

FIRST MERCHANTS CORP
Form 10-Q
August 10, 2009
FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2009**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission File Number 0-17071

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its charter)

Indiana 35-1544218

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(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

200 East Jackson Street, Muncie, IN 47305-2814

(Address of principal executive offices) (Zip code)

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

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 30, 2009, there were 21,167,630 outstanding common shares, of the registrant.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED CONDENSED BALANCE SHEETS

(Dollars in thousands)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and due from banks	\$ 73,668	\$ 84,249
Federal funds sold		66,237
Cash and cash equivalents	73,668	150,486
Interest-bearing time deposits	44,595	38,823
Investment securities available for sale	610,731	459,636
Investment securities held to maturity	20,227	22,348
Mortgage loans held for sale	23,070	4,295
Loans, net of allowance for loan losses of \$77,119 and \$49,543	3,477,110	3,672,409
Premises and equipment	58,692	59,641
Federal Reserve and Federal Home Loan Bank stock	34,441	34,319
Interest receivable	20,778	23,976
Core deposit intangibles	19,937	22,492
Goodwill	141,357	143,482
Cash surrender value of life insurance	93,876	93,222
Other real estate owned	20,227	18,458
Other assets	78,336	40,568
TOTAL ASSETS	\$ 4,717,045	\$ 4,784,155
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 512,368	\$ 460,519
Interest-bearing	3,078,555	3,258,292
Total Deposits	3,590,923	3,718,811
Borrowings:		
Federal funds purchased	15,042	
Securities sold under repurchase agreements	115,011	122,311
Federal Home Loan Bank advances	268,938	360,217
Subordinated debentures, revolving credit lines and term loans	194,783	135,826
Total Borrowings	593,774	618,354
Interest payable	7,351	8,844
Other liabilities	51,619	42,243

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Total Liabilities	4,243,667	4,388,252
STOCKHOLDERS' EQUITY		
Preferred Stock, no-par value:		
Authorized -- 500,000 shares		
Series A, Issued and outstanding -- 116,000 shares	112,009	
Cumulative Preferred Stock, \$1,000 par value, \$1,000 liquidation value:		
Authorized -- 600 shares		
Issued and outstanding -- 125 shares	125	125
Common Stock, \$.125 stated value:		
Authorized -- 50,000,000 shares		
Issued and outstanding -- 21,067,477 and 21,178,123 shares	2,633	2,647
Additional paid-in capital	204,403	202,299
Retained earnings	172,688	206,496
Accumulated other comprehensive loss	(18,480)	(15,664)
Total Stockholders' Equity	473,378	395,903
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,717,045	\$ 4,784,155

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2009	2008	June 30, 2009	2008
INTEREST INCOME				
Loans receivable:				
Taxable	\$ 52,843	\$49,023	\$ 106,636	\$ 100,124
Tax exempt	247	178	462	343
Investment securities:				
Taxable	3,261	2,947	7,024	6,196
Tax exempt	2,362	1,452	4,131	2,965
Federal funds sold	42	3	54	11
Deposits with financial institutions	116	133	218	415
Federal Reserve and Federal Home Loan Bank stock	199	370	672	705
Total Interest Income	59,070	54,106	119,197	110,759
INTEREST EXPENSE				
Deposits	15,569	16,297	32,280	35,730
Federal funds purchased		577	22	1,246
Securities sold under repurchase agreements	507	632	974	1,448
Federal Home Loan Bank advances	2,447	2,825	5,396	5,861
Subordinated debentures, revolving credit lines and term loans	2,113	1,602	3,592	3,492
Total Interest Expense	20,636	21,933	42,264	47,777
NET INTEREST INCOME	38,434	32,173	76,933	62,982
Provision for loan losses	58,995	7,070	71,916	10,893
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	(20,561)	25,103	5,017	52,089
OTHER INCOME				
Service charges on deposit accounts	3,888	3,157	7,430	6,088
Fiduciary activities	1,680	2,126	3,739	4,268
Other customer fees	1,946	1,767	3,949	3,446
Commission income	1,698	1,427	3,757	3,096
Earnings on cash surrender value of life insurance	331	606	654	1,344
Net gains and fees on sales of loans	1,678	668	3,108	1,311
Net realized gains on sales of available for sale securities	1,154	13	3,946	86
Other-than-temporary impairment on available for sale securities	(5,710)		(4,489)	
Portion of loss recognized in other comprehensive income before taxes	3,665		1,966	
Net impairment losses recognized in earnings	(2,045)		(2,523)	
Other income	1,160	570	1,901	1,222
Total Other Income	11,490	10,334	25,961	20,861

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OTHER EXPENSES

Salaries and employee benefits	19,685	15,698	39,700	31,796
Net occupancy	2,443	1,750	5,012	3,555
Equipment	1,909	1,643	3,785	3,297
Marketing	564	612	1,113	1,096
Outside data processing fees	1,405	1,009	3,338	1,891
Printing and office supplies	397	291	760	572
Core deposit amortization	1,278	808	2,555	1,598
FDIC assessments	3,494	141	4,070	270
Other expenses	7,017	4,452	12,573	8,602
Total Other Expenses	38,192	26,404	72,906	52,677
INCOME (LOSS) BEFORE INCOME TAX	(47,263)	9,033	(41,928)	20,273
Income tax expense (benefit)	(17,534)	2,491	(16,316)	5,605
NET INCOME (LOSS)	(29,729)	6,542	(25,612)	14,668
Preferred stock dividends and discount accretion	1,450		2,078	
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$ (31,179)	\$6,542	\$ (27,690)	\$ 14,668
Per Share Data:				
Basic Net Income (Loss) Available to Common Stockholders	\$ (1.49)	\$0.37	\$ (1.32)	\$0.82
Diluted Net Income (Loss) Available to Common Stockholders	\$ (1.49)	\$0.36	\$ (1.32)	\$0.81
Cash Dividends Paid	\$ 0.08	\$0.23	\$0.31	\$0.46
Average Diluted Shares Outstanding (in thousands)	21,120	18,159	21,108	18,108

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net income (loss)	\$(29,729)	\$6,542	\$(25,612)	\$14,668
Other comprehensive losses net of tax:				
Unrealized holding losses arising during the period, net of income tax benefit of \$379, \$3,188, \$38 and \$1,364	(703)	(5,920)	(70)	(2,532)
Unrealized gain (loss) on securities available for sale for which a portion of an other than temporary impairment has been recognized in income, net of tax expense of \$1,283, \$0, \$688 and \$0	(2,382)		(1,277)	
Unrealized gains/(losses) on cash flow hedges:				
Unrealized gains/(losses) arising during the period, net of income tax expense/(benefit) of \$153, \$243, \$622 and \$(939).	(229)	(365)	(933)	1,409
Amortization of items previously recorded in accumulated other comprehensive income/(losses), net of income tax expense/(benefit) of \$(161), \$94, \$(259), and \$179	242	(141)	389	(268)
Reclassification adjustment for gains/(losses) included in net income net of income tax expense of \$(312), \$5, \$498, and \$34	579	(8)	(925)	(52)
Comprehensive income (loss)	\$(24,933)	\$(6,434)	\$(28,816)	\$(1,443)
	\$(32,222)	\$108	\$(28,428)	\$13,225

See notes to consolidated condensed financial statements

The components of accumulated other comprehensive income/(loss), included in stockholders' equity, are as follows:

	June 30, 2009
Net unrealized gain /(loss) on securities available for sale	\$ (1,854)

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Net unrealized gain/(loss) on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in income	(1,277)
Defined Benefit Plans, net of deferred tax items	(15,349)
	\$ (18,480)

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CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	2009	June 30,	2008
Balances, January 1	\$ 395,903		\$ 339,936
Net income (loss)	(25,612)		14,668
Cash dividends on common stock	(6,564)		(8,358)
Cash dividends on preferred stock	(1,377)		
Other comprehensive income (loss), net of tax	(2,816)		(1,443)
Stock issued under dividend reinvestment and stock purchase plan	332		547
Stock options exercised, net of tax			1,595
Tax benefit from stock compensation	61		137
Stock redeemed	(190)		(2,180)
Issuance of stock related to acquisition			