on Earning Assets	6.39	7.17
Cost of Supporting Liabilities	2.48	3.65
Net Int. Margin (FTE) on Earning Assets	3.91	3.52

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	Three Months Ended September 30,	
	2008	2007
Interest income		
Loans receivable		
Taxable	\$ 49,828	\$ 53,081
Tax exempt	321	368
Investment securities		
Taxable	2,943	3,581
Tax exempt	1,379	1,613
Federal funds sold	10	41
Deposits with financial institutions	146	145
Federal Reserve and Federal Home Loan Bank stock	351	328
	-----	-----
Total interest income	54,978	59,157
	-----	-----
Interest expense		
Deposits	16,213	23,327
Federal funds purchased	502	996
Securities sold under repurchase agreements	650	1,195
Federal Home Loan Bank advances	2,724	3,302

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Subordinated debentures, revolving credit lines and term loans	1,635	1,802
	-----	-----
Total interest expense	21,724	30,622
	-----	-----
Net interest income	33,254	28,535
Provision for loan losses	7,094	2,810
	-----	-----
Net interest income After provision for loan losses	26,160	25,725
	-----	-----
Other income		
Services charges on deposit accounts	3,568	3,241
Fiduciary activities	1,932	1,985
Other customer fees	1,696	1,767
Commission income	1,457	1,175
Earnings on cash surrender value of life insurance	519	998
Net gains and fees on sales of loans	648	749
Net realized gains (losses) on sale of available-for-sale securities	(1,255)	
Other income	655	933
	-----	-----
Total other income	9,220	10,848
	-----	-----
Other expenses		
Salaries and employee benefits	15,330	14,583
Net occupancy	1,857	1,818
Equipment	1,649	1,645
Marketing	605	560
Outside data processing fees	1,068	972
Printing and office supplies	281	394
Core deposit amortization	809	789
Write-off of unamortized underwriting expense		
Other expenses	5,516	4,241
	-----	-----
Total other expenses	27,115	25,002
	-----	-----
Income before income tax	8,265	11,571
Income tax expense	2,516	3,221
	-----	-----
Net income	\$ 5,749	\$ 8,350
	=====	=====
Per Share Data		
Basic Net Income	.32	.46
Diluted Net Income	.32	.46
Cash Dividends Paid	.23	.23
Average Diluted Shares Outstanding (in thousands)	18,196	18,276

CONSOLIDATED BALANCE SHEETS

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(in thousands)	September 30, 2008	June 30, 2008	March 31, 2008
Assets			
Cash and due from banks	\$ 69,846	\$ 80,996	\$ 89,961
Federal funds sold	7,818		
	-----	-----	-----
Cash and cash equivalents	77,664	80,996	89,961
Interest-bearing time deposits	15,623	7,267	21,280
Investment securities	388,808	408,324	426,055
Mortgage loans held for sale	2,062	3,234	3,494
Loans	3,078,768	3,018,596	2,937,710
Less: Allowance for loan losses	(34,985)	(31,597)	(29,094)
	-----	-----	-----
Net loans	3,043,783	2,986,999	2,908,616
Premises and equipment	44,402	44,232	44,526
Federal Reserve and Federal Home Loan Bank Stock	25,494	25,455	25,345
Interest receivable	21,569	19,680	21,212
Core deposit intangibles and goodwill	135,701	136,230	135,056
Cash surrender value of life insurance	73,448	72,948	71,663
Other real estate owned	16,916	17,243	7,372
Other assets	18,604	19,852	12,578
	-----	-----	-----
Total assets	\$ 3,864,074	\$ 3,822,460	\$ 3,767,158
	=====	=====	=====
Liabilities			
Deposits			
Noninterest-bearing	384,928	403,152	380,364
Interest-bearing	2,529,355	2,460,483	2,432,763
	-----	-----	-----
Total deposits	2,914,283	2,863,635	2,813,127
Borrowings			
Fed funds purchased	57,600	151,356	111,144
Securities sold under repurchase agreements	100,227	90,872	103,024
Federal Home Loan Bank advances	237,225	228,196	244,468
Subordinated debentures, revolving credit, lines and term loans	176,256	115,826	115,826
	-----	-----	-----
Total borrowings	571,308	586,250	574,462
Interest payable	6,529	6,658	7,621
Other liabilities	19,861	18,525	23,107
	-----	-----	-----
Total liabilities	3,511,981	3,475,068	3,418,317
Stockholders' equity			
Preferred stock, no-par value			
Authorized and unissued - 500,000 shares			
Cumulative Preferred Stock, \$1,000 par value:			
Authorized - 600 shares	125	125	125
Issued and outstanding			
Common stock, \$.125 stated value			
Authorized - 50,000,000 shares			
Issued and outstanding	2,266	2,258	2,247
Additional paid-in capital	141,777	140,258	137,633
Retained earnings	210,605	209,059	206,710
Accumulated other comprehensive loss	(2,680)	(4,308)	2,126
	-----	-----	-----
Total stockholders' equity	352,093	347,392	348,841
	-----	-----	-----
Total liabilities and stockholders' equity	\$ 3,864,074	\$ 3,822,460	\$ 3,767,158
	=====	=====	=====

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NON PERFORMING ASSETS

	September 30, 2008	June 30, 2008	March 31, 2008
Non Accrual Loans	37,879	34,410	27,465
Renegotiated Loans	135	136	142
	-----	-----	-----
Non Performing Loans (NPL)	38,014	34,546	27,607
Real Estate Owned and Repossessed Assets	16,916	17,243	7,372
	-----	-----	-----
Non Performing Assets (NPA)	54,930	51,789	34,979
90+ Days Delinquent	8,056	3,538	4,996
	-----	-----	-----
NPAs & 90 Day Delinquent	62,986	55,327	39,975
Loan Loss Reserve	34,985	31,597	29,094
YTD Charge-offs	11,230	7,524	2,957
NPAs / Actual Assets %	1.42%	1.35%	0.93%
NPAs & 90 Day / Actual Assets %	1.63%	1.45%	1.06%
NPAs / Actual Loans & REO (%)	1.77%	1.70%	1.19%
Loan Loss Reserves / Actual Loans (%)	1.14%	1.05%	0.99%
NCOs / YTD Average Loans (%)	0.38%	0.26%	0.10%

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	September 30, 2008	June 30, 2008	March 31, 2008
Loans receivable			
Taxable	\$ 49,828	\$ 49,023	\$ 51,101
Tax exempt	321	178	165
Investment securities			
Taxable	2,943	2,947	3,249
Tax exempt	1,379	1,452	1,513
Federal funds sold	10	3	8
Deposits with financial institutions	146	133	282
Federal Reserve and Federal Home Loan Bank stock	351	370	335
	-----	-----	-----
Total interest income	54,978	54,106	56,653
	-----	-----	-----
Interest expense			
Deposits	16,213	16,297	19,433
Federal funds purchased	502	577	669
Securities sold under repurchase agreements	650	632	816
Federal Home Loan Bank advances	2,724	2,825	3,036
Subordinated debentures, revolving credit lines and term loans	1,635	1,602	1,890
	-----	-----	-----
Total interest expense	21,724	21,933	25,844
	-----	-----	-----
Net interest income	33,254	32,173	30,809
Provision for loan losses	7,094	7,070	3,823
	-----	-----	-----
Net interest income After provision for loan losses	26,160	25,103	26,986
Other income			
Service charges on deposit accounts	3,568	3,157	2,931
Fiduciary activities	1,932	2,126	2,142

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Other customer fees	1,696	1,767	1,679
Commission income	1,457	1,427	1,669
Earnings on cash surrender value of life insurance	519	606	738
Net gains and fees on sales of loans	648	668	643
Net realized gains (losses) on sales of available-for-sale securities	(1,255)	13	73
Other income	655	570	652
	-----	-----	-----
Total other income	9,220	10,334	10,527
	-----	-----	-----
Other expenses			
Salaries and employee benefits	15,330	15,698	16,098
Net occupancy	1,857	1,750	1,805
Equipment	1,649	1,643	1,654
Marketing	605	612	484
Outside data processing fees	1,068	1,009	882
Printing and office supplies	281	291	281
Core deposit amortization	809	808	790
Other expenses	5,516	4,593	4,279
	-----	-----	-----
Total other expenses	27,115	26,404	26,273
	-----	-----	-----
Income before income tax	8,265	9,033	11,240
Income tax expense	2,516	2,491	3,114
	-----	-----	-----
Net income	\$ 5,749	\$ 6,542	\$ 8,126
	=====	=====	=====
Per Share Data			
Basic Net Income	.32	.37	.45
Diluted Net Income	.32	.36	.45
Cash Dividends Paid	.23	.23	.23
Average Diluted Shares Outstanding (in thousands)	18,196	18,159	18,055
FINANCIAL RATIOS			
Return on Average Assets	.60%	.69%	.86%
Return on Average Stockholders' Equity	6.58	7.46	9.43
Avg. Earning Assets to Avg. Assets	91.02	90.94	90.38
Allowance for Loan Losses as % of Total Loans	1.14	1.05	.99
Net Charge Off's as % of Average Loans (Annualized)	.49	.61	.41
Dividend Payout Ratio	71.88	63.85	51.10
Average Stockholders' Equity to Average Assets	9.09	9.30	9.17
Tax Equivalent Yield on Earning Assets	6.39	6.41	6.78
Cost of Supporting Liabilities	2.48	2.56	3.04
Net Interest Margin (FTE) on Earning Assets	3.91	3.85	3.74
LOANS			
(in thousands, except share data)	September 30, 2008	June 30, 2008	March 31, 2008
Commercial and industrial loans	\$ 851,233	\$ 815,137	\$ 724,643
Agricultural production financing and other loans to farmers	136,176	125,125	123,314
Real estate loans:			

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Construction	167,512	181,598	178,171
Commercial and farmland	966,259	954,672	961,431
Residential	731,065	718,065	728,956
Individuals' loans for household and other personal expenditures	145,345	161,387	174,857
Tax exempt loans	34,010	22,553	11,646
Lease financing receivables, net of unearned income	9,262	9,158	8,438
Other loans	37,906	30,901	26,254
	-----	-----	-----
	3,078,768	3,018,596	2,937,710
Allowance for loan losses	(34,985)	(31,597)	(29,094)
	-----	-----	-----
Total loans	\$ 3,043,783	\$ 2,986,999	\$ 2,908,616
	=====	=====	=====

DEPOSITS

	September 30, 2008	June 30, 2008	March 31, 2008
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(in thousands)

Demand deposits	\$921,034	\$932,017	\$881,498
Savings deposits	540,596	546,951	562,942
Certificates and other time deposits of \$100,000 or more	469,426	444,967	459,038
Other certificates and time deposits	983,227	939,700	909,649
	-----	-----	-----
Total deposits	\$ 2,914,283	\$ 2,863,635	\$ 2,813,127
	=====	=====	=====

