

LEWIS RODERIC W
Form 4
October 03, 2012

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
LEWIS RODERIC W

2. Issuer Name and Ticker or Trading Symbol
MICRON TECHNOLOGY INC
[MU]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)
8000 S. FEDERAL WAY, MAIL
STOP 557

(Street)

3. Date of Earliest Transaction
(Month/Day/Year)
10/03/2012

____ Director
 Officer (give title below)
____ 10% Owner
 Other (specify below)
VP Legal Affairs, Gen Counsel / & Corporate Secretary

BOISE, ID 83707

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
____ Form filed by More than One Reporting Person

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(D)	Price
							\$
Common Stock	10/03/2012		F		7,342	D	5.84
							(1)
							657,755

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Transaction (Instr. 6)
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Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LEWIS RODERIC W 8000 S. FEDERAL WAY MAIL STOP 557 BOISE, ID 83707			VP Legal Affairs, Gen Counsel	& Corporate Secretary

Signatures

Kati Reid
 Attorney-in-fact 10/03/2012
**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Withholding of shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock awarded under the Issuer's 2004 Equity Incentive Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. s New Roman" SIZE="2">

Comprehensive income
 \$2,276,097 \$2,914,152 \$198,155

See Notes to Consolidated Financial Statements

Table of Contents**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

Years Ended December 31, 2007, 2006 and 2005

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned RRP Compensation	Unearned ESOP Shares	Total
	Outstanding Shares	Amount					
Balances, January 1, 2005	5,366,563	\$ 63,533,976	\$ 42,092,418	\$ 182,864	\$ (632,420)	\$ (3,422,020)	\$ 101,754,818
Net income			1,199,123				1,199,123
Unrealized losses on securities, net of reclassification adjustment				(1,000,968)			(1,000,968)
Purchase of common stock	(18,300)	(284,748)					(284,748)
Stock options exercised	37,890	433,703					433,703
Tax benefit on stock options and RRP		89,233					89,233
ESOP shares earned			229,640			322,300	551,940
Amortization of unearned compensation expense			8,130		24,622		32,752
Cash dividends (\$0.56 per share)			(2,835,920)				(2,835,920)
Balances, December 31, 2005	5,386,153	63,772,164	40,693,391	(818,104)	(607,798)	(3,099,720)	99,939,933
Net income			2,900,432				2,900,432
Unrealized gains on securities, net of reclassification adjustment				13,720			13,720
Purchase of common stock	(102,661)	(1,973,291)					(1,973,291)
Stock options exercised	46,195	563,605					563,605
Tax benefit on stock options and RRP		85,772					85,772
Stock option expense		89,241					89,241
ESOP shares earned			260,542			304,330	564,872
Amortization of unearned compensation expense		91,234	21,190				112,424
Reclassification of unearned compensation to common stock upon adoption of SFAS 123(R)		(607,798)			607,798		
Recognition of additional pension liability per adoption of FAS 158				(157,069)			(157,069)
Cash dividends (\$0.56 per share)			(2,839,733)				(2,839,733)
Balances, December 31, 2006	5,329,687	62,020,927	41,035,822	(961,453)		(2,795,390)	99,299,906
Net income			1,748,941				1,748,941
Unrealized gains on securities, net of reclassification adjustment				482,225			482,225
Purchase of common stock	(70,437)	(1,198,950)					(1,198,950)
Stock options exercised	53,731	671,638					671,638
Tax benefit on stock options and RRP		124,803					124,803
Stock option expense		21,941					21,941
ESOP shares earned			230,355			304,330	534,685
Amortization of unearned compensation expense		80,629	17,714				98,343
Amortization of additional pension liability recognized under FAS 158				44,931			44,931
Cash dividends (\$0.56 per share)			(2,842,678)				(2,842,678)
Balances, December 31, 2007	5,312,981	\$ 61,720,988	\$ 40,190,154	\$ (434,297)	\$	\$ (2,491,060)	\$ 98,985,785

See Notes to Consolidated Financial Statements

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS****Years Ended December 31, 2007, 2006 and 2005**

	2007	2006	2005
Operating Activities			
Net income	\$ 1,748,941	\$ 2,900,432	\$ 1,199,123
Items not requiring (providing) cash			
Provision for loan losses	957,000	884,120	2,641,511
Investment securities amortization (accretion), net	1,533	26,121	(53,120)
Investment securities loss (gain)	25,127	(14,409)	97,449
Loans originated for sale in the secondary market	(64,237,197)	(40,523,885)	(60,938,915)
Proceeds from sale of loans in the secondary market	66,400,891	37,737,643	64,168,598
Net realized and unrealized (gains) losses on loans held for sale	692,867	(517,985)	(758,720)
Amortization of net loan origination fees	599,523	575,238	(314,346)
Amortization of purchase accounting adjustments	337,712	267,553	32,882
Amortization of mortgage servicing rights	152,897	118,125	271,491
Depreciation and amortization	1,739,499	1,760,839	1,570,600
Deferred income tax	(870,243)	(313,146)	(344,680)
Amortization of unearned compensation expense	98,343	112,424	32,752
Option expense recognized	21,941	89,241	
ESOP shares earned	534,685	564,872	551,940
Earnings on life insurance	(849,087)	(688,826)	(673,004)
Tax benefit from stock options exercised	(124,803)	(85,772)	
Change in Interest receivable	(347,848)	(515,480)	(1,075,846)
Interest payable	(149,871)	564,512	750,109
Other operating activities	1,134,213	661,306	999,912
Net cash provided by operating activities	7,866,123	3,602,923	8,157,736
Investing Activities			
Net change in interest-bearing deposits			2,188,111
Purchases of securities available for sale	(67,037,570)	(38,002,500)	(178,389,563)
Proceeds from sales of securities available for sale	14,906,109	16,988,689	54,888,743
Proceeds from maturities of securities available for sale	23,598,007	21,353,526	89,225,711
Proceeds from sales of securities held for trading	66,982,682		
Proceeds from maturities of securities held for trading	402,552		
Proceeds from maturities of securities held to maturity			1,695,000
Net changes in loans	(49,413,322)	(37,135,911)	(24,314,547)
Purchase of premises and equipment	(5,616,663)	(1,692,870)	(1,891,109)
Premiums on life insurance	(31,432)	(1,031,433)	(26,888)
Proceeds from sale of foreclosed real estate	445,151	1,097,460	2,243,308
Redemption of Federal Home Loan Bank stock		1,840,000	
Other investing activities	7,196	1,100	277,386
Net cash used in investing activities	(15,757,290)	(36,581,939)	(54,103,848)
Financing Activities			
Net change in Noninterest-bearing, interest-bearing demand, money market and savings deposits	18,281,081	17,163,186	34,220,732
Certificates of deposit	(17,487,126)	38,074,323	50,419,722
Short-term borrowings	4,361,549	13,349,546	6,563,833
Proceeds from borrowings	21,250,000	10,000,000	
Repayment of borrowings	(20,125,000)	(40,000,000)	(53,855,000)
Cash dividends	(2,805,966)	(2,843,294)	(2,828,016)
Purchase of common stock	(1,198,950)	(1,973,290)	(284,748)
Exercise of stock options	671,638	563,605	433,704
Reduction in taxes paid due to tax benefit on stock options exercised	124,803	85,772	
Other financing activities	(474,310)	232,088	221,563

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Net cash provided by financing activities	2,597,719	34,651,936	34,891,790
Net Change in Cash and Cash Equivalents	(5,293,448)	1,672,920	(11,054,322)
Cash and Cash Equivalents, Beginning of Year	18,408,717	16,735,797	27,790,119
Cash and Cash Equivalents, End of Year	\$ 13,115,269	\$ 18,408,717	\$ 16,735,797
 Additional Cash Flows and Supplementary Information			
Interest paid	\$ 32,058,041	\$ 28,442,538	\$ 20,257,952
Income tax paid (refunded)	(181,646)	1,126,701	(1,050,862)
Loan balances transferred to foreclosed real estate	680,629	1,119,623	783,083
Securitization of loans	37,297,938		

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data)

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The accounting and reporting policies of Lincoln Bancorp (Company) and its wholly owned subsidiary, Lincoln Bank (Bank), and the Bank's wholly owned subsidiaries, L-F Service Corporation (L-F Service), Citizens Loan and Service Corporation (CLSC) and LF Portfolio Services, Inc. (LF Portfolio), conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. The more significant of the policies are described below.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company is a holding company whose principal activity is the ownership and management of the Bank. The Bank switched from a federal thrift charter to a state charter in 2006 and provides full banking services in a single significant business segment. As a state chartered bank, the Bank is subject to regulation by the Department of Financial Institutions, State of Indiana and the Federal Deposit Insurance Corporation.

The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in Central Indiana. The Bank's loans are generally secured by specific items of collateral including real property, consumer assets and business assets. L-F Service invests in low income housing partnerships. CLSC develops land for residential housing. LF Portfolio manages part of the Company's investment securities portfolio.

Consolidation The consolidated financial statements include the accounts of the Company and the Bank and its subsidiaries after elimination of all material intercompany transactions and accounts.

Cash Equivalents The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Investment Securities Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately in accumulated other comprehensive income (loss), net of tax. Trading securities, if any, are carried at fair value with any unrealized gains or losses reported in the statement of income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Loan securitizations The Company occasionally securitizes certain mortgage loans and creates mortgage-backed securities for sale in the secondary market. Because the resulting securities are collateralized by the identical loans previously held, no gains or losses are recognized at the time of the securitization transactions. When securitized loans are sold to an outside party, the specific-identification method is used to determine the cost of the security sold, and a gain or loss is recognized in income.

Loans held for sale are carried at the lower of aggregate cost or market. Market is determined using the aggregate method. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income based on the difference between estimated sales proceeds and aggregate cost.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)

Loans are carried at the principal amount outstanding. A loan is impaired when, based on current information or events, it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Payments with insignificant delays not exceeding 90 days outstanding are not considered impaired. Certain nonaccrual and substantially delinquent loans may be considered to be impaired. Generally, loans are placed on non-accrual status at 90 days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection. The Company considers its investment in one-to-four family residential loans and consumer loans to be homogeneous and, therefore, excluded from separate identification for evaluation of impairment. Interest income is accrued on the principal balances of loans. The accrual of interest on impaired and nonaccrual loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed when considered uncollectible. Interest income is subsequently recognized only to the extent cash payments are received. Certain loan fees and direct costs are being deferred and amortized as an adjustment of yield on the loans over the contractual lives of the loans. When a loan is paid off or sold, any unamortized loan origination fee balance is credited to income.

Allowance for loan losses The allowance for loan losses represents management's estimate of probable losses inherent in the Company's loan portfolios. In determining the appropriate amount of the allowance for loan losses, management makes numerous assumptions, estimates and assessments.

The Company's strategy for credit risk management includes conservative, centralized credit policies, and uniform underwriting criteria for all loans as well as an overall credit limit for each customer below legal lending limits. The strategy also emphasizes diversification on a geographic, industry and customer level, regular credit quality reviews and quarterly management reviews of large credit exposures and loans experiencing deterioration of credit quality. A standard credit scoring system is used to assess credit risks during the loan approval process of all consumer loans while commercial loans are individually reviewed by a credit analyst with formal presentations to the Bank's Loan Committee.

The Company's allowance consists of three components. The Company estimates probable incurred losses from individual reviews of specific loans and probable incurred losses from historical loss rates. Also, factors affecting probable incurred losses resulting from economic or environmental factors that may not be captured in the first two components of the allowance are considered.

Larger commercial loans that exhibit probable or observed credit weaknesses are subject to individual review. Where appropriate, reserves are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to the Company. Included in the review of individual loans are those that are impaired as provided in SFAS No. 114, Accounting by Creditors for Impairment of a Loan. Any allowances for impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the underlying collateral.

The Company evaluates the collectibility of both principal and interest when assessing the need for a loss accrual. Estimated loss rates are applied to other commercial loans not subject to specific reserve allocations.

Homogenous loans, such as consumer installment and residential mortgage loans are not individually risk graded. Rather, standard credit scoring systems are used to assess credit risks. Loss rates are based on the average net charge-off estimated by loan category. Allowances on individual loans and historical loss rates are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)

The Company's primary market area for lending is central Indiana. When evaluating the adequacy of the allowance, consideration is given to this regional geographic concentration and the closely associated effect changing economic conditions and other qualitative factors have on the Company's customers. The Company has not substantively changed any aspect to its overall approach in the determination of the allowance for loan losses. There have been no material changes in assumptions or estimation techniques as compared to prior periods that impacted the determination of the current period allowance.

Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method based principally on the estimated useful lives of the assets which range from 3 to 39 years. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank (FHLB) system and is carried at the amount at which stock can be redeemed. The required investment in the common stock is based on a predetermined formula.

Foreclosed assets are carried at the lower of cost or fair value less estimated selling costs. When foreclosed assets are acquired, any required adjustment is charged to the allowance for loan losses. All subsequent activity is included in current operations.

Goodwill is annually tested for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Core deposit intangible is being amortized on an accelerated basis over ten years until such time that straight-line amortization exceeds the accelerated method. Such asset is periodically evaluated as to the recoverability of its carrying value.

Mortgage servicing rights on originated loans are capitalized by allocating the total cost of the mortgage loans between the mortgage servicing rights and the loans based on their relative fair values. Capitalized servicing rights, which include purchased servicing rights, are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value.

Investments in limited partnerships are recorded using the equity method of accounting. Losses due to impairment are recorded when it is determined that the investment no longer has the ability to recover its carrying amount. The benefits of low income housing tax credits associated with the investment are accrued when earned.

Stock options The Company has a stock-based employee compensation plan, which is described more fully in Note 18. Prior to 2006, the Company accounted for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date.

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Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. The Company selected the modified prospective application. Accordingly, on January 1, 2006, the Company began expensing the fair value of stock options granted, modified, repurchased or cancelled.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	2005
Net income, as reported	\$ 1,199
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(356)
Pro forma net income	\$ 843
Earnings per share:	
Basic as reported	\$ 0.24
Basic pro forma	0.17
Diluted as reported	0.23
Diluted pro forma	0.16

Income tax in the consolidated statements of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes. The Company or one of its subsidiaries files income tax returns in the U.S. federal and Indiana jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2003.

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, the Company did not identify any uncertain tax positions that it believes should be recognized in the financial statements.

Earnings per share have been computed based upon the weighted-average common shares outstanding during each year. Unearned ESOP shares and RRP shares which have not vested have been excluded from the computation of average shares outstanding.

Reclassifications of certain amounts in the 2006 and 2005 consolidated financial statements have been made to conform to the 2007 presentation. These reclassifications had no impact on net income.

Note 2: Restriction on Cash and Due From Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2007 was \$576,000.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)

Note 3: Investment Securities

	2007			Fair Value
	Gross Amortized Cost	Gross Unrealized Gains	Unrealized Losses	
Available for sale				
Federal agencies	\$ 24,824	\$ 131	\$ (120)	\$ 24,835
Mortgage-backed securities	88,603	736	(179)	89,160
Marketable equity securities	223	34		257
Corporate obligations	13,416		(1,137)	12,279
Municipal securities	23,845	165	(135)	23,875
Total available for sale	\$ 150,911	\$ 1,066	\$ (1,571)	\$ 150,406

	2006			Fair Value
	Gross Amortized Cost	Gross Unrealized Gains	Unrealized Losses	
Available for sale				
Federal agencies	\$ 53,553	\$ 3	\$ (588)	\$ 52,968
Mortgage-backed securities	64,663	113	(475)	64,301
Marketable equity securities	222	27		249
Corporate obligations	13,432		(239)	13,193
Municipal securities	20,622	63	(159)	20,526
Total available for sale	\$ 152,492	\$ 206	\$ (1,461)	\$ 151,237

The amortized cost and fair value of securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2007	
	Amortized Cost	Fair Value
Within one year	\$ 216	\$ 216
One to five years	5,295	5,324
Five to ten years	19,962	20,125
Over ten years	36,612	35,324
	62,085	60,989
Mortgage-backed securities	88,603	89,160
Marketable equity securities	223	257
Totals	\$ 150,911	\$ 150,406

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Securities with a carrying value of \$23,230,000 and \$18,841,000 were pledged at December 31, 2007 and 2006 to secure securities sold under agreements to repurchase. Securities with a carrying value of \$36,068,000 and \$11,767,000 were pledged at December 31, 2007 and 2006 to secure FHLB advances.

During 2007, the Company transferred \$30,137,000 of securities available for sale to trading and these investments were subsequently sold in 2007. Upon the transfer to trading, the unrealized losses on these securities were realized in the income statement. Total realized and unrealized losses on the transfer and sale of these securities totaled \$356,000 and are included in the gross losses total noted in the following paragraph.

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)**

Proceeds from sales of securities available for sale during 2007 were \$14,906,000 and proceeds from sales of securities held for trading were \$66,983,000. Gross gains of \$389,000 and gross losses of \$414,000 were realized on those sales. Proceeds from sales of securities available for sale during 2006 were \$16,989,000. Gross gains of \$53,000 and gross losses of \$39,000 were realized on those sales. Proceeds from sales of securities available for sale during 2005 were \$54,889,000. Gross gains of \$467,000 and gross losses of \$564,000 were realized on those sales.

Certain investment securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2007 and 2006 were \$47,976,000 and \$123,557,000, which is approximately 31.9% and 81.7% of the Company's investment portfolio. These declines primarily resulted from continued increases in market interest rates from acquisition date of the securities. The unrealized losses in corporate obligations primarily relate to four variable-rate trust preferred debt securities issued by regional and national financial institutions.

Substantially all of the Company's investments are either mortgage-backed securities or debt instruments. Based on evaluation of available evidence, including recent changes in market interest rates and credit rating information, management believes the declines in fair value for these securities are generally interest rate related and that all amounts due will be collected according to the contractual terms of the debt securities. Therefore management has concluded that the declines in fair value for these securities are temporary. The Company does not hold any marketable equity securities where the amortized cost was less than the current market value as of December 31, 2007 and 2006.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. At December 31, 2007, the Company has the intent and the ability to hold these securities until the earlier of recovery or maturity.

The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2007 and 2006:

	2007		2007		Total	
	Less than 12 Months Fair Value	Unrealized Loss	12 Months or Longer Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Federal agencies	\$ 4,905	\$ (120)	\$	\$	\$ 4,905	\$ (120)
Mortgage-backed securities	12,825	(30)	9,126	(149)	21,951	(179)
Corporate obligations	5,956	(488)	6,323	(649)	12,279	(1,137)
Municipals	4,391	(59)	4,450	(76)	8,841	(135)
Totals	\$ 28,077	\$ (697)	\$ 19,899	\$ (874)	\$ 47,976	\$ (1,571)

	2006		2006		Total	
	Less than 12 Months Fair Value	Unrealized Loss	12 Months or Longer Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Federal agencies	\$ 7,981	\$ (17)	\$ 38,463	\$ (571)	\$ 46,444	\$ (588)
Mortgage-backed securities	18,894	(50)	31,805	(425)	50,699	(475)
Corporate obligations	1,508	(4)	10,683	(235)	12,191	(239)
Municipals	8,194	(70)	6,029	(89)	14,223	(159)
Totals	\$ 36,577	\$ (141)	\$ 86,980	\$ (1,320)	\$ 123,557	\$ (1,461)

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)

Note 4: Loans and Allowance

	2007	2006	
Real estate mortgage loans			
One-to-four family	\$ 147,941	\$ 198,990	
Multi-family	8,742	6,697	
Real estate construction loans	87,664	61,245	
Commercial, industrial and agricultural loans	275,587	230,585	
Consumer loans	138,413	139,872	
	658,347	637,389	
Less			
Undisbursed portion of loans	18,898	5,088	
Net deferred loan fees and premiums	(2,967)	(3,111)	
Allowance for loan losses	6,582	6,129	
Total loans	\$ 635,834	\$ 629,283	
	2007	2006	2005
Allowance for loan losses			
Balances, January 1	\$ 6,129	\$ 5,843	\$ 5,701
Provision for losses	957	884	2,642
Recoveries on loans	133	86	95
Loans charged off	(637)	(684)	(2,595)
Balances, December 31	\$ 6,582	\$ 6,129	\$ 5,843

Impaired loans totaled \$8,129,000 and \$2,568,000 at December 31, 2007 and 2006, respectively. An allowance for loans losses of \$1,546,000 and \$492,000 relates to impaired loans of \$7,756,000 and \$1,631,000, at December 31, 2007 and 2006, respectively. At December 31, 2007 impaired loans of \$373,000 had no related allowance for loan losses. At December 31, 2006, impaired loans of \$967,000 had no related allowance for loan losses.

Interest of \$176,000, \$176,000, and \$185,000 was recognized on average impaired loans of \$3,843,000, \$2,889,000 and \$5,956,000 for 2007, 2006 and 2005, respectively. Included in the above interest is \$23,000, \$92,000 and \$9,000 of interest that was recognized on a cash basis during 2007, 2006 and 2005, respectively.

At December 31, 2007 and 2006, accruing loans delinquent 90 days or more totaled \$192,000 and \$1,000, respectively. Non-accruing loans at December 31, 2007 and 2006 were \$7,708,000 and \$2,457,000, respectively.

During 2007, the Company transferred loans held for investment of \$44,199,000 to loans held for sale. Unrealized losses of \$2,076,000 were recorded while held for sale. \$3,575,000 of the original loans transferred to loans held for sale were transferred back to the held for investment portfolio at their fair value. The remaining loans held for sale, net of loan payments received, of \$37,298,000 were securitized and classified as trading securities. These trading securities, net of payments received, of \$36,899,000 were sold during 2007 and a gain of \$303,000 was recorded on the sale.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)

Note 5: Premises and Equipment

	2007	2006
Land	\$ 5,748	\$ 2,638
Buildings and land improvements	14,896	13,398
Furniture and equipment	7,313	7,394
Total cost	27,957	23,430
Accumulated depreciation	(9,871)	(9,133)
Net	\$ 18,086	\$ 14,297

Note 6: Investment In Limited Partnership

The Company's investment in a limited partnership of \$1,237,000 and \$1,252,000 at December 31, 2007 and 2006 represents equity in a limited partnership organized to build, own and operate apartment complexes. The Company records its equity in the net income or loss of the partnership based on the Company's interest in the partnership, which is 99 percent in Bloomington Housing Associates L.P. (Bloomington Housing). In addition to recording its equity in the income or losses of the partnerships, the Company has recorded the benefit of a low income housing tax credit of \$150,000, \$150,000 and \$150,000 for the years ended December 31, 2007, 2006 and 2005. Condensed financial statements of the partnership are as follows:

	2007	2006
Assets		
Cash	\$ 265	\$ 168
Land and property	3,629	3,764
Other assets	424	414
Total assets	\$ 4,318	\$ 4,346
Liabilities		
Notes payable	\$ 2,799	\$ 2,835
Other liabilities	122	108
Total liabilities	2,921	2,943
Partners' equity	1,397	1,403
Total liabilities and partners' equity	\$ 4,318	\$ 4,346

	2007	2006	2005
Condensed statement of operations			
Total revenue	\$ 745	\$ 773	\$ 735
Total expenses	750	805	701

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Net income (loss)	\$ (5)	\$ (32)	\$ 34
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Note 7: Goodwill

No impairment loss was recorded in 2007, 2006 or 2005. The goodwill relates primarily to goodwill acquired in the First Shares acquisition totaling \$22,343,000.

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)

Note 8: Core Deposit Intangible

The carrying basis of the recognized core deposit intangible was \$4,741,000 at December 31, 2007 and 2006 and the accumulated amortization of such intangible was \$2,572,000 and \$2,051,000 at those dates.

Amortization expense for 2007, 2006 and 2005 was \$521,000, \$607,000 and \$720,000. Annual estimated amortization expense for each of the next five years is:

2008	\$ 483,000
2009	483,000
2010	459,000
2011	389,000
2012	281,000

Note 9: Deposits

	2007	2006
Noninterest-bearing demand deposits	\$ 45,955	\$ 51,062
Interest-bearing demand deposits	54,180	46,482
Money market savings deposits	173,331	142,717
Savings deposits	53,349	68,273
Certificates and other time deposits of \$100,000 or more	105,333	129,779
Other certificates and time deposits	224,257	217,351
Total deposits	\$ 656,405	\$ 655,664

At December 31, 2007, the scheduled maturities of time deposits are as follows:

2008	\$ 242,282
2009	70,706
2010	12,019
2011	2,636
2012	1,926
Thereafter	21
	\$ 329,590

Note 10: Securities Sold Under Repurchase Agreements

Securities sold under agreements to repurchase were \$16,767,000 and \$16,864,000 at December 31, 2007 and 2006. Agreements outstanding during 2007 and 2006 consisted of obligations of the Company to other parties. The obligations were secured by federal agency securities, and such collateral was held by a financial services company. The maximum amount of outstanding agreements at any month-end during 2007 totaled \$17,106,000 and the daily average of such agreements totaled \$15,344,000. The maximum amount of outstanding agreements at any

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month-end during 2006 totaled \$16,864,000 and the daily average of such agreements totaled \$11,722,000. The agreements outstanding at December 31, 2007 matured on January 2, 2008.

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)****Note 11: Borrowings**

Borrowings at December 31, 2007 and 2006, including Federal Home Loan Bank term advances, Federal Home Loan Bank overnight advances and a line of credit from another financial institution totaled \$109,177,000 and \$103,608,000. The terms of these arrangements are more fully described below.

Amount	
Aggregate annual maturities of borrowing at December 31, 2007, are	
2008	\$ 27,145
2009	25,011
2010	21,011
2011	1,010
2012	20,000
Thereafter	15,000
	\$ 109,177

FHLB advances are secured by mortgage loans and investment securities totaling \$279,251,000 at December 31, 2007. Advances, at interest rates from 3.1 to 5.6 percent, are subject to restrictions or penalties in the event of prepayment.

At December 31, 2007, FHLB advances totaling \$61,000,000 are subject to various options by the FHLB to convert the rates. If the FHLB exercises its option, the advance will be prepayable at the Bank's option, at par and without a penalty fee.

The Bank has an available line of credit with the FHLB totaling \$5,000,000. The line of credit expires October 24, 2008 and bears interest rate equal to the current variable advance rate. At December 31, 2007, the outstanding balance was \$4,308,000.

The Company has a line of credit for \$5,000,000 from another financial institution. The line of credit matures on May 8, 2008 and carries an interest rate of 3 month LIBOR plus 1.50 percent. At December 31, 2007, there was an outstanding balance of \$1,125,000.

Note 12: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans consist of the following:

	2007	2006	2005
Mortgage loan portfolio serviced for:			
FHLMC	\$ 133,888	\$ 104,231	\$ 120,577
Other investors	4,927	5,693	6,187
	\$ 138,815	\$ 109,924	\$ 126,764

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)**

The aggregate fair value of capitalized mortgage servicing rights at December 31, 2007, 2006 and 2005 is based on comparable market values and a valuation model that calculates the present value of future cash flows. For purposes of measuring impairment, risk characteristics including product type, investor type, and interest rates, were used to stratify the originated mortgage servicing rights.

	2007	2006	2005
Mortgage Servicing Rights			
Balances, January 1	\$ 255	\$ 355	\$ 576
Servicing rights capitalized	343	18	52
Amortization of servicing rights	(153)	(118)	(271)
	445	255	357
Valuation allowance			(2)
Balances, December 31	\$ 445	\$ 255	\$ 355

Note 13: Income Tax

	2007	2006	2005
Income tax expense			
Currently payable			
Federal	\$ 456	\$ 1,037	\$ 377
State	25	89	(72)
Deferred			
Federal	(434)	(175)	(365)
State	(436)	(138)	20
Total income tax expense (benefit)	\$ (389)	\$ 813	\$ (40)
Reconciliation of federal statutory to actual tax expense			
Federal statutory income tax at 34%	\$ 462	\$ 1,263	\$ 394
Effect of state income taxes	(271)	(32)	(34)
Tax credits	(150)	(150)	(150)
Tax exempt interest	(296)	(276)	(177)
Cash value of life insurance	(289)	(234)	(229)
ESOP expense in excess of cost	79	86	78
Other	76	156	78
Actual tax expense (benefit)	\$ (389)	\$ 813	\$ (40)
Effective tax rate	(28.6)%	21.9%	(3.5)%

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)**

The components of the deferred tax asset are as follows at December 31:

	2007	2006
Assets		
Allowance for loan losses	\$ 2,769	\$ 2,511
Deferred director fees	912	891
Employee benefits	291	316
Securities available for sale	208	471
Purchase accounting fair value adjustments	73	150
Debt issuance amortization	169	180
Stock options	372	366
Pension liability	74	103
Credit carryforward	277	
Net operating loss carryforward	551	157
Total assets	5,696	5,145
Liabilities		
State income tax	(358)	(210)
Depreciation	(409)	(515)
Prepaid expenses	(167)	(187)
FHLB stock dividends	(430)	(430)
Mortgage servicing rights	(187)	(107)
Core deposit intangible	(823)	(1,027)
Other	(158)	(83)
Total liabilities	(2,532)	(2,559)
	\$ 3,164	\$ 2,586

As of December 31, 2007, the Company had approximately \$6,900,000 of state tax loss carryforward available to offset future franchise tax. The state loss carryforwards expire in tax years 2024 through 2027.

No valuation allowance was necessary at December 31, 2007 and 2006.

Retained earnings include approximately \$7,277,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of December 31, 1987 for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses including redemption of bank stock or excess dividends, or loss of bank status, would create income for tax purposes only, which income would be subject to the then-current corporate income tax rate. At December 31, 2007, the unrecorded deferred income tax liability on the above amount was approximately \$2,474,000.

Note 14: Commitments and Contingent Liabilities

In the normal course of business there are outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such

commitments as it does for instruments that are included in the consolidated balance sheets.

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)**

Financial instruments whose contract amount represents credit risk were as follows:

	2007	2006
Loan commitments	\$ 138,975	\$ 116,138
Standby letters of credit	4,678	5,531

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include residential real estate, income-producing commercial properties, or other assets of the borrower.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party.

The Company and the Bank are also subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate determination of such possible claims or lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

The Bank has several noncancellable operating leases, primarily for leased premises, that expire over the next 20 years. These leases generally contain renewal options for periods ranging from 180 months to 10 years. Rental expense for these leases was \$472,000, \$359,000, and \$335,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Future minimum lease payments under operating leases are:

	Operating Leases
2008	\$ 346
2009	331
2010	332
2011	326
2012	292
Thereafter	2,203
Total minimum lease payments	\$ 3,830

Note 15: Dividend and Capital Restrictions

Without prior approval, current regulations allow the Bank to pay dividends to the Company not exceeding retained net income for the current year plus those for the previous two years.

At December 31, 2007, the shareholder's equity of the Bank was \$98,711,000. Although well capitalized, under current regulations in effect, the Bank is required to apply to the Indiana Department of Financial Institutions to pay dividends to the Company.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)

Note 16: Regulatory Capital

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the subsidiary banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007, the Company and Bank were categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Company and Bank must maintain capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company and Bank's category.

The Company and Bank's actual capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 79,276	11.3%	\$ 56,223	8.0%	\$	N/A
Bank	79,016	11.3	56,117	8.0	70,150	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	72,693	10.3	28,112	4.0		N/A
Bank	72,434	10.3	28,059	4.0	42,090	6.0
Tier I Capital (to Average Assets)						
Consolidated	72,693	8.4	34,432	4.0		N/A
Bank	72,434	8.4	34,369	4.0	42,961	5.0

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)**

The same information at December 31, 2006 is presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 79,198	12.0%	\$ 53,038	8.0%	\$	N/A
Bank	75,902	11.0	54,979	8.0	68,724	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	73,069	11.0	26,519	4.0		N/A
Bank	69,773	10.2	27,489	4.0	41,234	6.0
Tier I Capital (to Average Assets)						
Consolidated	73,069	8.4	34,582	4.0		N/A
Bank	69,773	8.1	34,582	4.0	43,228	5.0

Note 17: Employee Benefits and Change in Accounting Principle

The Company provides pension benefits for substantially all individuals who were employed by the Company prior to July 1, 2004 through its participation in a multi-employer pension plan. On June 30, 2004, the Company froze this defined-benefit pension plan and discontinued the accrual of benefits to plan participants beyond what was already earned to that date. Separate actuarial valuations are not made with respect to each participating employer. Pension expense for 2007, 2006 and 2005 was \$163,000, \$172,000 and \$171,000.

The Company has a retirement savings 401(k) plan in which substantially all employees may participate. Prior to September 1, 2005, the Company matched employees' contributions at the rate of 50 percent for the first 6 percent of W-2 earnings contributed by participants. Beginning September 1, 2005, the Company matches employees' contributions at the rate of 100 percent for the first 3 percent of W-2 earnings contributed by the participants. The Bank's expense for the plan was \$247,000, \$244,000 and \$214,000 for 2007, 2006 and 2005.

The Company has a supplemental retirement plan for directors which provides for continuation of director fees upon events specified under the plan. On December 31, 2006, the Company adopted the recognition provision of SFAS No. 158, Employers' Accounting for Defined, Pension and other Post-Retirement Plans. Upon adoption of SFAS No. 158, the Company recorded an adjustment of \$260,000 to increase the plan liability to the projected benefit obligation. The net of tax adjustment to accumulated other comprehensive loss was \$157,000. The plan liability was \$1,219,000 and \$1,224,000 at December 31, 2007 and 2006. Expense under the plan was \$175,000, \$172,000 and \$159,000 for 2007, 2006 and 2005. Certain disclosures required by SFAS No. 132R, Employers' Disclosures about Pensions and other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106 have been omitted because they are immaterial to the financial statements.

The Company has an ESOP covering substantially all employees of the Company and Bank. The ESOP acquired 560,740 shares of the Company common stock at \$10 per share with funds provided by a loan from the Company. Accordingly, the common stock acquired by the ESOP is shown as a reduction of shareholders' equity. Unearned ESOP shares totaled 249,106 and 278,940 at December 31, 2007 and 2006 and had a fair value of \$3,495,000 and \$5,576,000 at those dates. Shares are released to participants proportionately as the loan is repaid. Dividends on allocated shares are recorded as dividends and charged to retained earnings. Dividends on unallocated shares are used to repay the loan and are treated as compensation expense. Compensation expense is

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)**

recorded equal to the fair market value of the stock when contributions, which are determined annually by the Board of Directors of the Company and Bank, are made to the ESOP. ESOP expense for 2007, 2006 and 2005 was \$530,000, \$565,000 and \$552,000. At December 31, 2007 and 2006, the ESOP had 224,944 and 219,186 allocated shares, 249,106 and 278,940 suspense shares and no committed-to-be released shares.

The Company has a Recognition and Retention Plan (RRP). The RRP has purchased or acquired 308,863 shares of Company common stock, and grants for 291,226 of these shares have been awarded to various directors, officers and employees of the Bank. The awards generally are to vest and be earned by the recipient at a rate of 20 percent per year. The unearned portion of these stock awards is presented as a reduction of shareholders' equity. RRP expense for 2007, 2006 and 2005 was \$98,000, \$112,000 and \$33,000.

Unvested RRP shares at December 31, 2007:

	Number of Shares	Grant Date Fair Value
Beginning of year	28,209	\$ 15.98
Granted		-0-
Vested	(6,079)	15.97
Forfeited or expired		
End of year	22,130	\$ 15.81

Unearned compensation at December 31, 2007 related to the RRP shares is \$202,000 and will be recognized over a weighted average period of 3.0 years.

Note 18: Stock Option Plans

The Company's Stock Option Plans (the Plans), which are shareholder approved, permit the grant of stock options to its directors, officers and other key employees. The Lincoln Bancorp 1999 Stock Option Plan authorized the grant of options for up to 700,925 shares of the Company's common stock, which generally vest at a rate of 20 percent a year and have a 10-year contractual term. The Lincoln Bancorp 2005 Stock Option Plan authorized the grant of options for up to 250,000 shares of the Company's common stock, which may vest at the discretion of the Company and have a 10-year contractual term. The Company believes that such awards better align the interests of its directors and employees with those of its shareholders. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plans). The Company generally issues shares from its authorized shares to satisfy option exercises.

The fair value of each option award is estimated on the date of grant using a binomial option valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2007	2006	2005
Expected volatility	18.3%	18.4%	16.4%
Expected dividends	3.0%	3.1%	3.1%

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Expected term (in years)	8	8	8
Risk-free rate	4.2%	4.9%	4.4%

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)**

A summary of option activity under the Plan as of December 31, 2007 and changes during the year then ended, is presented below:

	Shares	Weighted-Average Exercise Price	2007 Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	714,103	\$ 13.72		
Granted	39,500	14.37		
Exercised	53,731	12.50		
Forfeited or expired	4,500	16.40		
Outstanding, end of year	695,372	\$ 13.83	4.06	\$ 1,023,000
Exercisable, end of year	599,172	\$ 13.36	3.42	\$ 1,018,000

	Shares	Weighted-Average Exercise Price	2006 Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	751,298	\$ 13.58		
Granted	9,000	17.66		
Exercised	46,195	12.20		
Forfeited or expired				
Outstanding, end of year	714,103	\$ 13.72	4.6	\$ 4,478,000
Exercisable, end of year	623,711	\$ 13.07	4.1	\$ 4,316,000

The weighted-average grant-date fair value of options granted during the years 2007, 2006 and 2005 was \$2.75, \$3.69 and \$2.92, respectively. The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005, was \$310,000, \$306,000 and \$265,000, respectively.

As of December 31, 2007, there was \$174,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.2 years.

During 2007, the Company recognized \$22,000 of share-based compensation expense and \$9,000 of tax benefit related to the share based compensation expense.

Note 19: Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss at December 31, 2007 and 2006 consisted of:

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	2007	2006
Net unrealized loss on available-for-sale securities, net of income tax benefit	\$ (322)	\$ (804)
Pension liability not yet recognized in net periodic benefit cost net loss, net of income tax benefit	(112)	(157)
Total	\$ (434)	\$ (961)

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)****Note 20: Fair Values of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

Cash and Cash Equivalents and Interest-Bearing Deposits The fair value of cash and cash equivalents and interest-bearing deposits approximates carrying value.

Securities Fair values are based on quoted market prices.

Loans The fair value for loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

FHLB Stock Fair value of FHLB stock is based on the price at which it may be resold to the FHLB.

Interest Receivable/Payable The fair value of interest receivable/payable approximates carrying values.

Deposits Fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on such time deposits.

Borrowings The fair value of the borrowing is estimated using a discounted cash flow calculation, based on borrowing rates for periods comparable to the remaining terms to maturity of the borrowings.

Advance Payments by Borrowers for Taxes and Insurance The fair value approximates carrying value.

Off-Balance Sheet Commitments Commitments include commitments to originate mortgage and consumer loans and standby letters of credit and are generally of a short-term nature. The fair value of such commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The carrying amounts of these commitments, which are immaterial, are reasonable estimates of the fair value of these financial instruments.

The estimated fair values of the Company's financial instruments are as follows:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	\$ 13,115	\$ 13,115	\$ 18,409	\$ 18,409
Securities available for sale	150,406	150,406	151,237	151,237
Loans, including loans held for sale, net	639,791	633,881	632,996	624,753
Stock in FHLB	8,808	8,808	8,808	8,808
Interest receivable	5,133	5,133	4,786	4,786
Liabilities				
Deposits	656,405	658,818	655,664	656,588
Borrowings				
Securities sold under repurchase agreement	16,767	16,767	16,864	16,864
FHLB advances and borrowings	109,177	110,904	103,608	103,796
Interest payable	2,311	2,311	2,460	2,460

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Advances by borrowers for taxes and insurance	271	271	745	745
Off-balance sheet commitments				

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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)****Note 21: Earnings Per Share**

Earnings per share were computed as follows:

		2007		
		Weighted-Average		Per-Share
		Income	Shares	Amount
Basic Earnings Per Share	income available to common shareholders	\$ 1,749	5,045,769	\$.35
	Effect of Dilutive Securities stock options		110,347	
Diluted Earnings Per Share	income available to common shareholders and assumed conversions	\$ 1,749	5,156,117	\$.34

Options to purchase 44,500 shares of common stock at exercise prices of \$13.89, 17.69 and 19.15 per share were outstanding at December 31, 2007, but were not included in the computation of diluted earning per share because the options were anti-dilutive.

		2006		
		Weighted-Average		Per-Share
		Income	Shares	Amount
Basic Earnings Per Share	income available to common shareholders	\$ 2,900	5,041,962	\$.58
	Effect of Dilutive Securities stock options		129,449	
Diluted Earnings Per Share	income available to common shareholders and assumed conversions	\$ 2,900	5,171,411	\$.56

		2005		
		Weighted-Average		Per-Share
		Income	Shares	Amount
Basic Earnings Per Share	income available to common shareholders	\$ 1,199	5,021,324	\$.24
	Effect of Dilutive Securities stock options		110,661	
Diluted Earnings Per Share	income available to common shareholders and assumed conversions	\$ 1,199	5,131,985	\$.23

Options to purchase 240,796 shares of common stock at exercise prices of \$16.20 to \$18.75 per share were outstanding at December 31, 2005, but were not included in the computation of diluted earning per share because the options were anti-dilutive.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)

Note 22: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Parent Company:

Condensed Balance Sheets

	2007	2006
Assets		
Cash and cash equivalents on deposit with Bank	\$ 766	\$ 1,725
Investment securities available for sale	257	249
Investment in common stock of Bank	98,711	96,005
Other assets	1,134	2,064
Total assets	\$ 100,868	\$ 100,043
Liabilities		
Note payable	\$ 1,125	\$
Other	757	743
Total liabilities	1,882	743
Shareholders' Equity	98,986	99,300
Total liabilities and shareholders' equity	\$ 100,868	\$ 100,043

Condensed Statements of Income

	2007	2006	2005
Income			
Dividends from Bank	\$	\$ 5,450	\$ 5,000
Other income	84	28	356
Total income	84	5,478	5,356
Expenses			
	452	398	473
Income (loss) before income tax benefit and equity in undistributed income of Bank	(368)	5,080	4,883
Income tax benefit	(54)	(41)	(26)
Income (loss) before equity in undistributed income of Bank	(314)	5,121	4,909
Equity in undistributed (distribution in excess of) income of Bank	2,063	(2,221)	(3,710)
Net Income	\$ 1,749	\$ 2,900	\$ 1,199

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)

Condensed Statements of Cash Flows

	2007	2006	2005
Operating Activities			
Net income	\$ 1,749	\$ 2,900	\$ 1,199
Items not requiring (providing) cash			
Distributions in excess of (equity in undistributed) income of Bank	(2,063)	2,221	3,710
Other	1,438	(726)	1,120
Net cash provided by operating activities	1,124	4,395	6,029
Financing Activities			
Proceeds from borrowings	1,250		
Repayment of borrowings	(125)		(3,000)
Repurchase of common stock	(1,199)	(1,973)	(285)
Stock options exercised	672	564	434
Tax benefit on stock options exercised	125	86	
Cash dividends	(2,806)	(2,834)	(2,828)
Net cash used in financing activities	(2,083)	(4,157)	(5,679)
Net Change in Cash and Cash Equivalents	(959)	238	350
Cash and Cash Equivalents at Beginning of Year	1,725	1,487	1,137
Cash and Cash Equivalents at End of Year	\$ 766	\$ 1,725	\$ 1,487

Note 23: Quarterly Results of Operations (Unaudited)

Quarter Ending	Interest Income	Interest Expense	Net Interest Income	Provision For Loan Losses	Net Income (Loss)	Basic Earnings (Loss) Per Share	Diluted Earnings (Loss) Per Share	Dividends Per Share
2007								
March	\$ 13,225	\$ 7,864	\$ 5,361	\$ 207	\$ (425)	\$ (0.08)	\$ (0.08)	\$ 0.14
June	13,483	8,147	5,336	100	803	0.16	0.15	0.14
September	13,601	8,100	5,501	150	521	0.10	0.10	0.14
December	13,385	7,797	5,588	500	850	0.17	0.17	0.14
	\$ 53,694	\$ 31,908	\$ 21,786	\$ 957	\$ 1,749			
2006								
March	\$ 12,005	\$ 6,411	\$ 5,594	\$ 236	\$ 779	\$ 0.15	\$ 0.15	\$ 0.14
June	12,777	7,051	5,726	266	786	0.16	0.15	0.14
September	13,112	7,582	5,530	120	840	0.17	0.16	0.14
December	13,324	7,963	5,361	262	495	0.10	0.10	0.14

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\$ 51,218 \$ 29,007 \$ 22,211 \$ 884 \$ 2,900

Note 24: Future Accounting Matters

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007, 2006 and 2005 (Table Dollar Amounts in Thousands, Except Share Data) (Continued)

and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The adoption on January 1, 2008 of SFAS No. 157 did not have a material impact on the financial condition or results of operations of the Company.

On February 15, 2007, the FASB issued its Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. FAS 159 permits entities to elect to report most financial assets and liabilities at their fair value with changes in fair value included in net income. The fair value option may be applied on an instrument-by-instrument or instrument class-by-class basis. The option is not available for deposits withdrawable on demand, pension plan assets and obligations, leases, instruments classified as stockholders' equity, investments in consolidated subsidiaries and variable interest entities and certain insurance policies. The new standard is effective at the beginning of the Company's fiscal year beginning January 1, 2008, and early application may be elected in certain circumstances. The Company expects to first apply the new standard at the beginning of its 2008 fiscal year. The adoption on January 1, 2008 of SFAS No. 159 did not have a material impact on the financial condition or results of operations of the Company.

Table of Contents**LINCOLN BANCORP AND SUBSIDIARY****Consolidated Condensed Balance Sheets**

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Cash and due from banks	\$ 3,712,318	\$ 3,935,172
Federal funds sold	1,706,823	1,983,662
Interest-bearing demand deposits in other banks	13,512,200	7,196,435
Cash and cash equivalents	18,931,341	13,115,269
Investment securities available for sale	133,336,698	150,405,859
Loans held for sale	3,456,116	3,956,914
Loans, net of allowance for loan losses of \$8,192,603 and \$6,581,860	626,606,930	635,834,260
Premises and equipment	17,545,868	18,086,416
Investments in limited partnerships	1,206,339	1,237,498
Federal Home Loan Bank stock	8,808,200	8,808,200
Interest receivable	4,802,194	5,133,487
Goodwill	23,906,877	23,906,877
Core deposit intangible	1,927,694	2,168,978
Cash value of life insurance	21,460,514	21,051,945
Other assets	7,908,793	5,608,162
Total assets	\$ 869,897,564	\$ 889,313,865
Liabilities		
Deposits		
Noninterest-bearing	\$ 47,293,670	\$ 45,955,056
Interest-bearing	584,697,351	610,449,489
Total deposits	631,991,021	656,404,545
Securities sold under repurchase agreements	13,283,368	16,766,968
Borrowings	119,511,869	109,177,208
Interest payable	1,791,667	2,310,627
Other liabilities	6,720,722	5,668,732
Total liabilities	773,298,647	790,328,080
Commitments and Contingencies		
Shareholders Equity		
Common stock, without par value		
Authorized 20,000,000 shares Issued and outstanding 5,319,731 and 5,312,981 shares	61,827,971	61,720,988
Retained earnings	39,885,664	40,190,154
Accumulated other comprehensive loss	(2,766,838)	(434,297)
Unearned employee stock ownership plan (ESOP) shares	(2,347,880)	(2,491,060)
Total shareholders equity	96,598,917	98,985,785
Total liabilities and shareholders equity	\$ 869,897,564	\$ 889,313,865

See notes to consolidated condensed financial statements.

Table of Contents**LINCOLN BANCORP AND SUBSIDIARY****Consolidated Condensed Statements of Income****(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Interest Income				
Loans receivable, including fees	\$ 9,830,858	\$ 11,019,204	\$ 20,335,803	\$ 21,969,324
Investment securities	1,682,428	2,245,184	3,574,146	4,220,467
Federal funds sold	7,700	40,339	28,419	50,113
Deposits with financial institutions	11,743	90,860	16,718	266,120
Dividend income	125,641	87,961	235,502	202,818
Total interest and dividend income	11,658,370	13,483,548	24,190,588	26,708,842
Interest Expense				
Deposits	4,350,960	6,826,510	9,773,358	13,512,435
Short-term borrowings	65,911	157,471	162,298	317,167
Federal Home Loan Bank advances	1,174,948	1,163,202	2,350,116	2,182,258
Total interest expense	5,591,819	8,147,183	12,285,772	16,011,860
Net Interest Income	6,066,551	5,336,365	11,904,816	10,696,982
Provision for loan losses	298,493	100,000	1,805,542	307,000
Net Interest Income After Provision for Loan Losses	5,768,058	5,236,365	10,099,274	10,389,982
Other Income				
Service charges on deposit accounts	695,809	644,416	1,337,489	1,186,211
Net gains (losses) on sales of loans	333,240	(166,860)	789,939	(1,173,139)
Net realized and unrealized gains (losses) on sales of securities	-0-	365,772	70,126	(52,951)
Point of sale income	297,200	233,960	559,832	427,648
Loan servicing fees	92,221	75,486	186,157	152,416
Increase in cash value of life insurance	205,417	210,384	408,569	422,629
Gain on termination of forward commitment		358,750		358,750
Other income	229,559	162,046	447,233	381,995
Total other income	1,853,446	1,883,954	3,799,345	1,703,559
Other Expenses				
Salaries and employee benefits	3,274,733	3,069,558	6,628,833	6,165,422
Net occupancy expenses	611,942	591,279	1,256,944	1,136,532
Equipment expenses	411,516	418,892	822,242	844,861
Data processing fees	708,118	674,366	1,372,990	1,206,263
Professional fees	214,935	176,793	428,021	321,030
Director and committee fees	99,196	96,516	140,483	212,992
Advertising and business development	239,349	296,528	468,021	578,505
Core deposit intangible amortization	120,644	137,231	241,284	274,461
Other expenses	770,826	732,995	1,441,822	1,391,491

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Total other expenses	6,451,259	6,194,158	12,800,640	12,131,557
Income (Loss) Before Income Tax	1,170,245	926,161	1,097,979	(38,016)
Income tax expense (benefit)	207,455	122,934	(46,091)	(416,119)
Net Income	\$ 962,790	\$ 803,227	\$ 1,144,070	\$ 378,103
Basic Earnings per Share	\$ 0.19	\$ 0.16	\$ 0.23	\$ 0.07
Diluted Earnings per Share	\$ 0.19	\$ 0.15	\$ 0.23	\$ 0.07
Dividends per Share	\$ 0.14	\$ 0.14	\$ 0.28	\$ 0.28

See notes to consolidated condensed financial statements.

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Table of Contents**LINCOLN BANCORP AND SUBSIDIARY****Consolidated Condensed Statements of Comprehensive Income/Loss****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net Income	\$ 962,790	\$ 803,227	\$ 1,144,070	\$ 378,103
Other comprehensive income (loss), net of tax				
Unrealized losses on securities available for sale				
Unrealized holding losses arising during the period, net of tax benefit of \$1,200,552, \$631,959, 1,245,432 and \$493,735	(2,259,182)	(1,130,617)	(2,329,150)	(870,789)
Less: Reclassification adjustment for realized gains (losses) included in net income, net of tax expense (benefit) of \$-0-, \$141,987, 27,664, and \$(4,329)	-0-	223,785	42,461	(48,622)
Reclassification adjustment for amortization of additional pension liability recognized in expense under FAS 158, net of tax benefit of \$2,923, \$3,748, 25,615 and \$7,496	4,458	5,715	39,070	11,430
	(2,254,724)	(1,348,687)	(2,332,541)	(810,737)
Comprehensive loss	\$ (1,291,934)	\$ (545,460)	\$ (1,188,471)	\$ (432,634)

See notes to consolidated condensed financial statements.

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LINCOLN BANCORP AND SUBSIDIARY

Consolidated Condensed Statement of Shareholders Equity

For the Six Months Ended June 30, 2008

(Unaudited)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP Shares	Total
	Shares Outstanding	Amount				
Balances, January 1, 2008	5,312,981	\$ 61,720,988	\$ 40,190,154	\$ (434,297)	\$ (2,491,060)	\$ 98,985,785
Net income for the period			1,144,070			1,144,070
Unrealized losses on securities, net of reclassification adjustment				(2,371,611)		(2,371,611)
Stock options exercised	6,750	39,082				39,082
Stock option expense		34,217				34,217
ESOP shares earned			34,006		143,180	177,186
Amortization of unearned compensation expense		33,684	6,486			40,170
Amortization of additional pension liability recognized under FAS 158				39,070		39,070
Cash dividends (\$.28 per share)			(1,489,052)			(1,489,052)
Balances, June 30, 2008	5,319,731	\$ 61,827,971	\$ 39,885,664	\$ (2,766,838)	\$ (2,347,880)	\$ 96,598,917

See notes to consolidated condensed financial statements.

Table of Contents**LINCOLN BANCORP AND SUBSIDIARY****Consolidated Condensed Statements of Cash Flows****(Unaudited)**

	Six Months Ended June 30,	
	2008	2007
Operating Activities		
Net income	\$ 1,144,070	\$ 378,103
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Provision for loan losses	1,805,542	307,000
Investment securities amortization (accretion), net	(1,834)	13,968
Investment securities (gains) losses	(70,126)	52,951
Loans originated for sale	(47,091,718)	(36,491,298)
Proceeds from sale of loans and payments received on loans held for sale	48,330,042	40,108,216
Net realized and unrealized (gains) losses on loans held for sale	(789,939)	1,173,139
Amortization of net loan origination costs	368,918	342,840
Amortization of purchase accounting adjustments	185,901	158,456
Depreciation and amortization	872,397	878,748
Amortization of unearned compensation expense	40,170	49,171
ESOP shares earned	177,186	287,939
Net change in:		
Interest receivable	331,293	(296,800)
Interest payable	(518,960)	(24,514)
Other adjustments	(525,547)	(346,624)
Net cash provided by operating activities	4,257,395	6,591,295
Investing Activities		
Purchases of securities available for sale	(10,476,929)	(62,910,328)
Proceeds from maturities of securities available for sale	23,973,343	5,432,665
Proceeds from sales of securities held for trading		66,982,682
Proceeds from maturities of securities held for trading		402,552
Net change in loans	6,497,106	(18,209,133)
Purchases of property and equipment	(333,115)	(2,613,162)
Proceeds from sales of foreclosed real estate	410,872	202,673
Other investing activities		2,801
Net cash provided by (used in) investing activities	20,071,277	(10,709,250)
Financing Activities		
Net change in		
Noninterest-bearing, interest-bearing demand, money market and savings deposits	(19,783,947)	15,977,875
Certificates of deposit	(4,629,577)	27,892,131
Short term borrowings	(17,366,837)	(1,189,928)
Proceeds from FHLB advances	41,350,000	126,307,857
Repayment of FHLB advances	(17,125,000)	(152,857,857)
Dividends paid	(1,488,107)	(1,418,521)
Purchase of common stock		(148,950)
Exercise of stock options	39,082	396,638
Net change in advances by borrowers for taxes and insurance	491,786	116,971

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Net cash provided by (used in) financing activities	(18,512,600)	15,076,216
Net Change in Cash and Cash Equivalents	5,816,072	10,958,261
Cash and Cash Equivalents, Beginning of Period	13,115,269	18,408,717
Cash and Cash Equivalents, End of Period	\$ 18,931,341	\$ 29,366,978
Additional Cash Flows and Supplementary Information		
Interest paid	\$ 12,804,732	\$ 16,036,374
Income tax paid	700,000	
Loan balances transferred to foreclosed real estate	604,045	114,578
Transfer of loans to held for sale loans net		40,741,148
Transfer of investment securities available for sale to trading securities		29,718,011
Securitization of loans		37,297,938

See notes to consolidated condensed financial statements.

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Table of Contents**LINCOLN BANCORP AND SUBSIDIARY****Notes to Unaudited Consolidated Condensed Financial Statements****Note 1: Basis of Presentation**

The consolidated financial statements include the accounts of Lincoln Bancorp (the Company), its wholly owned subsidiary, Lincoln Bank, a state chartered commercial bank (Lincoln or the Bank), and Lincoln's wholly owned subsidiaries, LF Service Corporation (LF Service) and Citizens Loan and Service Corporation (CLSC), both Indiana corporations, and LF Portfolio Services, Inc. (LF Portfolio), a Delaware corporation. A summary of significant accounting policies is set forth in Note 1 of Notes to Financial Statements included in the December 31, 2007 Annual Report to Shareholders. All significant intercompany accounts and transactions have been eliminated in consolidation.

The interim consolidated financial statements have been prepared in accordance with instructions to Form 10-Q, and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

The interim consolidated financial statements at June 30, 2008 and for the three months and six months ended June 30, 2008 and 2007, have not been audited by independent accountants, but reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for such periods. The results of operations for the three-month period and six month periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the entire year. The consolidated condensed balance sheet of the Company as of December 31, 2007 has been derived from the audited consolidated balance sheet of the Company as of that date.

Reclassifications of certain amounts in the 2007 consolidated financial statements have been made to conform to the 2008 presentation.

Note 2: Earnings Per Share

Earnings per share have been computed based upon the weighted-average common shares outstanding. Unearned Employee Stock Ownership Plan shares have been excluded from the computation of average common shares outstanding.

	Three Months Ended June 30, 2008			Three Months Ended June 30, 2007		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
Basic earnings per share						
Income available to common shareholders	\$ 962,790	5,047,739	\$.19	\$ 803,227	5,052,854	\$.16
Effect of dilutive RRP awards and stock options		16,022			134,614	
Diluted earnings per share						
Income available to common shareholders and assumed conversions	\$ 962,790	5,063,761	\$.19	\$ 803,227	5,187,468	\$.15

Table of Contents**LINCOLN BANCORP AND SUBSIDIARY****Notes to Unaudited Consolidated Condensed Financial Statements (Continued)**

	Six Months Ended June 30, 2008			Six Months Ended June 30, 2007		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
Basic earnings per share						
Income available to common shareholders	\$ 1,144,070	5,044,588	\$.23	\$ 378,103	5,042,808	\$.07
Effect of dilutive RRP awards and stock options		23,119			140,286	
Diluted earnings per share						
Income available to common shareholders and assumed conversions	\$ 1,144,070	5,067,707	\$.23	\$ 378,103	5,183,094	\$.07

Options to purchase 483,622 shares of common stock at exercise prices of \$11.91 to \$19.40 per share were outstanding at June 30, 2008, but were not included in the computation of diluted earnings per share because the options were anti-dilutive.

Options to purchase 8,500 shares of common stock at exercise prices of \$17.69 to \$19.15 per share were outstanding at June 30, 2007, but were not included in the computation of diluted earnings per share because the options were anti-dilutive.

Note 3: Disclosures About Fair Value of Assets and Liabilities

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the period.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Table of Contents**LINCOLN BANCORP AND SUBSIDIARY****Notes to Unaudited Consolidated Condensed Financial Statements (Continued)**

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include certain collateralized mortgage obligations, mortgage backed securities, corporate trust preferred notes and certain municipal securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include certain trust preferred stock pools and structured government agency securities which are less liquid securities.

Loans Held for Sale

Loans held for sale are initially recorded at cost and evaluated for lower of cost or fair value at each reporting period. As of June 30, 2008 the fair value of loans held for sale approximated cost and as such no fair value disclosure is included on these loans in the tables below.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2008.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	\$ 133,336,698	\$ -0-	\$ 126,749,704	\$ 6,586,994

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs for the period April 1, 2008 through June 30, 2008:

	Available-for-sale securities
Beginning balance at March 31, 2008	\$ 7,095,572
Total realized and unrealized gains and losses	
Amortization included in net income	(562)
Unrealized losses included in other comprehensive income	(499,213)
Purchases, issuances and settlements including paydowns	(8,803)
Transfers in and/or out of Level 3	-0-
Ending balance at June 30, 2008	\$ 6,586,994
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	\$ -0-

Table of Contents**LINCOLN BANCORP AND SUBSIDIARY****Notes to Unaudited Consolidated Condensed Financial Statements (Continued)**

Realized and unrealized gains and losses included in net income for the period April 1, 2008, through June 30, 2008, are reported in the consolidated statements of income as follows:

	Operating Income	Other Income (Expense)
Total gains and losses	\$ -0-	\$ -0-
Change in unrealized gains or losses relating to assets still held at the balance sheet date	\$ -0-	\$ -0-

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs for the period January 1, 2008 through June 30, 2008:

	Available-for-sale securities
Beginning balance at December 31, 2007	\$ 7,185,799
Total realized and unrealized gains and losses	
Amortization included in net income	(4,796)
Unrealized losses included in other comprehensive income	(578,113)
Purchases, issuances and settlements including paydowns	(15,896)
Transfers in and/or out of Level 3	-0-
Ending balance at June 30, 2008	\$ 6,586,994
Total gains or losses for the period included in net income attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	\$ -0-

Realized and unrealized gains and losses included in net income for the period from January 1, 2008, through June 30, 2008, are reported in the consolidated statements of income as follows:

	Operating Income	Other Income (Expense)
Total gains and losses	\$ -0-	\$ -0-
Change in unrealized gains or losses relating to assets still held at the balance sheet date	\$ -0-	\$ -0-

Following is a description of the valuation methodologies used for instruments measured at fair values on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a non-recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2008 (In Thousands).

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 6,600	\$	\$	\$ 6,600
Mortgage Servicing Rights	52			52

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LINCOLN BANCORP AND SUBSIDIARY

Notes to Unaudited Consolidated Condensed Financial Statements (Continued)

Impaired Loans

Loan impairment is reported when full payment under the contractual loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of collateral if the loan is collateral dependent. Loans are evaluated for impairment quarterly.

During the first six months of 2008, the Bank evaluated \$8.6 million of loans for impairment and determined specific impairment on these loans totaling \$2.0 million. Certain of these impaired loans were impaired for the first time, partially charged-off or re-evaluated, resulting in a remaining balance for these loans, net of specific allowance, of \$6.6 million. This valuation would be considered Level 3. Level 3 inputs for impaired loans included current and prior appraisals, discounting factors, the borrowers' financial results and other considerations including expected cash flows.

Mortgage Servicing rights

Mortgage servicing rights are initially recorded at fair value and are subsequently reported at amortized cost and periodically evaluated for impairment as described in (SFAS) No. 156, *Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140*. New mortgage servicing rights recorded during the current accounting period are recorded at fair value and are disclosed as a nonrecurring measurement.

Mortgage servicing rights recorded as an asset and into income during the three months ended March 31, 2008 totaled \$42,000 and \$52,000 for the six months ended June 30, 2008. Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair values of new mortgage servicing rights are estimated using discounted cash flow models. Due to the nature of the valuation inputs, recording initial mortgage servicing rights are classified within Level 3 of the hierarchy.

Note 4: Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of the adoption was not material.

In February 2006, FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159). Adoption of SFAS 159 is required for January 1, 2008. This statement allows, but does not require, companies to record certain assets and liabilities at their fair value. The fair value determination is made at the instrument level, so similar assets or liabilities could be partially accounted for using the historical cost method, while other similar assets or liabilities are accounted for using the fair value method. Changes in fair value are recorded through the income statement in subsequent periods. The statement provides for a one time opportunity to transfer existing assets and liabilities to fair value at the point of adoption with a cumulative effect adjustment recorded against equity. After adoption, the election to report assets or liabilities at fair value must be made at the point of their inception. The adoption of this statement did not have a material impact on the Company's consolidated financial statements.

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LINCOLN BANCORP AND SUBSIDIARY

Notes to Unaudited Consolidated Condensed Financial Statements (Continued)

Financial Accounting Standards Board Statement No. 141 (SFAS 141R), Business Combinations (Revised 2007), was issued in December 2007 and replaces SFAS 141 which applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual asset acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed.

Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting. Instead, that contingency would be subject to the probable and estimable recognition criteria under SFAS 5, Accounting for Contingencies. The Company is evaluating the requirements of SFAS 141R to determine if it will have a significant impact on the Company's financial condition or results of operations. This statement is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 with early adoption prohibited.

Financial Accounting Standards Board Statement No. 160 (SFAS 160), Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51, was issued in December 2007 and establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as a minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that are attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

Financial Accounting Standards Board Statement No. 161 (SFAS 161), Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133, was issued in March 2008 and amends and expands the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for the Company on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

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APPENDIX A

The Merger Agreement has been included to provide you with information regarding its terms. It is not intended to provide any other factual information about Lincoln or First Merchants. Such information can be found elsewhere in this proxy statement and in the public filings that Lincoln and First Merchants make with the Securities and Exchange Commission, which are available without charge at www.sec.gov.

The Merger Agreement contains representations and warranties Lincoln and First Merchants made to each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure letters that Lincoln and First Merchants have exchanged in connection with signing the Merger Agreement. Although Lincoln and First Merchants do not believe that the disclosure letters contain information that the securities laws require to be publicly disclosed, the disclosure letters do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached Merger Agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified by the underlying disclosure letters. These disclosure letters contain information that has been included in Lincoln's and First Merchants' prior public disclosures, as well as potential additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the Merger Agreement, which subsequent information may or may not be fully reflected in Lincoln's and First Merchants' public disclosures.

AGREEMENT OF REORGANIZATION AND MERGER

BETWEEN

FIRST MERCHANTS CORPORATION

AND

LINCOLN BANCORP

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EXECUTION COUNTERPART

AGREEMENT OF REORGANIZATION AND MERGER

BETWEEN

FIRST MERCHANTS CORPORATION

AND

LINCOLN BANCORP

THIS AGREEMENT OF REORGANIZATION AND MERGER (the Agreement), is entered as of the 2nd day of September, 2008, by and between **FIRST MERCHANTS CORPORATION**, an Indiana corporation (First Merchants) and **LINCOLN BANCORP**, an Indiana corporation (Lincoln).

W I T N E S S E T H:

WHEREAS, First Merchants is a registered bank holding company under the Bank Holding Company Act of 1956, as amended, with its principal place of business in Muncie, Delaware County, Indiana and with First Merchants Bank of Central Indiana, National Association, a national bank (FMBCI) as its wholly-owned subsidiary;

WHEREAS, Lincoln is a registered bank holding company under the Bank Holding Company Act of 1956, as amended, with its principal place of business in Plainfield, Hendricks County, Indiana, with Lincoln Bank, an Indiana state bank (the Bank) as its wholly-owned subsidiary;

WHEREAS, LF Portfolio Services, Inc. (LF Portfolio) is a corporation duly organized and existing under the laws of the State of Delaware and is a wholly-owned subsidiary of the Bank (the Bank , LF Portfolio , LF Service (as defined below) and Citizens (as defined below) are sometimes collectively referred to herein as Subsidiaries)

WHEREAS, it is the desire of First Merchants and Lincoln to effect a series of transactions whereby (i) Lincoln will merge with and into First Merchants, (ii) the Bank will merge with and into FMBCI, and (iii) LF Portfolio will become a wholly-owned subsidiary of FMBCI; and

WHEREAS, a majority of the entire Boards of Directors of First Merchants, FMBCI, Lincoln and the Bank have approved this Agreement, designated it as a plan of reorganization within the provisions of Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended (the Code), and authorized its execution.

NOW, THEREFORE, in consideration of the mutual promises, covenants, and agreements herein contained and other good and valuable consideration, the receipt of which is hereby acknowledged, First Merchants and Lincoln hereby make this Agreement and prescribe the terms and conditions of the merger of Lincoln with and into First Merchants and the Bank with and into FMBCI and the mode of carrying the transactions into effect as follows:

SECTION 1

The Mergers

1.01 *Lincoln Merger*. Subject to the terms and conditions of this Agreement, on the Effective Date (as defined in Section 11 hereof), Lincoln shall be merged with and into First Merchants, which shall be the Continuing Company and shall continue its corporate existence under the laws of the State of Indiana, pursuant to the provisions of and with the effect provided in the Indiana Business Corporation Law and particularly Indiana Code § 23-1-40 (the Merger).

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1.02 *Bank Merger*. Subject to the terms and conditions of this Agreement, on the Effective Date, or another date subsequent thereto, the Bank shall be merged with and into FMBCI pursuant to the terms and conditions of the Agreement and Plan of Merger attached hereto as *Exhibit A* (the *Bank Merger Agreement*) and otherwise in accordance with 12 USC 215a and The Indiana Financial Institutions Act, as amended, together with any regulations promulgated thereunder (the *Bank Merger*).

1.03 *Right to Revise Mergers*. First Merchants may, at any time, change the method of effecting the Merger or the Bank Merger if and to the extent First Merchants deems such change to be desirable, including, without limitation, to provide for the merger of Lincoln into a wholly-owned subsidiary of First Merchants and/or the merger of the Bank and LF Portfolio or either of them into FMBCI or wholly-owned subsidiaries of First Merchants or FMBCI; provided, however, that no such change, modification or amendment shall (a) alter or change the amount or kind of consideration to be received by the shareholders of Lincoln specified in Section 3 hereof as a result of the Merger, except in accordance with the terms of Section 3 hereof; (b) adversely affect the tax treatment to the shareholders of Lincoln; (c) alter or change any of First Merchant s covenants specified in Section 8 hereof; or (d) materially impede or delay receipt of any approvals referred to in this Agreement or the consummation of the transactions contemplated by this Agreement.

SECTION 2

Effect Of The Merger

Upon the Merger becoming effective:

2.01 *General Description*. The separate existence of Lincoln shall cease and the Continuing Company shall possess all of the assets of Lincoln and all of its rights, privileges, immunities, powers, and franchises and shall be subject to and assume all of the duties and liabilities of Lincoln.

2.02 *Name, Offices, and Management*. The name of the Continuing Company shall continue to be First Merchants Corporation. Its principal office shall be located at 200 E. Jackson Street, Muncie, Indiana. Except as otherwise provided in Section 8.07 hereof, the Board of Directors of the Continuing Company, until such time as their successors have been elected and qualified, shall consist of the current Board of Directors of First Merchants. The officers of First Merchants immediately prior to the Effective Date shall continue as the officers of the Continuing Company.

2.03 *Capital Structure*. The amount of capital stock of the Continuing Company shall not be less than the capital stock of First Merchants immediately prior to the Effective Date increased by the amount of capital stock issued in accordance with Section 3 hereof.

2.04 *Articles of Incorporation and Bylaws*. The Articles of Incorporation and the Bylaws of the Continuing Company shall be those of First Merchants immediately prior to the Effective Date until the same shall be further amended as provided by law.

2.05 *Assets and Liabilities*. The title to all assets, real estate and other property owned by First Merchants and Lincoln shall vest in the Continuing Company without reversion or impairment. All liabilities of Lincoln shall be assumed by the Continuing Company.

2.06 *Additional Actions*. If, at any time after the Effective Date, the Continuing Company shall consider or be advised that any further deeds, assignments or assurances in law or any other acts are necessary or desirable (a) to vest, perfect or confirm, of record or otherwise, in the Continuing Company its right, title or interest in, to or under any of the rights, properties or assets of Lincoln or the Subsidiaries, or (b) otherwise carry out the purposes of this Agreement, Lincoln and the Subsidiaries and their respective officers and directors shall be deemed to have granted to the Continuing Company an irrevocable power of attorney to execute and deliver all such deeds, assignments or assurances in law and to do all acts necessary or proper to vest, perfect or confirm

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title to and possession of such rights, properties or assets in the Continuing Company and otherwise to carry out the purposes of this Agreement, and the officers and directors of the Continuing Company are authorized in the name of Lincoln or the Subsidiaries or otherwise to take any and all such action.

SECTION 3

Consideration To Be

Distributed To Shareholders Of Lincoln

3.01 *Consideration.* Upon and by reason of the Merger becoming effective, the shareholders of Lincoln of record on the Effective Date shall be entitled to receive in exchange for the Lincoln common shares held and at their election (subject to the limitations and prorations set forth in this Section 3) either (i) 0.7004 (the Conversion Ratio) shares of First Merchants common stock for each Lincoln common share held (Share Option), or (ii) cash in the amount of \$15.76 for each share of Lincoln's common stock held (Cash Option), subject to the provisions and limitations of Section 3.07. A Lincoln shareholder shall be entitled to elect the Share Option for all shares held of record, the Cash Option for all shares held of record or the Share Option for a portion of the shares held of record and the Cash Option for a portion of the shares held of record. The Conversion Ratio shall be subject to adjustment as set forth in Sections 3.03 and 3.04.

3.02 *No Fractional First Merchants Common Shares.* Certificates for fractional shares of common stock of First Merchants shall not be issued in respect of fractional interests arising from the Conversion Ratio. Each Lincoln shareholder who would otherwise have been entitled to a fraction of a First Merchants share, upon surrender of all such shareholder's certificates representing Lincoln's common shares, shall be paid in cash (without interest) in an amount equal to the fraction of the First Merchants Average Price (as defined below). No such shareholder of Lincoln shall be entitled to dividends, voting rights or any other rights in respect of any fractional share.

3.03 *Recapitalization.* If, between the date of this Agreement and the Effective Date, First Merchants issues a stock dividend with respect to its shares of common stock, combines, subdivides, or splits up its outstanding shares or takes any similar recapitalization action, then the Conversion Ratio shall be adjusted so that each Lincoln shareholder electing the Share Option shall receive such number of First Merchants shares as represents the same percentage of outstanding shares of First Merchants common stock at the Effective Date as would have been represented by the number of shares such shareholder would have received if the recapitalization had not occurred.

3.04 *Termination Rights.*

(a) As used in this Section 3.04, the term First Merchants Average Price shall mean the average of the closing price of the common stock of First Merchants as reported in Bloomberg, L.P. for the twenty (20) days that First Merchants common stock trades on NASDAQ preceding the fifth (5th) calendar day prior to the Effective Date (the Determination Date). The First Merchants Average Price and the dollar amounts set forth in Sections 3.04(b) and 3.04(c) shall be appropriately and proportionately adjusted to reflect any share adjustment as contemplated by Section 3.03 hereof.

(b) Lincoln may terminate this Agreement if its Board of Directors so determines by a vote of a majority of the members of its entire Board of Directors if the First Merchants Average Price shall be less than \$16.50; subject to the following two provisions. If Lincoln elects to exercise its right of termination pursuant to the immediately preceding sentence, it shall give written notice to First Merchants within forty-eight (48) hours of the Determination Date. Within three business days after the date of receipt of such notice, First Merchants shall have the option of adjusting the Conversion Ratio to equal a number equal to a quotient, the numerator of which is the product of \$16.50 and the Conversion Ratio (as then in effect) and the denominator of which is the First Merchants Average Price. If First Merchants makes an election

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contemplated by the preceding sentence, it shall give prompt written notice to Lincoln of such election and the revised Conversion Ratio, whereupon no termination shall have occurred pursuant to this Section 3.04(b) and this Agreement shall remain in effect in accordance with its terms (except as the Conversion Ratio shall have been so modified), and any references in this Agreement to Conversion Ratio shall thereafter be deemed to refer to the Conversion Ratio as adjusted pursuant to this Section 3.04(b).

(c) First Merchants may terminate this Agreement if its Board of Directors so determines by a vote of a majority of the members of its entire Board of Directors if the First Merchants Average Price shall be greater than \$30.00; subject to the following two provisions. If First Merchants elects to exercise its right of termination pursuant to the immediately preceding sentence, it shall give written notice to Lincoln within forty-eight (48) hours of the Determination Date. Within three business days after the date of receipt of such notice, Lincoln shall have the option of adjusting the Conversion Ratio to equal a number equal to a quotient, the numerator of which is the product of \$30.00 and the Conversion Ratio (as then in effect) and the denominator of which is the First Merchants Average Price. If Lincoln makes an election contemplated by the preceding sentence, it shall give prompt written notice to First Merchants of such election and the revised Conversion Ratio, whereupon no termination shall have occurred pursuant to this Section 3.04(c) and this Agreement shall remain in effect in accordance with its terms (except as the Conversion Ratio shall have been so modified), and any references in this Agreement to Conversion Ratio shall thereafter be deemed to refer to the Conversion Ratio as adjusted pursuant to this Section 3.04(c).

3.05 Election. An election form (the Election Form) shall be mailed to each record holder of Lincoln's common shares as of the record date fixed for the special shareholders' meeting at which the Merger will be submitted to a vote of Lincoln's shareholders (the Special Record Date). In addition, reasonable efforts will be made to make the Election Form available to all persons who become shareholders of Lincoln between the Special Record Date and the Election Deadline (as defined below). The deadline for receipt of such Election Forms shall be the close of business on the first business day after the special meeting at which the Merger will be submitted to a vote of Lincoln's shareholders, or such other date mutually agreed to by Lincoln and First Merchants (the Election Deadline). The Election Forms shall be mailed to each record holder of Lincoln's common stock as of the Special Record Date along with the proxy materials for the special shareholders' meeting at which the Merger will be submitted to a vote of Lincoln's shareholders. The Election Form will permit each holder of record of Lincoln's common stock as of the Special Record Date to elect, subject to Section 3.07, to have all of such holder's shares converted in the Merger into either the Share Option, the Cash Option or a combination of the Share Option and the Cash Option. The Election Form shall also permit direct deposit of cash in each holder's account in either the Bank or FMBCI. An election shall be duly made by completing the Election Form and any other required documents in accordance with the instructions set forth therein and delivering them to the Election Agent (as defined below) or to such other person or persons mutually agreed upon by Lincoln and First Merchants to receive elections, to receive outstanding Lincoln shares, to deliver cash or cash and shares of First Merchants' common stock and to carry out the other procedures set forth herein, on or before 5:00 p.m., Eastern Time, on the Election Deadline. Lincoln common shares as to which the Share Option has been elected are referred to in this Agreement as Stock Election Shares. Lincoln common shares as to which the Cash Option has been elected are referred to in this Agreement as Cash Election Shares. Lincoln common shares as to which no valid election has been made by the Election Deadline are referred to in this Agreement as Non-Electing Shares.

3.06 Election Agent. First Merchants and Lincoln hereby appoint American Stock Transfer to act as agent (the Election Agent) of Lincoln's shareholders for the purposes of mailing and receiving the Election Forms, tabulating the results and notifying First Merchants and Lincoln of the results.

3.07 Diversity of Payments.

(a) In the event (i) the number of Cash Election Shares would entitle the holders of such shares (and Lincoln shareholders receiving cash payments for fractional shares) to receive \$16,800,000 or less in cash, and (ii) the number of Stock Election Shares and Non-Electing Shares would entitle the holders of such

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shares to receive 3,576,417 or less shares of common stock of First Merchants (assuming for such purpose that all Non-Electing Shares were treated as Stock Election Shares), then all Share Option and Cash Option elections of the holders of Lincoln's common shares shall be honored (each in its entirety) and all Non-Electing Shares shall be treated as Stock Election Shares.

(b) In the event that the amount of cash to be received by holders of Cash Election Shares and Lincoln shareholders receiving cash payments for fractional shares pursuant to the terms of the Agreement would result in cash payments of more than \$16,800,000, the Cash Election Shares shall be converted into Stock Election Shares pro rata (based on the number of Cash Election Shares held by each Lincoln shareholder) until the total remaining number of Cash Election Shares is such that the Merger will (i) result in cash payments of no more than \$16,800,000 for Cash Election Shares and Lincoln shareholders receiving cash payments for fractional shares, and (ii) satisfy the continuity of interest requirement applicable to tax-free reorganizations under the Code. Cash Election Shares which are not converted into Stock Election Shares shall remain as Cash Election Shares, and all Non-Electing Shares shall be treated as Stock Election Shares.

(c) In the event that the number of shares of common stock of First Merchants to be received by shareholders of Lincoln pursuant to the terms of the Agreement in respect of Stock Election Shares and Non-Electing Shares (which, for purposes of this calculation, shall be considered as Stock Election Shares) exceeds 3,576,417, the Non-Electing Shares shall first be converted into Cash Election Shares pro rata (based on the number of Non-Electing Shares held by each Lincoln shareholder), and after all Non-Electing Shares have been converted into Cash Election Shares, the Stock Election Shares shall be converted into Cash Election Shares pro rata (based on the number of Stock Election Shares held by each Lincoln shareholder) until the total remaining number of Stock Election Shares (and, if applicable, Non-Electing Shares) is such that the Merger will (i) result in 3,576,417 shares of First Merchants common stock being issued to the shareholders of Lincoln for Stock Election Shares and Non-Electing Shares (if any have not been so converted) or such lesser number of shares as is required in effecting the adjustment described in this subsection, and (ii) satisfy the continuity of interest requirement applicable to tax-free reorganizations under the Code. Stock Election Shares which are not converted into Cash Election Shares shall remain as Stock Election Shares, and all Non-Electing Shares which are not converted into Cash Election Shares shall be treated as Stock Election Shares.

(d) Lincoln and First Merchants shall mutually determine the validity of elections submitted by Lincoln's shareholders.

(e) A holder of Lincoln's shares that is a bank, trust company, security broker-dealer or other recognized nominee, may submit one or more Election Forms for the persons for whom it holds shares as nominee provided that such bank, trust company, security broker-dealer or nominee certifies to the satisfaction of Lincoln and First Merchants the names of the persons for whom it is so holding shares (the Beneficial Owners). In such case, each Beneficial Owner for whom an Election Form is submitted shall be treated as a separate owner for purposes of the election procedure and allocation of shares set forth herein.

(f) First Merchants and Lincoln may, upon mutual agreement, apply the adjustments set forth in this Section 3.07 only to such extent and to such number of Lincoln's shareholders as is necessary to accomplish the objectives of this Section 3.07 and to assure that the Merger will qualify as a tax-free reorganization.

(g) Certain shares of common stock of Lincoln are held under The Lincoln Bank Employee Stock Ownership Plan and 401(k) Savings Plan and Trust Agreement (the ESOP). The Cash Option or Share Option elected with respect to the shares held by the ESOP shall be subject to the adjustments described in Sections 3.07(b) and 3.07(c), but only to the extent that no less than Adequate Consideration (as defined below) will be paid to the ESOP for its Lincoln common shares. Accordingly, the ESOP will participate in any pro rata adjustment required by Sections 3.07(b) and 3.07(c) until such adjustment would otherwise cause the ESOP to receive less than Adequate Consideration, and further adjustments will only be made among the Lincoln shareholders other than the ESOP. For purposes of this subsection, Adequate Consideration shall be as defined in section 3(18) of Employee Retirement Income Security Act of 1974, as

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amended (ERISA) and the regulations promulgated thereunder. If the trustee of the ESOP desires application of this subsection 3.07(g), it shall so instruct First Merchants in writing on or before the Effective Date, along with its written determination that failure to apply this subsection would result in less than Adequate Consideration being delivered to the ESOP as provided herein.

3.08 Distribution of First Merchants Common Stock and Cash.

(a) Each share of common stock of First Merchants outstanding immediately prior to the Effective Date shall remain outstanding unaffected by the Merger.

(b) Following the Effective Date, First Merchants shall mail to each Lincoln shareholder a letter of transmittal (the Letter of Transmittal) providing instructions as to the transmittal to the conversion agent, American Stock Transfer (the Conversion Agent), of certificates representing shares of Lincoln s common stock and the issuance of shares of First Merchants common stock and cash in exchange therefor pursuant to the terms of this Agreement. Distribution of stock certificates representing First Merchants common stock and cash payments for Lincoln s common stock and for fractional shares shall be made by First Merchants to each former shareholder of Lincoln within fifteen (15) business days following the later of the Effective Date or the date of such shareholder s delivery to the Conversion Agent of such shareholder s certificates representing Lincoln common shares, accompanied by a properly completed and executed Letter of Transmittal. Interest shall not accrue or be payable with respect to any cash payments.

(c) Following the Effective Date, stock certificates representing Lincoln s common shares shall be deemed to evidence only the right to receive cash and/or ownership of First Merchants common stock (for all corporate purposes other than the payment of dividends) and cash for fractional shares, as applicable. No dividends or other distributions otherwise payable subsequent to the Effective Date on stock of First Merchants shall be paid to any shareholder entitled to receive the same until such shareholder has surrendered such shareholder s certificates for Lincoln s common shares to the Conversion Agent in exchange for certificates representing First Merchants common stock and/or cash. Upon surrender or compliance with the provisions of Section 3.08(b), there shall be paid to the record holder of the new certificate(s) evidencing shares of First Merchants common stock the amount of all dividends and other distributions, without interest thereon, withheld with respect to such common stock.

(d) At or after the Effective Date, there shall be no transfers on the stock transfer books of Lincoln of any Lincoln common shares. If, after the Effective Date, certificates are presented for transfer to Lincoln, such certificates shall be cancelled and exchanged for the consideration set forth in Section 3.01 hereof, as adjusted pursuant to the terms of this Agreement.

(e) First Merchants shall be entitled to rely upon the stock transfer books of Lincoln to establish the persons entitled to receive cash and shares of common stock of First Merchants, which books, in the absence of actual knowledge by First Merchants of any adverse claim thereto, shall be conclusive with respect to the ownership of such stock.

(f) With respect to any certificate for Lincoln common shares which has been lost, stolen, or destroyed, First Merchants shall be authorized to issue common stock to the registered owner of such certificate upon receipt of an affidavit of lost stock certificate, in form and substance satisfactory to First Merchants, and upon compliance by the Lincoln s shareholder with all procedures historically required by Lincoln in connection with lost, stolen, or destroyed certificates.

SECTION 4

Dissenters Rights

Shareholders of Lincoln are not entitled to dissenters rights under Indiana Code § 23-1-44, as amended, because the shares of Lincoln common stock are traded on the NASDAQ Global Markets share exchange.

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SECTION 5

Representations and

Warranties of Lincoln

Lincoln represents and warrants to First Merchants with respect to itself and the Subsidiaries as follows (For the purposes of this Section, a *Disclosure Letter* is defined as the letter referencing Section 5 of this Agreement which shall be prepared and executed by an authorized executive officer of Lincoln and delivered to and initialed by an authorized executive officer of First Merchants contemporaneously with the execution of this Agreement.):

5.01 *Organization and Authority.* Lincoln is a corporation duly organized and validly existing under the laws of the State of Indiana, the Bank is a bank duly organized and validly existing under the laws of the State of Indiana and LF Portfolio is a corporation duly organized and validly existing under the laws of the State of Delaware. Lincoln, the Bank and Lincoln's other Subsidiaries have the power and authority (corporate and otherwise) to conduct their respective businesses in the manner and by the means utilized as of the date hereof. Lincoln's only direct subsidiary is the Bank. Other than LF Portfolio Services, Inc., a Delaware corporation, LF Service Corporation, an Indiana corporation (*LF Service*), and Citizens Loan and Service Corporation, an Indiana corporation (*Citizens*), which are wholly-owned Subsidiaries of the Bank, Lincoln has no indirect Subsidiaries. The Bank is subject to primary federal regulatory supervision and regulation by the Federal Deposit Insurance Corporation.

5.02 *Authorization.*

(a) Lincoln has the corporate power and authority to enter into this Agreement and to carry out its obligations hereunder, subject to obtaining certain required regulatory approvals and obtaining shareholder approval. This Agreement, when executed and delivered, will have been duly authorized and will constitute a valid and binding obligation of Lincoln, enforceable in accordance with its terms except to the extent limited by insolvency, reorganization, liquidation, readjustment of debt or other laws of general application relating to or affecting the enforcement of creditors' rights. The Board of Directors of the Bank and Lincoln as its sole shareholder have approved the Bank Merger pursuant to the terms and conditions of this Agreement and the Bank Merger Agreement.

(b) Except as set forth in the Disclosure Letter, neither the execution of this Agreement, nor the consummation of the transactions contemplated hereby, does or will (i) conflict with, result in a breach of, or constitute a default under Lincoln's or any Subsidiary's Articles of Incorporation or By-Laws; (ii) conflict with, result in a breach of, or constitute a default under any federal, foreign, state or local law, statute, ordinance, rule, regulation or court or administrative order or decree, or any note, bond, indenture, loan, mortgage, security agreement, contract, arrangement or commitment, to which Lincoln or any Subsidiary is subject or bound, the result of which would have a Material Adverse Effect; (iii) result in the creation of, or give any person, corporation or entity the right to create, any lien, charge, encumbrance, security interest, or any other rights of others or other adverse interest upon any right, property or asset of Lincoln or any of the Subsidiaries; (iv) terminate, or give any person, corporation or entity the right to terminate, amend, abandon, or refuse to perform, any note, bond, indenture, loan, mortgage, security agreement, contract, arrangement or commitment to which Lincoln or any of the Subsidiaries is subject or bound; or (v) accelerate or modify, or give any party thereto the right to accelerate or modify, the time within which, or the terms according to which, Lincoln or any of the Subsidiaries is to perform any duties or obligations or receive any rights or benefits under any note, bond, indenture, loan, mortgage, security agreement, contract, arrangement or commitment.

For the purpose of this Agreement, and in relation to Lincoln, a *Material Adverse Effect* means any effect that (i) is material and adverse to the financial position, results of operations or business of Lincoln and its Subsidiaries taken as a whole, or (ii) would materially impair the ability of Lincoln to perform its obligations under this Agreement or otherwise materially threaten or materially impede the consummation of the Merger and the other transactions contemplated by this Agreement; provided, however, that Material

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Adverse Effect shall not be deemed to include the impact of (a) changes in banking and similar laws of general applicability to banks or their holding companies or interpretations thereof by courts or governmental authorities, (b) changes in generally accepted accounting principles or regulatory accounting requirements applicable to banks or their holding companies generally, (c) any modifications or changes to valuation policies and practices in connection with the Merger or restructuring charges taken in connection with the Merger, in each case in accordance with generally accepted accounting principles, (d) effects of any action taken with the prior written consent of First Merchants, (e) changes in the general level of interest rates (including the impact on Lincoln's or the Bank's securities portfolios) or conditions or circumstances relating to or that affect either the United States economy, financial or securities markets or the banking industry, generally, (f) changes resulting from expenses (such as legal, accounting and investment bankers' fees) incurred in connection with this Agreement or the transactions contemplated herein, including without limitation payment of any amounts due to, or the provision of any benefits to, any officers or employees under agreements, plans or other arrangements in existence of or contemplated by this Agreement and disclosed to First Merchants, (g) the impact of the announcement of this Agreement and the transactions contemplated hereby, and compliance with this Agreement on the business, financial condition or results of operations of Lincoln and its Subsidiaries, and (h) the occurrence of any military or terrorist attack within the United States or any of its possessions or offices; provided that in no event shall a change in the trading price of the Lincoln Common Stock, by itself, be considered to constitute a Material Adverse Effect on Lincoln and its Subsidiaries taken as a whole (it being understood that the foregoing proviso shall not prevent or otherwise affect a determination that any effect underlying such decline has resulted in a Material Adverse Effect).

(c) Other than the filing of Articles of Merger with the Indiana Secretary of State for the Merger and the Bank Merger and in connection or in compliance with the banking regulatory approvals contemplated by Section 9.04 and federal and state securities laws and the rules and regulations promulgated thereunder, no notice to, filing with, authorization of, exemption by, or consent or approval of, any public body or authority is necessary for the consummation by Lincoln of the transactions contemplated by this Agreement.

(d) Other than those filings, authorizations, consents and approvals referenced in Section 5.02(c) above and except as set forth in the Disclosure Letter, no notice to, filing with, authorization of, exemption by, or consent or approval of, any third party is necessary for the consummation by Lincoln or the Bank of the transactions contemplated by this Agreement.

5.03 Capitalization.

(a) As of the date of this Agreement, Lincoln had 20,000,000 shares of common stock authorized, without par value, 5,319,731 shares of which are issued and outstanding. Such issued and outstanding Lincoln common shares have been duly and validly authorized by all necessary corporate action of Lincoln, are validly issued, fully paid and nonassessable and have not been issued in violation of any preemptive rights of any shareholders. Lincoln has no capital stock authorized, issued or outstanding other than as described in this Section 5.03(a) and, except as set forth in the Disclosure Letter, Lincoln has no intention or obligation to authorize or issue additional shares of its common stock.

(b) As of the date of this Agreement, the Bank has 1,000 shares of common stock authorized, \$.01 par value per share, 1,000 shares of which are issued and outstanding and held by Lincoln. Such issued and outstanding shares of Bank common stock have been duly and validly authorized by all necessary corporate action of the Bank, are validly issued, fully paid and nonassessable, and have not been issued in violation of any preemptive rights of any Bank shareholders. Except as set forth in the Disclosure Letter, all the issued and outstanding Bank common stock is owned by Lincoln, free and clear of all liens, pledges, charges, claims, encumbrances, restrictions, security interests, options and preemptive rights and of all other rights of any other person, corporation or entity with respect thereto. The Bank has no capital stock authorized, issued or outstanding other than as described in this Section 5.03(b) and has no intention or obligation to authorize or issue any other shares of capital stock.

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(c) All outstanding shares of capital stock of LF Portfolio are owned directly by the Bank. Such shares have been duly and validly authorized by all necessary corporate action, are validly issued, fully paid and nonassessable, and have not been issued in violation of any preemptive rights. Such shares are owned by the Bank, free and clear of any liens, pledges, charges, claims, encumbrances, restrictions, security interests, options and preemptive rights and of all other rights of any other person, corporation or entity with respect thereto. LF Portfolio does not have any other shares of capital stock authorized, issued or outstanding except as set forth in the Disclosure Letter, and does not have any intention or obligation to authorize or issue any other shares of capital stock.

(d) All outstanding shares of capital stock of LF Service and Citizens are owned directly by the Bank. Such shares have been duly and validly authorized by all necessary corporate action, are validly issued, fully paid and nonassessable, and have not been issued in violation of any preemptive rights. Such shares are owned by the Bank, free and clear of any liens, pledges, charges, claims, encumbrances, restrictions, security interests, options and preemptive rights and of all other rights of any other person, corporation or entity with respect thereto. Neither LF Service nor Citizens have any other shares of capital stock authorized, issued or outstanding except as set forth in the Disclosure Letter, and neither LF Service nor Citizens have any intention or obligation to authorize or issue any other shares of capital stock.

(e) Except as set forth in the Disclosure Letter, there are no options, commitments, calls, agreements, understandings, arrangements or subscription rights regarding the issuance, purchase or acquisition of capital stock, or any securities convertible into or representing the right to purchase or otherwise receive the capital stock or any debt securities, of Lincoln nor any Subsidiary by which Lincoln or any Subsidiary is or may become bound. Neither Lincoln nor any Subsidiary has any outstanding contractual or other obligation to repurchase, redeem or otherwise acquire any of its respective outstanding shares of capital stock.

(f) Except as set forth in the Disclosure Letter, no person or entity beneficially owns 5% or more of Lincoln's outstanding common shares.

5.04 Organizational Documents. The respective Articles of Incorporation and By-Laws of Lincoln and each Subsidiary have been delivered to First Merchants and represent true, accurate and complete copies of such corporate documents of Lincoln and each Subsidiary in effect as of the date of this Agreement.

5.05 Compliance with Law. Except as set forth in the Disclosure Letter, neither Lincoln nor any Subsidiary has engaged in any activity nor taken or omitted to take any action which has resulted or, to the knowledge of Lincoln's Management (as defined below) could reasonably be expected to result, in the violation of any local, state, federal or foreign law, statute, rule, regulation or ordinance or of any order, injunction, judgment or decree of any court or government agency or body, the violation of which could reasonably be expected to have a Material Adverse Effect. Except as set forth in the Disclosure Letter, Lincoln and each Subsidiary possess all licenses, franchises, permits and other authorizations necessary for the continued conduct of their respective businesses without material interference or interruption and such licenses, franchises, permits and authorizations shall be transferred to First Merchants on the Effective Date without any restrictions or limitations thereon or the need to obtain any consents of third parties. None of Lincoln or any of the Subsidiaries are subject to any agreement or understanding with, or order and directive of, any regulatory agency or government authority with respect to the business or operations of Lincoln or any Subsidiary. Except as set forth in the Disclosure Letter, the Bank has received no inquiries, claims or complaints since January 1, 2003 from any regulatory agency or government authority relating to its compliance with the Bank Secrecy Act, the Truth-in-Lending Act, the Community Reinvestment Act, the Gramm-Leach-Bliley Act of 1999, the USA Patriot Act, the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, the Sarbanes-Oxley Act of 2002 or any laws with respect to the protection of the environment or the rules and regulations promulgated thereunder. Except as set forth in the Disclosure Letter, Lincoln has received no inquiries, claims or complaints since January 1, 2003 from any regulatory agency or government authority relating to its compliance with any securities, tax or employment laws applicable to Lincoln.

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5.06 *Accuracy of Statements.* This Agreement, the Disclosure Letter and any certificate required to be furnished by Lincoln or any Subsidiary to First Merchants in connection with this Agreement or any of the transactions contemplated hereby (including, without limitation, any information which shall be supplied by Lincoln or any Subsidiary with respect to their businesses, operations and financial condition for inclusion in the regulatory filings relating to the Merger or the Bank Merger) do not or shall not contain any untrue statement of a material fact or do not or shall not omit to state a material fact necessary to make the statements contained herein or therein not misleading.

5.07 *Litigation and Pending Proceedings.* Except as set forth in the Disclosure Letter, there are no claims of any kind, nor any action, suits, proceedings, arbitrations or investigations pending or to the knowledge of Lincoln's Management threatened in any court or before any government agency or body, arbitration panel or otherwise (nor does Lincoln's Management have any knowledge of a basis for any claim, action, suit, proceeding, arbitration or investigation) which could reasonably be expected to have a Material Adverse Effect. There are no material uncured violations, criticisms or exceptions, or violations with respect to which material refunds or restitutions may be required, cited in any report, correspondence or other communication to Lincoln or any Subsidiary as a result of an examination by any regulatory agency or body.

5.08 *Financial Statements.*

(a) Lincoln's consolidated audited balance sheets as of the end of the two fiscal years ended December 31, 2006 and 2007, the unaudited consolidated balance sheet for the six months ended June 30, 2008 and the related consolidated statements of income, shareholders' equity and cash flows for the years or period then ended (hereinafter collectively referred to as the Financial Information) present fairly the consolidated financial condition or position of Lincoln as of the respective dates thereof and the consolidated results of operations of Lincoln for the respective periods covered thereby and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis.

(b) All loans reflected in the Financial Information and which have been made, extended or acquired since June 30, 2008 (i) have been made for good, valuable and adequate consideration in the ordinary course of business; (ii) constitute the legal, valid and binding obligation of the obligor and any guarantor named therein; (iii) are evidenced by notes, instruments or other evidences of indebtedness which are true, genuine and what they purport to be; and (iv) to the extent that the Bank has a security interest in collateral or a mortgage securing such loans, are secured by perfected security interests or mortgages naming the Bank as the secured party or mortgagee, except for such unperfected security interests or mortgages naming the Bank as secured party or mortgagee which, on an individual loan basis, would not materially adversely affect the value of any such loan and the recovery of payment on any such loan if the Bank is not able to enforce any such security interest or mortgage.

5.09 *Absence of Certain Changes.* Except for events and conditions relating to the business and interest rate environment in general, the accrual or payment of Merger-related expenses, or as set forth in the Disclosure Letter, since June 30 2008, no events have occurred, or to the knowledge of Lincoln, can reasonably be expected to occur, which could reasonably be expected to have a Material Adverse Effect. Between the period from June 30, 2008 to the date of this Agreement, Lincoln and each Subsidiary have carried on their respective businesses in the ordinary and usual course consistent with their past practices (excluding the incurrence of fees and expenses of professional advisors related to this Agreement and the transactions contemplated hereby) and there has not been any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to Lincoln's common shares (other than normal quarterly cash dividends) or any split, combination or reclassification of any stock of Lincoln or any Subsidiary or any issuance or the authorization of any issuance of any securities in respect of, or in lieu of, or in substitution for Lincoln's common shares.

5.10 *Absence of Undisclosed Liabilities.* Neither Lincoln nor any Subsidiary is a party to any agreement, contract, obligation, commitment, arrangement, liability, lease or license which individually exceeds \$100,000

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per year or which may not be terminated within one year from the date of this Agreement, except (a) unfunded loan commitments made in the ordinary course of the Bank's business consistent with past practices or (b) as set forth in the Disclosure Letter, nor to the knowledge of Lincoln's Management does there exist any circumstances resulting from transactions effected or to be effected or events which have occurred or may occur or from any action taken or omitted to be taken which could reasonably be expected to result in any such agreement, contract, obligation, commitment, arrangement, liability, lease or license.

5.11 Title to Assets.

(a) Except as set forth in the Disclosure Letter, Lincoln and each Subsidiary have good and marketable title in fee simple absolute to all personal property reflected in the June 30, 2008 Financial Information, good and marketable title to all other properties and assets which Lincoln or any Subsidiary purports to own, good and marketable title to or right to use by terms of any lease or contract all other property used in Lincoln's or any Subsidiary's business, and good and marketable title to all property and assets acquired since June 30, 2008, free and clear of all mortgages, liens, pledges, restrictions, security interests, charges, claims or encumbrances of any nature, except such minor imperfections of title, if any, as do not materially detract from the value of or interfere with the use of the property and which would not have a Material Adverse Effect.

(b) The operation by Lincoln or any Subsidiary of such properties and assets is in compliance with all applicable laws, ordinances, rules and regulations of any governmental authority or third party having jurisdiction over such use except for such noncompliance that would not have a Material Adverse Effect.

5.12 Loans and Investments.

(a) Except as set forth in the Disclosure Letter, there is no loan of the Bank in excess of \$250,000 that has been classified by Lincoln applying bank regulatory examination standards as Other Loans Specially Mentioned, Substandard, Doubtful or Loss, nor is there any loan of the Bank in excess of \$250,000 that has been identified by accountants or auditors (internal or external) as having a significant risk of uncollectibility. The Bank's loan watch list and all loans in excess of \$250,000 that Lincoln's Management has determined to be ninety (90) days or more past due with respect to principal or interest or has placed on nonaccrual status are set forth in the Disclosure Letter.

(b) Each of the reserves and allowances for possible loan losses and the carrying value for real estate owned which are shown on the Financial Information is, in the opinion of Lincoln's Management, adequate in all material respects under the requirements of generally accepted accounting principles applied on a consistent basis to provide for possible losses on loans outstanding and real estate owned as of the date of such Financial Information.

(c) Except as set forth in the Disclosure Letter, none of the investments reflected in the Financial Information and none of the investments made by Lincoln or any Subsidiary since June 30, 2008 is subject to any restrictions, whether contractual or statutory, which materially impairs the ability of Lincoln or any Subsidiary to dispose freely of such investment at any time. Except as set forth in the Disclosure Letter, neither Lincoln nor any Subsidiary is a party to any repurchase agreements with respect to securities.

5.13 Employee Benefit Plans.

(a) The Disclosure Letter contains a list identifying each employee benefit plan, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (ERISA), which (i) is subject to any provision of ERISA, and (ii) is currently maintained, administered or contributed to by Lincoln or any Subsidiary and covers any employee, director or former employee or director of Lincoln or any Subsidiary under which Lincoln or any Subsidiary has any liability. The Disclosure Letter also contains a list of all employee benefit plans as defined under ERISA which have been terminated by Lincoln or any Subsidiary since January 1, 2002. Copies of such plans (and, if applicable, related trust agreements or insurance contracts) and all amendments thereto and written interpretations thereof have been furnished to

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First Merchants together with the three most recent annual reports prepared in connection with any such plan and the current summary plan descriptions. Such plans are hereinafter referred to individually as a Lincoln Employee Plan and collectively as the Lincoln Employee Plans. The Lincoln Employee Plans which individually or collectively would constitute an employee pension benefit plan as defined in Section 3(2)(A) of ERISA are identified in the list referred to above.

(b) The Lincoln Employee Plans comply with and have been operated in accordance with all applicable laws, regulations, rulings and other requirements the breach or violation of which could materially affect Lincoln, any Subsidiary, or a Lincoln Employee Plan. Each Lincoln Employee Plan has been administered in substantial conformance with such requirements and all reports and information required with respect to each Lincoln Employee Plan has been timely filed or given.

(c) No prohibited transaction, as defined in Section 406 of ERISA or Section 4975 of the Code, for which no statutory or administrative exemption exists, and no reportable event, as defined in Section 4043(c) of ERISA, for which a notice is required to be filed, has occurred with respect to any Lincoln Employee Plan. Neither Lincoln nor any Subsidiary has any liability to the Pension Benefit Guaranty Corporation (PBGC), to the Internal Revenue Service (IRS), to the Department of Labor (DOL), to the Employee Benefits Security Administration, or to an employee or Employee Plan beneficiary under Section 502 of ERISA, with respect to any Lincoln Employee Plan.

(d) No fiduciary, as defined in Section 3(21) of ERISA, of a Lincoln Employee Plan has failed to comply with the requirements of Section 404 of ERISA.

(e) Each of the Lincoln Employee Plans which is intended to be qualified under Code Section 401(a) has been amended to comply in all material respects with the applicable requirements of the Code, including the Tax Reform Act of 1986, the Revenue Act of 1987, the Technical and Miscellaneous Revenue Act of 1988, the Omnibus Budget Reconciliation Act of 1989, the Revenue Reconciliation Act of 1990, the Tax Extension Act of 1991, the Unemployment Compensation Amendments of 1992, the Omnibus Budget Reconciliation Act of 1993, the Retirement Protection Act of 1994, the Uruguay Round Agreements Act, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, the Community Renewal Tax Relief Act of 2000, the Economic Growth and Tax Relief Reconciliation Act of 2001, the age 70-1/2 Code Section 401(a)(9) model amendments required to be adopted by the end of the 2004 plan year, and any rules, regulations or other requirements promulgated thereunder (the Acts). In addition, each such Lincoln Employee Plan has been and is being operated in substantial conformance with the applicable provisions of ERISA and the Code, as amended by the Acts, including the automatic rollover rules which became effective March 28, 2005. Except as set forth in the Disclosure Letter, Lincoln and/or any Subsidiary, as applicable, sought and received favorable determination letters from the IRS within the applicable remedial amendment periods under Code Section 401(b), and has furnished to First Merchants copies of the most recent IRS determination letters with respect to any such Lincoln Employee Plan that is an employee pension benefit plan under ERISA Section 3(2)(A).

(f) With respect to the Lincoln Bank Employee Stock Ownership Plan and 401(k) Savings Plan and Trust Agreement (the ESOP), except as set forth on the Disclosure Letter: (i) the ESOP constitutes a qualified plan within the meaning of Section 401(a) of the Code and the trust is exempt from federal income tax under Section 501(a) of the Code; (ii) the ESOP has been maintained and operated in substantial compliance in all material respects with all applicable provisions of Sections 409 and 4975 of the Code and the regulations and rulings thereunder; (iii) all contributions required by such plan have been made or will be made on a timely basis; and (iv) no termination, partial termination or discontinuance of contributions has occurred without a determination by the IRS that such action does not affect the tax-qualified status of such ESOP.

(g) Except as set forth in the Disclosure Letter, no Lincoln Employee Plan has incurred an accumulated funding deficiency, as determined under Code Section 412 and ERISA Section 302.

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(h) Except as set forth in the Disclosure Letter, no Lincoln Employee Plan subject to Title IV of ERISA has been terminated or incurred a partial termination (either voluntarily or involuntarily), in such a way as to cause material additional liability to Lincoln.

(i) No claims against an Employee Plan, Lincoln or any Subsidiary (other than normal benefit claims), have been asserted or threatened.

(j) Except as set forth in the Disclosure Letter, there is no contract, agreement, plan or arrangement covering any employee, director or former employee or director of Lincoln or any Subsidiary that, individually or collectively, could give rise to the payment of any amount that would not be deductible by reason of Section 280G or Section 162(a)(1) of the Code.

(k) To the knowledge of Lincoln's Management, no event has occurred that would cause the imposition of the tax described in Code Section 4980B. To the knowledge of Lincoln's Management, all requirements of ERISA Section 601 have been met.

(l) The Disclosure Letter contains a list of each employment, severance or other similar contract, arrangement or policy and each plan or arrangement (written or oral) providing for insurance coverage (including any self-insured arrangements), workers' compensation, disability benefits, supplemental unemployment benefits, vacation benefits, retirement benefits or deferred compensation, profit sharing, bonuses, stock options, stock appreciation or other forms of incentive compensation or post-retirement insurance, compensation or benefits which (i) is not a Lincoln Employee Plan, (ii) was entered into, maintained or contributed to, as the case may be, by Lincoln or any Subsidiary and (iii) covers any employee, director or former employee or director of Lincoln or any Subsidiary. Such contracts, plans and arrangements as are described above, copies or descriptions of all of which have been furnished previously to First Merchants, are hereinafter referred to collectively as the Lincoln Benefit Arrangements. Each of the Lincoln Benefit Arrangements has been maintained in substantial compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such Lincoln Benefit Arrangements.

(m) Except as set forth in the Disclosure Letter, neither Lincoln nor any Subsidiary has any present or future liability in respect of post-retirement health and medical benefits for former employees or directors of Lincoln or any Subsidiary.

(n) Except as set forth in the Disclosure Letter, there has been no amendment to, written interpretation or announcement (whether or not written) by Lincoln or any Subsidiary relating to, or change in employee participation or coverage under, any Lincoln Employee Plan or Lincoln Benefit Arrangement administered by Lincoln or any Subsidiary which would increase materially the expense of maintaining such Lincoln Employee Plans or Lincoln Benefit Arrangements above the level of the expense incurred in respect thereof for the fiscal year ended December 31, 2007.

(o) For purposes of this Section 5.13, references to Lincoln or any Subsidiary are deemed to include (i) all predecessors of Lincoln or any Subsidiary, (ii) any subsidiary of Lincoln or any Subsidiary, (iii) all members of any controlled group (as determined under Code Section 414(b) or (c)) that includes Lincoln or any Subsidiary, and (iv) all members of any affiliated service group (as determined under Code Section 414(m) or (n)) that includes Lincoln or any Subsidiary.

(p) With respect to any nonqualified deferred compensation plan that is subject to Code Section 409A, such plan has been identified on the Disclosure Letter. The Disclosure Letter shall also identify to what extent and in what years federal employment taxes (FICA/Medicare) have been paid on any such nonqualified deferred compensation amounts, as required by Code Section 3121(v) and the underlying regulations.

5.14 *Obligations to Employees.* Except as set forth in the Disclosure Letter, all accrued obligations and liabilities of Lincoln and any Subsidiary, whether arising by operation of law, by contract or by past custom, for payments to trust or other funds, to any government agency or body or to any individual director, officer,

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employee or agent (or his heirs, legatees or legal representative) with respect to unemployment compensation or social security benefits and all pension, retirement, savings, stock purchase, stock bonus, stock ownership, stock option, restricted stock grant, stock appreciation rights or profit sharing plan, any employment, deferred compensation, consultant, bonus or collective bargaining agreement or group insurance contract or other incentive, welfare or employee benefit plan or agreement maintained by Lincoln or any Subsidiary for their current or former directors, officers, employees and agents have been and are being paid to the extent required by law or by the plan or contract, and adequate actuarial accruals and/or reserves for such payments have been and are being made by Lincoln or any Subsidiary in accordance with generally accepted accounting and actuarial principles, except where the failure to pay any such accrued obligations or liabilities or to maintain adequate accruals and/or reserves for payment thereof would not have a Material Adverse Effect. Except as set forth in the Disclosure Letter, all obligations and liabilities of Lincoln and the Subsidiaries, whether arising by operation of law, by contract, or by past custom, for all forms of compensation which are or may be payable to their current or former directors, officers, employees or agents have been and are being paid, and adequate accruals and/or reserves for payment therefor have been and are being made in accordance with generally accepted accounting principles, except where the failure to pay any such obligations and liabilities or to maintain adequate accruals and/or reserves for payment thereof would not have a Material Adverse Effect. All accruals and reserves referred to in this Section 5.14 are correctly and accurately reflected and accounted for in the books, statements and records of Lincoln and the Subsidiaries, except where the failure to correctly and accurately reflect and account for such accruals and reserves would not have a Material Adverse Effect.

5.15 Taxes, Returns and Reports. Lincoln and the Subsidiaries have (a) duly filed all federal, state, local and foreign tax returns of every type and kind required to be filed as of the date hereof, and each return is true, complete and accurate in all material respects; (b) paid all material taxes, assessments and other governmental charges due and payable or claimed to be due and payable upon them or any of their income, properties or assets; and (c) not requested an extension of time for any such payments (which extension is still in force). Except for taxes not yet due and payable, the reserve for taxes on the Financial Information is adequate to cover all of Lincoln's and the Subsidiaries' tax liabilities (including, without limitation, income taxes and franchise fees) that may become payable in future years with respect to any transactions consummated prior to June 30, 2008. Neither Lincoln nor the Bank has or will have, any liability for taxes of any nature for or with respect to the operation of their business, including the assets of any subsidiary, from June 30, 2008, up to and including the Effective Date, except to the extent reflected on their Financial Information or on financial statements of Lincoln or any Subsidiary subsequent to such date and as set forth in the Disclosure Letter. Neither Lincoln nor any Subsidiary is currently under audit by any state or federal taxing authority. Except as set forth in the Disclosure Letter, neither the federal, state, nor local tax returns of Lincoln nor any Subsidiary have been audited by any taxing authority during the past five (5) years.

5.16 Deposit Insurance. The deposits of the Bank are insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with the Federal Deposit Insurance Act, and the Bank has paid all premiums and assessments with respect to such deposit insurance.

5.17 Reports. Since January 1, 2003, Lincoln and each Subsidiary have timely filed all reports, registrations and statements, together with any required amendments thereto, that Lincoln or any Subsidiary was required to file with (i) the Indiana Department of Financial Institutions, (ii) the FDIC, or (iii) any federal, state, municipal or local government, securities, banking, environmental, insurance and other governmental or regulatory authority, and the agencies and staffs thereof (collectively, the Regulatory Authorities), having jurisdiction over the affairs of Lincoln or any Subsidiary except where such failure would not have a Material Adverse Effect. All such reports filed by Lincoln and the Subsidiaries complied in all material respects with all the rules and regulations promulgated by the applicable Regulatory Authorities and are true, accurate and complete and were prepared in conformity with generally accepted regulatory accounting principles applied on a consistent basis. Except as set forth in the Disclosure Letter, there is no unresolved violation with respect to any report or statement filed by, or any examination of, Lincoln or the Bank.

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5.18 *Absence of Defaults.* Neither Lincoln nor any Subsidiary is in violation of its charter documents or By-Laws or to the knowledge of Lincoln's Management in default under any material agreement, commitment, arrangement, loan, lease, insurance policy or other instrument, whether entered into in the ordinary course of business or otherwise and whether written or oral, and there has not occurred any event known to Lincoln's Management that, with the lapse of time or giving of notice or both, would constitute such a default, except for defaults which would not have a Material Adverse Effect.

5.19 *Tax and Regulatory Matters.* Neither Lincoln nor the Bank has taken or agreed to take any action or has any knowledge of any fact or circumstance that would (a) prevent the transactions contemplated hereby from qualifying as a reorganization within the meaning of Section 368 of the Code or (b) materially impede or delay receipt of any regulatory approval required for consummation of the transactions contemplated by this Agreement.

5.20 *Real Property.*

(a) A list of the locations of each parcel of real property owned by Lincoln or the Bank (other than real property acquired in foreclosure or in lieu of foreclosure in the course of the collection of loans and being held by Lincoln or the Bank for disposition as required by law) is set forth in the Disclosure Letter under the heading of *Owned Real Property* (such real property being herein referred to as the *Owned Real Property*). A list of the locations of each parcel of real property leased by Lincoln or the Bank is also set forth in the Disclosure Letter under the heading of *Leased Real Property* (such real property being herein referred to as the *Leased Real Property*). Lincoln shall update the Disclosure Letter within ten (10) days after acquiring or leasing any real property after the date hereof. Collectively, the *Owned Real Property* and the *Leased Real Property* are herein referred to as the *Real Property*.

(b) There is no pending action involving Lincoln or the Bank as to the title of or the right to use any of the *Real Property*.

(c) Except as set forth in the Disclosure Letter, neither Lincoln nor the Bank has any interest in any other real property except interests as a mortgagee or any real property acquired in foreclosure or in lieu of foreclosure and being held for disposition as required by law.

(d) Except as set forth in the Disclosure Letter, (i) none of the buildings, structures or other improvements located on the *Owned Real Property* encroaches upon or over any adjoining parcel of real estate or any easement or right-of-way or setback line and all such buildings, structures; and (ii) improvements are located and constructed in conformity with all applicable zoning ordinances and building codes.

(e) Except as set forth in the Disclosure Letter, (i) none of the buildings, structures or improvements located on the *Owned Real Property* are the subject of any official complaint or notice by any governmental authority of violation of any applicable zoning ordinance or building code; and (ii) there is no zoning ordinance, building code, use or occupancy restriction or condemnation action or proceeding pending, or, to the best knowledge of Lincoln's Management, threatened, with respect to any such building, structure or improvement. Except as set forth in the Disclosure Letter, the *Real Property* is in good condition for its intended purpose, ordinary wear and tear excepted, and has been maintained (as to the *Leased Property*, to the extent required to be maintained by Lincoln or the Bank) in accordance with reasonable and prudent business practices applicable to like facilities. The *Owned Real Property* has been used and operated in compliance with all applicable laws, statutes, rules, regulations and ordinances applicable thereto.

(f) Except as may be reflected in the Financial Information or with respect to such easements, liens, defects, encumbrances, real estate taxes and assessments or other monetary obligations such as contributions to an Owner's Association, as do not individually or in the aggregate materially adversely affect the use or value of the *Owned Real Property*, Lincoln and the Bank have, and at the Closing Date will have, good and marketable title to their respective *Owned Real Property*, free and clear of all liens, mortgages, security interests, encumbrances and restrictions of any kind or character.

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(g) Neither Lincoln nor the Bank has caused or allowed the generation, treatment, storage, disposal or release at any Real Property of any Toxic Substance, except in compliance with all applicable federal, state and local laws and regulations and except as set forth in the Disclosure Letter.

Toxic Substance means any hazardous, toxic or dangerous substance, pollutant, waste, gas or material, including, without limitation, petroleum and petroleum products, metals, liquids, semi-solids or solids, that are regulated under any federal, state or local statute, ordinance, rule, regulation or other law pertaining to environmental protection, contamination, quality, waste management or cleanup.

(h) Except as disclosed in the Disclosure Letter, (i) there are no underground storage tanks located on, in or under any Owned Real Property; and (ii) to the knowledge of Lincoln's Management, no such Owned Real Property has previously contained an underground storage tank. Neither Lincoln nor the Bank own or operate any underground storage tank at any Leased Real Property and to the knowledge of Lincoln's Management no such Leased Real Property has previously contained an underground storage tank. No Owned Real Property is or has been, during Lincoln's ownership, listed on the CERCLIS.

(i) To the knowledge of Lincoln's Management and as a result of any act of Lincoln or the Bank, no Toxic Substance has been released, spilled, discharged or disposed at, in, on or under any Owned Real Property nor to the knowledge of Lincoln's Management are there any other conditions or circumstances affecting any Owned Real Property, in each case, which would pose a significant risk to the environment or the health or safety of persons or otherwise pose a material risk of liability for remediation, corrective action or clean-up.

(j) Except as disclosed in the Disclosure Letter, the Owned Real Property is not property within the definition of Indiana Code 13-11-2-174. Neither Lincoln nor the Bank is required to provide a disclosure document to First Merchants as a result of the Merger pursuant to the Indiana Responsible Property Transfer Law (I.C. § 13-25-3-1 *et seq.*).

(k) To the knowledge of Lincoln's Management and as a result of any act of Lincoln or the Bank, there are no mechanic's or materialman's liens against the Leased Property, and no unpaid claims for labor performed, materials furnished or services rendered in connection with constructing, improving or repairing the Leased Property in respect of which liens may or could be filed against the Leased Property.

5.21 *Securities Law Compliance.* Lincoln's common shares are traded on the NASDAQ Global Market under the symbol of LNCB. Lincoln has complied in all material respects with all state, federal or foreign securities laws, statutes, rules, regulations or orders, injunctions or decrees of any government agency relating thereto. Lincoln has complied in all material respects with all rules, regulations, orders, injunctions or decrees of the National Association of Securities Dealers, Inc. and all entities related or affiliated therewith and has filed all reports and documents required to be filed with such entities. Lincoln has filed all reports and other documents required to be filed by it under the Securities Exchange Act of 1934 and the Securities Act of 1933, including Lincoln's Annual Report on Form 10-K for the year ended December 31, 2007, and Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, copies of which have previously been delivered to First Merchants. Except as would not reasonably be expected to have Material Adverse Effect, all such Securities and Exchange Commission filings were true, accurate and complete in all material respects as of the dates of the filings, and no such filings contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements, at the time and in the light of the circumstances under which they were made, not false or misleading.

5.22 *Broker's or Finder's Fees.* Except for Sandler O'Neill Partners, L.P., no agent, broker or other person acting on behalf of Lincoln or any Subsidiary or under any authority of Lincoln or any Subsidiary is or shall be entitled to any commission, broker's or finder's fee or any other form of compensation or payment from any of the parties hereto, other than attorneys' or accountants' fees, in connection with any of the transactions contemplated by this Agreement.

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5.23 *Shareholder Rights Plan.* Except as otherwise provided in Lincoln's Articles of Incorporation and By-Laws or set forth in the Disclosure Letter, neither Lincoln nor the Bank has a shareholder rights plan or any other plan, program or agreement involving, restricting, prohibiting or discouraging a change in control or merger of Lincoln or the Bank or which may be considered an anti-takeover mechanism.

5.24 *Indemnification Agreements.* Except as set forth in the Disclosure Letter, neither Lincoln nor the Bank is a party to any indemnification, indemnity or reimbursement agreement, contract, commitment or understanding to indemnify any present or former director, officer, employee, shareholder or agent against any liability or hold the same harmless from liability other than as expressly provided in the Articles of Incorporation or By-Laws of Lincoln and the Bank.

5.25 *Bring Down of Representations and Warranties.* All representations and warranties of Lincoln and the Subsidiaries contained in this Section 5 shall be true, accurate and correct on and as of the Effective Date except for those representations and warranties which address matters only as of a particular date (which shall have been true and correct as of such date) or have been affected by the transactions contemplated by and specified within the terms of this Agreement.

5.26 *Nonsurvival of Representations and Warranties.* The representations and warranties contained in this Section 5 shall expire on the Effective Date or the earlier termination of this Agreement, and thereafter Lincoln and the Subsidiaries and all directors and officers of Lincoln and the Subsidiaries shall have no further liability with respect thereto unless a court of competent jurisdiction should determine that any misrepresentation or breach of a warranty was willfully or intentionally made or is deemed to be fraudulent.

SECTION 6

Representations and

Warranties of First Merchants

First Merchants hereby represents and warrants to Lincoln with respect to itself and its Subsidiaries as follows (For the purposes of this Section, a Disclosure Letter is defined as a letter referencing Section 6 of this Agreement which shall be prepared and executed by an authorized executive officer of First Merchants and delivered to and initialed by an authorized executive officer of Lincoln contemporaneously with the execution of this Agreement.):

6.01 *Organization and Authority.* First Merchants is a corporation duly organized and validly existing under the laws of the State of Indiana and FMBCI is a national bank duly organized and validly existing under the laws of the United States of America. Each has the corporate power and authority to conduct its business in the manner and by the means utilized as of the date hereof. First Merchants, FMBCI and the other Subsidiaries have the power and authority (corporate or otherwise) to conduct their respective businesses in the manner and by the means utilized as of the date hereof. First Merchants' only subsidiaries are FMBCI and the other entities listed on Exhibit 21 to First Merchants' Annual Report on Form 10-K as of and for the period ending December 31, 2007 (the Subsidiaries). FMBCI is subject to primary federal regulatory supervision and regulation by the Office of the Comptroller of the Currency.

6.02 *Authorization.*

(a) First Merchants has the corporate power and authority to enter into this Agreement and to carry out its obligations hereunder subject to the conditions precedent set forth in Section 9.02. The Agreement, when executed and delivered, will have been duly authorized and will constitute a valid and binding obligation of First Merchants, subject to the condition precedent set forth in Section 9.02 hereof, enforceable in accordance with its terms, except to the extent limited by insolvency, reorganization, liquidation, readjustment of debt, or other laws of general application relating to or affecting the enforcement of creditor's rights. The Board of Directors of First Merchants and FMBCI have approved the Merger and Bank Merger pursuant to the terms and conditions of this Agreement and the Bank Merger Agreement.

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(b) Except as set forth in the Disclosure Letter, neither the execution of this Agreement, nor the consummation of the transactions contemplated hereby, subject to the condition precedent set forth in Section 9.02 hereof does or will (i) conflict with, result in a breach of, or constitute a default under Articles of Incorporation or By-laws of First Merchants or FMBCI; (ii) conflict with, result in a breach of, or constitute a default under any federal, foreign, state, or local law, statute, ordinance, rule, regulation, or court or administrative order or decree, or any note, bond, indenture, loan, mortgage, security agreement, contract, arrangement, or commitment, to which First Merchants or any Subsidiary is subject or bound, the result of which would have a Material Adverse Effect; (iii) result in the creation of, or give any person, corporation or entity the right to create, any lien, charge, encumbrance, security interest, or any other rights of others or other adverse interest upon any right, property or asset of either First Merchants or any Subsidiary; (iv) terminate, or give any person, corporation or entity the right to terminate, amend, abandon, or refuse to perform, any note, bond, indenture, mortgage, security agreement, contract, arrangement, or commitment to which First Merchants or any Subsidiary is a party or by which First Merchants or any Subsidiary is subject or bound; or (v) accelerate or modify, or give any party thereto the right to accelerate or modify, the time within which, or the terms according to which, First Merchants or any Subsidiary is to perform any duties or obligations or receive any rights or benefits under any note, bond, indenture, loan, mortgage, security agreement, contract, arrangement, or commitment.

For the purpose of this Agreement, and in relation to First Merchants, a **Material Adverse Effect** means any effect that (i) is material and adverse to the financial position, results of operations or business of First Merchants and its Subsidiaries taken as a whole, or (ii) would materially impair the ability of First Merchants to perform its obligations under this Agreement or otherwise materially threaten or materially impede the consummation of the Merger and the other transactions contemplated by this Agreement; provided, however, that Material Adverse Effect shall not be deemed to include the impact of (a) changes in banking and similar laws of general applicability to banks or their holding companies or interpretations thereof by courts or governmental authorities, (b) changes in generally accepted accounting principles or regulatory accounting requirements applicable to banks or their holding companies generally, (c) any modifications or changes to valuation policies and practices in connection with the Merger or restructuring charges taken in connection with the Merger, in each case in accordance with generally accepted accounting principles, (d) effects of any action taken with the prior written consent of Lincoln, (e) changes in the general level of interest rates (including the impact on First Merchant s or FMBCI s securities portfolios) or conditions or circumstances relating to or that affect the United States economy, financial or securities markets or the banking industry, generally, (f) changes resulting from expenses (such as legal, accounting and investment bankers fees) incurred in connection with this Agreement or the transactions contemplated herein, (g) the impact of the announcement of this Agreement and the transactions contemplated hereby, and compliance with this Agreement on the business, financial condition or results of operations of First Merchants and its Subsidiaries, and (h) the occurrence of any military or terrorist attack within the United States or any of its possessions or offices; provided that in no event shall a change in the trading price of the First Merchants Common Stock, by itself, be considered to constitute a Material Adverse Effect on First Merchants and its Subsidiaries taken as a whole (it being understood that the foregoing proviso shall not prevent or otherwise affect a determination that any effect underlying such decline has resulted in a Material Adverse Effect).

(c) Other than in connection or in compliance with the provisions of the Bank Holding Company Act of 1956, the Bank Merger Act, federal and state securities laws, and applicable federal and Indiana banking statutes and Indiana corporate statutes, all as amended, and the rules and regulations promulgated thereunder, no notice to, filing with, authorization of, exemption by, or consent or approval of, any public body or authority is necessary for the consummation by First Merchants or FMBCI of the transactions contemplated by this Agreement.

(d) Other than those filings, authorizations, consents and approvals referenced in Section 6.02(c) above and filings and approvals relating to the listing of the shares of First Merchants common stock to be issued in the Merger on the NASDAQ Global Select Market, certain other filings and approvals with NASDAQ

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relating to the change in the number of shares of First Merchants outstanding as a result of the Merger, and except as set forth on the Disclosure Letter, no notice to, filing with, authorization of, execution by, or consent or approval of, any third party is necessary for the consummation by First Merchants or FMBCI of the transactions contemplated by this Agreement.

6.03 Capitalization.

(a) As of July 31, 2008, First Merchants had 50,000,000 shares of common stock authorized, no par value, of which 18,272,085 shares were issued and outstanding. Such issued and outstanding shares of First Merchants common stock have been duly and validly authorized by all necessary corporate action of First Merchants, are validly issued, fully paid and nonassessable and have not been issued in violation of any preemptive rights of any shareholders.

(b) First Merchants has 500,000 shares of Preferred Stock authorized, no par value, no shares of which have been issued and no commitments exist to issue any of such shares.

(c) The shares of First Merchants common stock to be issued pursuant to the Merger will be duly authorized, fully paid, validly issued and nonassessable and subject to no preemptive rights.

(d) As of the date of this Agreement, FMBCI has 114,000 shares of common stock authorized, \$10 par value per share, 114,000 shares of which are issued and outstanding and held by First Merchants. Such issued and outstanding shares of FMBCI common stock have been duly and validly authorized by all necessary corporate action of the FMBCI, are validly issued, fully paid and nonassessable, and have not been issued in violation of any preemptive rights of any FMBCI shareholders. All the issued and outstanding Bank common stock is owned by First Merchants, free and clear of all liens, pledges, charges, claims, encumbrances, restrictions, security interests, options and preemptive rights and of all other rights of any other person, corporation or entity with respect thereto. FMBCI has no capital stock authorized, issued or outstanding other than as described in this Section 6.03(d) and has no intention or obligation to authorize or issue any other shares of capital stock.

(e) Except as set forth in the Disclosure Letter, there are no options, commitments, calls, agreements, understandings, arrangements or subscription rights regarding the issuance, purchase or acquisition of capital stock, or any securities convertible into or representing the right to purchase or otherwise receive the capital stock or any debt securities, of First Merchants nor FMBCI by which First Merchants or FMBCI is or may become bound. Neither First Merchants nor FMBCI has any outstanding contractual or other obligation to repurchase, redeem or otherwise acquire any of its respective outstanding shares of capital stock.

(f) Except as set forth in the Disclosure Letter, no person or entity beneficially owns 5% or more of First Merchants outstanding common shares.

6.04 Organizational Documents. The respective Articles of Incorporation and By-Laws of First Merchants and FMBCI have been delivered to Lincoln and represent true, accurate and complete copies of such corporate documents of First Merchants and FMBCI in effect as of the date of this Agreement.

6.05 Compliance with Law. Except as set forth in the Disclosure Letter, neither First Merchants nor any Subsidiary has engaged in any activity nor taken or omitted to take any action which has resulted or, to the knowledge of First Merchants Management (as defined below) could reasonably be expected to result, in the violation of any local, state, federal or foreign law, statute, rule, regulation or ordinance or of any order, injunction, judgment or decree of any court or government agency or body, the violation of which could reasonably be expected to have a Material Adverse Effect. Except as set forth in the Disclosure Letter, First Merchants and each Subsidiary possess all licenses, franchises, permits and other authorizations necessary for the continued conduct of their respective businesses without material interference or interruption. Neither First Merchants nor any of the Subsidiaries are subject to any agreement or understanding with, or order and directive of, any regulatory agency or government authority with respect to the business or operations of First Merchants

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or FMBCI. Except as set forth in the Disclosure Letter, FMBCI has received no inquiries, claims or complaints since January 1, 2003 from any regulatory agency or government authority relating to its compliance with the Bank Secrecy Act, the Truth-in-Lending Act, the Community Reinvestment Act, the Gramm-Leach-Bliley Act of 1999, the USA Patriot Act, the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, the Sarbanes-Oxley Act of 2002 or any laws with respect to the protection of the environment or the rules and regulations promulgated thereunder. Except as set forth in the Disclosure Letter, First Merchants has received no inquiries, claims or complaints since January 1, 2003 from any regulatory agency or government authority relating to its compliance with any securities, tax or employment laws applicable to First Merchants.

6.06 *Accuracy of Statements.* This Agreement, the Disclosure Letter and any certificate required to be furnished by First Merchants or any Subsidiary to Lincoln in connection with this Agreement or any of the transactions contemplated hereby (including, without limitation, any information which shall be supplied by First Merchants or any Subsidiary with respect to their businesses, operations and financial condition for inclusion in the regulatory filings relating to the Merger or the Bank Merger) do not or shall not contain any untrue statement of a material fact or do not or shall not omit to state a material fact necessary to make the statements contained herein or therein not misleading.

6.07 *Litigation and Pending Proceedings.* Except as set forth in the Disclosure Letter, there are no claims of any kind, nor any action, suits, proceedings, arbitrations or investigations pending or to the knowledge of First Merchants Management threatened in any court or before any government agency or body, arbitration panel or otherwise (nor does First Merchants Management have any knowledge of a basis for any claim, action, suit, proceeding, arbitration or investigation) which could reasonably be expected to have a Material Adverse Effect. There are no material uncured violations, criticisms or exceptions, or violations with respect to which material refunds or restitutions may be required, cited in any report, correspondence or other communication to First Merchants or FMBCI as a result of an examination by any regulatory agency or body.

6.08 *Financial Statements.*

(a) First Merchants consolidated audited balance sheets as of the end of the two fiscal years ended December 31, 2006 and 2007, the unaudited consolidated balance sheet for the six months ended June 30, 2008 and the related consolidated statements of income, shareholders equity and cash flows for the years or period then ended (hereinafter collectively referred to as the First Merchants Financial Information) present fairly the consolidated financial condition or position of First Merchants as of the respective dates thereof and the consolidated results of operations of First Merchants for the respective periods covered thereby and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis.

(b) All loans reflected in the First Merchants Financial Information and which have been made, extended or acquired since June 30, 2008 (i) have been made for good, valuable and adequate consideration in the ordinary course of business; (ii) constitute the legal, valid and binding obligation of the obligor and any guarantor named therein; (iii) are evidenced by notes, instruments or other evidences of indebtedness which are true, genuine and what they purport to be; and (iv) to the extent that FMBCI has a security interest in collateral or a mortgage securing such loans, are secured by perfected security interests or mortgages naming FMBCI as the secured party or mortgagee, except for such unperfected security interests or mortgages naming FMBCI as secured party or mortgagee which, on an individual loan basis, would not materially adversely affect the value of any such loan and the recovery of payment on any such loan if FMBCI is not able to enforce any such security interest or mortgage.

6.09 *Absence of Certain Changes.* Except for events and conditions relating to the business and interest rate environment in general, the accrual or payment of Merger-related expenses, or as set forth in the Disclosure Letter, since June 30, 2008, no events have occurred, or to the knowledge of First Merchants Management, can reasonably be expected to occur, which could reasonably be expected to have a Material Adverse Effect. Between the period from June 30, 2008 to the date of this Agreement, First Merchants and each Subsidiary have

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carried on their respective businesses in the ordinary and usual course consistent with their past practices (excluding the incurrence of fees and expenses of professional advisors related to this Agreement and the transactions contemplated hereby) and there has not been any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to First Merchants' common shares (other than normal quarterly cash dividends) or any split, combination or reclassification of any stock of First Merchants or any Subsidiary or any issuance or the authorization of any issuance of any securities in respect of, or in lieu of, or in substitution for First Merchants common shares.

6.10 *Absence of Undisclosed Liabilities.* Neither First Merchants nor any Subsidiary is a party to any agreement, contract, obligation, commitment, arrangement, liability, lease or license which individually exceeds \$100,000 per year or which may not be terminated within one year from the date of this Agreement, except (a) unfunded loan commitments made in the ordinary course of FMBCI's business consistent with past practices or (b) as set forth in the Disclosure Letter, nor to the knowledge of First Merchants' Management does there exist any circumstances resulting from transactions effected or to be effected or events which have occurred or may occur or from any action taken or omitted to be taken which could reasonably be expected to result in any such agreement, contract, obligation, commitment, arrangement, liability, lease or license.

6.11 *Title to Assets.*

(a) Except as set forth in the Disclosure Letter, First Merchants and each Subsidiary have good and marketable title in fee simple absolute to all personal property reflected in the June 30, 2008 Financial Information, good and marketable title to all other properties and assets which First Merchants or any Subsidiary purports to own, good and marketable title to or right to use by terms of any lease or contract all other property used in First Merchants' or any Subsidiary's business, and good and marketable title to all property and assets acquired since June 30, 2008, free and clear of all mortgages, liens, pledges, restrictions, security interests, charges, claims or encumbrances of any nature, except such minor imperfections of title, if any, as do not materially detract from the value of or interfere with the use of the property and which would not have a Material Adverse Effect.

(b) The operation by First Merchants or any Subsidiary of its furniture, fixtures, machinery, equipment, computer software and hardware, and all other tangible personal property is in compliance with all applicable laws, ordinances, rules and regulations of any governmental authority or third party having jurisdiction over such use except for such noncompliance that would not have a Material Adverse Effect.

6.12 *Loans and Investments.*

(a) Except as set forth in the Disclosure Letter, there is no loan of any other Subsidiary in excess of \$250,000 that has been classified by First Merchants applying bank regulatory examination standards as Other Loans Specially Mentioned, Substandard, Doubtful or Loss, nor is there any loan of FMBCI in excess of \$250,000 that has been identified by accountants or auditors (internal or external) as having a significant risk of uncollectibility. Any bank Subsidiary's loan watch list and all loans in excess of \$250,000 that First Merchants' Management has determined to be ninety (90) days or more past due with respect to principal or interest or has placed on nonaccrual status are set forth in the Disclosure Letter.

(b) Each of the reserves and allowances for possible loan losses and the carrying value for real estate owned which are shown on the Financial Information is, in the opinion of First Merchants' Management, adequate in all material respects under the requirements of generally accepted accounting principles applied on a consistent basis to provide for possible losses on loans outstanding and real estate owned as of the date of such Financial Information.

(c) Except as set forth in the Disclosure Letter, none of the investments reflected in the Financial Information and none of the investments made by First Merchants or any Subsidiary since June 30, 2008 is subject to any restrictions, whether contractual or statutory, which materially impairs the ability of First Merchants or any Subsidiary to dispose freely of such investment at any time. Except as set forth in the Disclosure Letter, neither First Merchants nor any Subsidiary is a party to any repurchase agreements with respect to securities.

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6.13 *Employee Benefit Plans.*

(a) The Disclosure Letter contains a list identifying each employee benefit plan, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (ERISA), which (i) is subject to any provision of ERISA, and (ii) is currently maintained, administered or contributed to by First Merchants or any Subsidiary and covers any employee, director or former employee or director of First Merchants or any Subsidiary under which First Merchants or any Subsidiary has any liability. The Disclosure Letter also contains a list of all employee benefit plans as defined under ERISA which have been terminated by First Merchants or any Subsidiary since January 1, 2002. Copies of such plans (and, if applicable, related trust agreements or insurance contracts) and all amendments thereto and written interpretations thereof have been furnished to Lincoln together with the three most recent annual reports prepared in connection with any such plan and the current summary plan descriptions. Such plans are hereinafter referred to individually as a First Merchants Employee Plan and collectively as the First Merchants Employee Plans. The First Merchants Employee Plans which individually or collectively would constitute an employee pension benefit plan as defined in Section 3(2)(A) of ERISA are identified in the list referred to above.

(b) The First Merchants Employee Plans comply with and have been operated in accordance with all applicable laws, regulations, rulings and other requirements the breach or violation of which could materially affect First Merchants, any Subsidiary, or an First Merchants Employee Plan. Each First Merchants Employee Plan has been administered in substantial conformance with such requirements and all reports and information required with respect to each First Merchants Employee Plan has been timely filed or given.

(c) No prohibited transaction, as defined in Section 406 of ERISA or Section 4975 of the Code, for which no statutory or administrative exemption exists, and no reportable event, as defined in Section 4043(c) of ERISA, for which a notice is required to be filed, has occurred with respect to any First Merchants Employee Plan. Neither First Merchants nor any Subsidiary has any liability to the PBGC, to the IRS, to the DOL, to the Employee Benefits Security Administration, or to an employee or First Merchants Employee Plan beneficiary under Section 502 of ERISA, with respect to any First Merchants Employee Plan.

(d) No fiduciary, as defined in Section 3(21) of ERISA, of a First Merchants Employee Plan has failed to comply with the requirements of Section 404 of ERISA.

(e) Each of the First Merchants Employee Plans which is intended to be qualified under Code Section 401(a) has been amended to comply in all material respects with the applicable requirements of the Code, including the Tax Reform Act of 1986, the Revenue Act of 1987, the Technical and Miscellaneous Revenue Act of 1988, the Omnibus Budget Reconciliation Act of 1989, the Revenue Reconciliation Act of 1990, the Tax Extension Act of 1991, the Unemployment Compensation Amendments of 1992, the Omnibus Budget Reconciliation Act of 1993, the Retirement Protection Act of 1994, the Uruguay Round Agreements Act, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, the Community Renewal Tax Relief Act of 2000, the Economic Growth and Tax Relief Reconciliation Act of 2001, the age 70-1/2 Code Section 401(a)(9) model amendments required to be adopted by the end of the 2004 plan year, and any rules, regulations or other requirements promulgated thereunder (the Acts). In addition, each such First Merchants Employee Plan has been and is being operated in substantial conformance with the applicable provisions of ERISA and the Code, as amended by the Acts, including the automatic rollover rules which became effective March 28, 2005. Except as set forth in the Disclosure Letter, First Merchants and/or any Subsidiary, as applicable, sought and received favorable determination letters from the IRS within the applicable remedial amendment periods under Code Section 401(b), and has furnished to Lincoln copies of the most recent IRS determination letters with respect to any such First Merchants Employee Plan that is an employee pension benefit plan under ERISA Section 3(2)(A).

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(f) Except as set forth in the Disclosure Letter, no First Merchants Employee Plan has incurred an accumulated funding deficiency, as determined under Code Section 412 and ERISA Section 302.

(g) Except as set forth in the Disclosure Letter, no First Merchants Employee Plan subject to Title IV of ERISA has been terminated or incurred a partial termination (either voluntarily or involuntarily), in such a way as to cause material additional liability to First Merchants.

(h) No claims against a First Merchants Employee Plan, First Merchants or any Subsidiary (other than normal benefit claims), have been asserted or threatened.

(i) Except as set forth in the Disclosure Letter, there is no contract, agreement, plan or arrangement covering any employee, director or former employee or director of First Merchants or any Subsidiary that, individually or collectively, could give rise to the payment of any amount that would not be deductible by reason of Section 280G or Section 162(a)(1) of the Code.

(j) To the knowledge of First Merchants Management, no event has occurred that would cause the imposition of the tax described in Code Section 4980B. To the knowledge of First Merchants Management, all requirements of ERISA Section 601 have been met.

(k) The Disclosure Letter contains a list of each employment, severance or other similar contract, arrangement or policy and each plan or arrangement (written or oral) providing for insurance coverage (including any self-insured arrangements), workers compensation, disability benefits, supplemental unemployment benefits, vacation benefits, retirement benefits or deferred compensation, profit sharing, bonuses, stock options, stock appreciation or other forms of incentive compensation or post-retirement insurance, compensation or benefits which (i) is not an First Merchants Employee Plan, (ii) was entered into, maintained or contributed to, as the case may be, by First Merchants or any Subsidiary and (iii) covers any employee, director or former employee or director of First Merchants or any Subsidiary. Such contracts, plans and arrangements as are described above, copies or descriptions of all of which have been furnished previously to First Merchants, are hereinafter referred to collectively as the First Merchants Benefit Arrangements. Each of the First Merchants Benefit Arrangements has been maintained in substantial compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such First Merchants Benefit Arrangements.

(l) Except as set forth in the Disclosure Letter, neither First Merchants nor any Subsidiary has any present or future liability in respect of post-retirement health and medical benefits for former employees or directors of First Merchants or FMBCI.

(m) Except as set forth in the Disclosure Letter, there has been no amendment to, written interpretation or announcement (whether or not written) by First Merchants or any Subsidiary relating to, or change in employee participation or coverage under, any First Merchants Employee Plan or First Merchants Benefit Arrangement administered by First Merchants or any Subsidiary which would increase materially the expense of maintaining such First Merchants Employee Plans or First Merchants Benefit Arrangements above the level of the expense incurred in respect thereof for the fiscal year ended December 31, 2007.

(n) For purposes of this Section 6.13, references to First Merchants or any Subsidiary are deemed to include (i) all predecessors of First Merchants or any Subsidiary, (ii) any subsidiary of First Merchants or any Subsidiary, (iii) all members of any controlled group (as determined under Code Section 414(b) or (c)) that includes First Merchants or any Subsidiary, and (iv) all members of any affiliated service group (as determined under Code Section 414(m) or (n)) that includes First Merchants or any Subsidiary.

(o) With respect to any nonqualified deferred compensation plan that is subject to Code Section 409A, such plan has been identified on the Disclosure Letter. The Disclosure Letter shall also identify to what extent and in what years federal employment taxes (FICA/Medicare) have been paid on any such nonqualified deferred compensation amounts, as required by Code Section 3121(v) and the underlying regulations.

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6.14 Obligations to Employees. Except as set forth in the Disclosure Letter, all accrued obligations and liabilities of First Merchants and any Subsidiary, whether arising by operation of law, by contract or by past custom, for payments to trust or other funds, to any government agency or body or to any individual director, officer, employee or agent (or his heirs, legatees or legal representative) with respect to unemployment compensation or social security benefits and all pension, retirement, savings, stock purchase, stock bonus, stock ownership, stock option, restricted stock grant, stock appreciation rights or profit sharing plan, any employment, deferred compensation, consultant, bonus or collective bargaining agreement or group insurance contract or other incentive, welfare or employee benefit plan or agreement maintained by First Merchants or any Subsidiary for their current or former directors, officers, employees and agents have been and are being paid to the extent required by law or by the plan or contract, and adequate actuarial accruals and/or reserves for such payments have been and are being made by First Merchants or any Subsidiary in accordance with generally accepted accounting and actuarial principles, except where the failure to pay any such accrued obligations or liabilities or to maintain adequate accruals and/or reserves for payment thereof would not have a Material Adverse Effect. Except as set forth in the Disclosure Letter, all obligations and liabilities of First Merchants and any Subsidiary, whether arising by operation of law, by contract, or by past custom, for all forms of compensation which are or may be payable to their current or former directors, officers, employees or agents have been and are being paid, and adequate accruals and/or reserves for payment therefor have been and are being made in accordance with generally accepted accounting principles, except where the failure to pay any such obligations and liabilities or to maintain adequate accruals and/or reserves for payment thereof would not have a Material Adverse Effect. All accruals and reserves referred to in this Section 6.14 are correctly and accurately reflected and accounted for in the books, statements and records of First Merchants and any Subsidiary, except where the failure to correctly and accurately reflect and account for such accruals and reserves would not have a Material Adverse Effect.

6.15 Taxes, Returns and Reports. First Merchants and its Subsidiaries have (a) duly filed all federal, state, local and foreign tax returns of every type and kind required to be filed as of the date hereof, and each return is true, complete and accurate in all material respects; (b) paid all material taxes, assessments and other governmental charges due and payable or claimed to be due and payable upon them or any of their income, properties or assets; and (c) not requested an extension of time for any such payments (which extension is still in force). Except for taxes not yet due and payable, the reserve for taxes on the Financial Information is adequate to cover all of First Merchants and the Subsidiaries tax liabilities (including, without limitation, income taxes and franchise fees) that may become payable in future years with respect to any transactions consummated prior to June 30, 2008. Neither First Merchants nor FMBCI has or will have, any liability for taxes of any nature for or with respect to the operation of their business, including the assets of any Subsidiary, from June 30, 2008, up to and including the Effective Date, except to the extent reflected on their Financial Information or on financial statements of First Merchants or any Subsidiary subsequent to such date and as set forth in the Disclosure Letter. Neither First Merchants nor any Subsidiary is currently under audit by any state or federal taxing authority. Except as set forth in the Disclosure Letter, neither the federal, state, nor local tax returns of First Merchants nor any Subsidiary have been audited by any taxing authority during the past five (5) years.

6.16 Deposit Insurance. The deposits of FMBCI are insured by the FDIC in accordance with the Federal Deposit Insurance Act, and FMBCI has paid all premiums and assessments with respect to such deposit insurance.

6.17 Reports. First Merchants and each Subsidiary have timely filed all reports, registrations and statements, together with any required amendments thereto, that they were required to file with the Regulatory Authorities, having jurisdiction over the affairs of First Merchants or any Subsidiary, except where such failure would not have a Material Adverse Effect. All such reports filed by First Merchants and the Subsidiaries complied in all material respects with all the rules and regulations promulgated by the applicable Regulatory Authorities and are true, accurate and complete and were prepared in conformity with generally accepted regulatory accounting principles applied on a consistent basis. Except as set forth in the Disclosure Letter, there is no unresolved violation with respect to any report or statement filed by, or any examination of, First Merchants or FMBCI.

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6.18 *Absence of Defaults.* Neither First Merchants nor any Subsidiary is in violation of its Articles of Incorporation or By-Laws or the knowledge of First Merchants Management in default under any material agreement, commitment, arrangement, lease, insurance policy or other instrument, whether entered into in the ordinary course of business or otherwise and whether written or oral, and there has not occurred any event known to First Merchants Management that, with the lapse of time or giving of notice or both, would constitute such a default, except for defaults which would not have a Material Adverse Effect.

6.19 *Tax and Regulatory Matters.* Neither First Merchants nor FMBCI has taken or agreed to take any action or has any knowledge of any fact or circumstance that would (a) prevent the transactions contemplated hereby from qualifying as a reorganization within the meaning of Section 368 of the Code or (b) materially impede or delay receipt of any regulatory approval required for consummation of the transactions contemplated by this Agreement.

6.20 *Real Property.*

(a) A list of the locations of each parcel of real property owned by First Merchants or FMBCI (other than real property acquired in foreclosure or in lieu of foreclosure in the course of the collection of loans and being held by First Merchants or FMBCI for disposition as required by law) is set forth in the Disclosure Letter under the heading of *Owned Real Property* (such real property being herein referred to as the *Owned Real Property*). A list of the locations of each parcel of real property leased by First Merchants or FMBCI is also set forth in the Disclosure Letter under the heading of *Leased Real Property* (such real property being herein referred to as the *Leased Real Property*). First Merchants shall update the Disclosure Letter within ten (10) days after acquiring or leasing any real property after the date hereof. Collectively, the *Owned Real Property* and the *Leased Real Property* are herein referred to as the *Real Property*.

(b) There is no pending action involving First Merchants or FMBCI as to the title of or the right to use any of the *Real Property*.

(c) Neither First Merchants nor FMBCI has any interest in any other real property except interests as a mortgagee, and except for any real property acquired in foreclosure or in lieu of foreclosure and being held for disposition as required by law.

(d) Except as set forth in the Disclosure Letter, (i) none of the buildings, structures or other improvements located on the *Owned Real Property* encroaches upon or over any adjoining parcel of real estate or any easement or right-of-way or setback line and all such buildings, structures; and (ii) improvements are located and constructed in conformity with all applicable zoning ordinances and building codes.

(e) Except as set forth in the Disclosure Letter, (i) none of the buildings, structures or improvements located on the *Owned Real Property* are the subject of any official complaint or notice by any governmental authority of violation of any applicable zoning ordinance or building code; and (ii) there is no zoning ordinance, building code, use or occupancy restriction or condemnation action or proceeding pending, or, to the best knowledge of First Merchants Management, threatened, with respect to any such building, structure or improvement. Except as set forth in the Disclosure Letter, the *Real Property* is in good condition for its intended purpose, ordinary wear and tear excepted, and has been maintained (as to the *Leased Property*, to the intent required to be maintained by First Merchants or FMBCI) in accordance with reasonable and prudent business practices applicable to like facilities. The *Owned Real Property* has been used and operated in compliance with all applicable laws, statutes, rules, regulations and ordinances applicable thereto.

(f) Except as may be reflected in the Financial Information or with respect to such easements, liens, defects, encumbrances, real estate taxes and assessments or other monetary obligations such as contributions to an Owner's Association, as do not individually or in the aggregate materially adversely affect the use or value of the *Owned Real Property*, First Merchants and FMBCI have, and at the Closing Date will have, good and marketable title to their respective *Owned Real Property*, free and clear of all liens, mortgages, security interests, encumbrances and restrictions of any kind or character.

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(g) Neither First Merchants nor FMBCI has caused or allowed the generation, treatment, storage, disposal or release at any Real Property of any Toxic Substance, except in compliance with all applicable federal, state and local laws and regulations and except as set forth in the Disclosure Letter. Toxic Substance means any hazardous, toxic or dangerous substance, pollutant, waste, gas or material, including, without limitation, petroleum and petroleum products, metals, liquids, semi-solids or solids, that are regulated under any federal, state or local statute, ordinance, rule, regulation or other law pertaining to environmental protection, contamination, quality, waste management or cleanup.

(h) Except as disclosed in the Disclosure Letter, (i) there are no underground storage tanks located on, in or under any Owned Real Property; and (ii) to the knowledge of First Merchants Management, no such Owned Real Property has previously contained an underground storage tank. Neither First Merchants nor FMBCI own or operate any underground storage tank at any Leased Real Property and to the knowledge of First Merchants Management no such Leased Real Property has previously contained an underground storage tank. No Owned Real Property is or has been, during First Merchants Management, listed on the CERCLIS.

(i) To the knowledge of First Merchants Management and as a result of any act of First Merchants or FMBCI, no Toxic Substance has been released, spilled, discharged or disposed at, in, on or under any Owned Real Property nor to the knowledge of First Merchants Management are there any other conditions or circumstances affecting any Real Property, in each case, which would pose a significant risk to the environment or the health or safety of persons or otherwise pose a material risk of liability for remediation, corrective action or clean-up.

(j) Except as disclosed in the Disclosure Letter, the Owned Real Property is not property within the definition of Indiana Code 13-11-2-174. Neither First Merchants nor FMBCI is required to provide a disclosure document to Lincoln as a result of the Merger pursuant to the Indiana Responsible Property Transfer Law (I.C. § 13-25-3-1 *et seq.*).

(k) To the knowledge of First Merchants Management and as a result of any act of First Merchants or FMBCI, there are no mechanic's or materialman's liens against the Leased Property, and no unpaid claims for labor performed, materials furnished or services rendered in connection with constructing, improving or repairing the Leased Property in respect of which liens may or could be filed against the Leased Property.

6.21 *Securities Law Compliance.* First Merchants common stock is traded on the NASDAQ Global Select Market under the symbol of FRME. First Merchants has complied in all material respects with all state, federal or foreign securities laws, statutes, rules, regulations or orders, injunctions or decrees of any government agency relating thereto. First Merchants has complied in all material respects with all rules, regulations, orders, injunctions or decrees of the National Association of Securities Dealers, Inc. and all entities related or affiliated therewith and has filed all reports and documents required to be filed with such entities. First Merchants has filed all reports and other documents required to be filed by it under the Securities Exchange Act of 1934 and the Securities Act of 1933, including First Merchants Annual Report on Form 10-K for the year ended December 31, 2007, and Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, copies of which have previously been delivered to Lincoln. Except as would not reasonably be expected to have a Material Adverse Effect, all such SEC filings were true, accurate and complete in all material respects as of the dates of the filings, and no such filings contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements, at the time and in the light of the circumstances under which they were made, not false or misleading.

6.22 *Broker's or Finder's Fees.* No agent, broker or other person acting on behalf of First Merchants or under any authority of First Merchants is or shall be entitled to any commission, broker's or finder's fee or any other form of compensation or payment from any of the parties hereto, other than attorneys' or accountants' fees, in connection with any of the transactions contemplated by this Agreement.

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6.23 *No Shareholder Approval Required.* The approval of the shareholders of First Merchants is not required for the approval of the Merger, the Bank Merger or the other transactions contemplated by this Agreement.

6.24 *Indemnification Agreements.* Except as set forth in the Disclosure Letter, neither First Merchants nor FMBCI is a party to any indemnification, indemnity or reimbursement agreement, contract, commitment or understanding to indemnify any present or former director, officer, employee, shareholder or agent against any liability or hold the same harmless from liability other than as expressly provided in the Articles of Incorporation or By-Laws of First Merchants and FMBCI.

6.25 *Bring Down of Representations and Warranties.* All representations and warranties of First Merchants and FMBCI contained in this Section 6 shall be true, accurate and correct on and as of the Effective Date except for those representations and warranties which address matters only as of a particular date (which shall have been true and correct as of such date) or have been affected by the transactions contemplated by and specified within the terms of this Agreement.

6.26 *Nonsurvival of Representations and Warranties.* The representations and warranties contained in this Section 6 shall expire on the Effective Date or the earlier termination of this Agreement, and thereafter First Merchants and FMBCI and all directors and officers of First Merchants and FMBCI shall have no further liability with respect thereto unless a court of competent jurisdiction should determine that any misrepresentation or breach of a warranty was willfully or intentionally made or is deemed to be fraudulent.

SECTION 7

Covenants of Lincoln

Lincoln covenants and agrees with First Merchants and covenants and agrees to cause the Subsidiaries to act, as follows:

7.01 *Shareholder Approval.* Lincoln shall submit this Agreement to its shareholders for approval at a meeting to be called and held in accordance with applicable law and the Articles of Incorporation and By-Laws of Lincoln at the earliest possible reasonable date, and the Board of Directors of Lincoln shall recommend to the shareholders of Lincoln that such shareholders approve this Agreement and shall not thereafter withdraw or modify its recommendation, except as otherwise provided in Section 7.05 hereof. The Board of Directors of Lincoln shall use its commercially reasonable best efforts to obtain any vote of its shareholders necessary for the approval of this Agreement.

7.02 *Other Approvals.* Lincoln and the Bank shall proceed expeditiously, cooperate fully and use their commercially reasonable best efforts to procure upon reasonable terms and conditions all consents, authorizations, approvals, registrations, and certificates, to complete all filings and applications and to satisfy all other requirements prescribed by law which are necessary for consummation of the Merger and the Bank Merger on the terms and conditions provided in this Agreement at the earliest possible reasonable date on or before December 31, 2008.

7.03 *Conduct of Business.*

(a) On and after the date of this Agreement and until the Effective Date or until this Agreement shall be terminated as herein provided, neither Lincoln nor any Subsidiary shall, without the prior written consent of First Merchants, (i) make any changes in their capital structure, including, but not limited to the redemption of common shares; (ii) authorize an additional class of stock or issue, or authorize the issuance of, stock; (iii) declare, distribute or pay any dividends on their common shares, or authorize a stock split, or make any other distribution to their shareholders, except for the payment by the Bank to Lincoln of dividends to pay

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Lincoln's expenses of operations and its business and payment of fees and expenses incurred in connection with the transactions contemplated by this Agreement and Lincoln's payment of a \$0.14/share quarterly dividend in accordance with past practice; (iv) merge, combine or consolidate with or sell their assets or any of their securities to any other person, corporation or entity, effect a share exchange or enter into any other transaction not in the ordinary course of business; (v) incur any liability or obligation, make any commitment, payment or disbursement, enter into any contract, agreement, understanding or arrangement or engage in any transaction, or acquire or dispose of any property or asset the fair market value of which exceeds \$100,000, in the aggregate (except for personal or real property acquired or disposed of in connection with either foreclosures on mortgages or enforcement of security interests and loans made or sold by the Bank in the ordinary course of business); (vi) subject any of their properties or assets to a mortgage, lien, claim, charge, option, restriction, security interest or encumbrance; (vii) promote or increase or decrease the rate of compensation (except for promotions and non-material increases in the ordinary course of business and in accordance with past practices) or enter into any agreement to promote or increase or decrease the rate of compensation of any director, officer or employee of Lincoln or any Subsidiary; (viii) except as set forth in the Disclosure Letter or as specifically authorized by this Agreement, execute, create, institute, modify or amend any pension, retirement, savings, stock purchase, stock bonus, stock ownership, stock option, stock appreciation or depreciation right or profit sharing plans, any employment, deferred compensation, consultant, bonus or collective bargaining agreement, group insurance contract or other incentive, welfare or employee benefit plan or agreement for current or former directors, officers or employees of Lincoln or any Subsidiary, change the level of benefits or payments under any of the foregoing or increase or decrease any severance or termination pay benefits or any other fringe or employee benefits or pay any bonuses other than as required by law or regulatory authorities; (ix) amend their Articles of Incorporation or By-Laws from those in effect on the date of this Agreement; (x) modify, amend or institute new employment policies or practices, or enter into, renew or extend any employment or severance agreements with respect to any present or former directors, officers or employees of Lincoln or any Subsidiary; (xi) give, dispose, sell, convey, assign, hypothecate, pledge, encumber or otherwise transfer or grant a security interest in any capital stock of any Subsidiary; (xii) fail to make additions to the Bank's reserve for loan losses, or any other reserve account, in the ordinary course of business and in accordance with sound banking practices and not inconsistent with generally accepted accounting principles applied on a consistent basis; (xiii) other than in the ordinary course of business consistent with past practice, incur any indebtedness for borrowed money or assume, guarantee, endorse or otherwise as an accommodation become responsible or liable for the obligations of any other individual, corporation or other entity; and (xiv) agree in writing or otherwise to take any of the foregoing actions.

(b) Lincoln and each Subsidiary shall maintain, or cause to be maintained, in full force and effect insurance on its properties and operations and fidelity coverage on its directors, officers and employees in such amounts and with regard to such liabilities and hazards as customarily are maintained by other companies operating similar businesses.

(c) Lincoln and each Subsidiary shall continue to give to First Merchants and its employees, accountants, attorneys and other authorized representatives reasonable access during regular business hours and other reasonable times to all their premises, properties, statements, books and records.

7.04 Preservation of Business. On and after the date of this Agreement and until the Effective Date or until this Agreement is terminated as herein provided, Lincoln and the Subsidiaries shall (a) carry on their business diligently, substantially in the same manner as heretofore conducted, and in the ordinary course of business; (b) use commercially reasonable efforts to preserve their business organizations intact, to keep their present officers and employees and to preserve their present relationship with customers and others having business dealings with them; and (c) not do or fail to do anything which will cause a material breach of, or material default in, any contract, agreement, commitment, obligation, understanding, arrangement, lease or license to which they are a party or by which they are or may be subject or bound.

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7.05 Other Negotiations. Except with the prior written approval of First Merchants, on and after the date of this Agreement and until the Effective Date or the earlier termination of this Agreement, Lincoln and the Subsidiaries shall not, and shall not permit or authorize their respective directors, officers, employees, agents or representatives to, directly or indirectly, initiate, solicit, encourage, engage in or continue discussions or negotiations with, or provide information to, any corporation, association, partnership, person or other entity or group concerning any merger, consolidation, share exchange, combination, purchase or sale of substantial assets, sale of shares of capital stock (or securities convertible or exchangeable into or otherwise evidencing, or any agreement or instrument evidencing the right to acquire, capital stock), tender offer, acquisition of control of Lincoln or any Subsidiary or similar transaction involving Lincoln or any Subsidiary (all such transactions hereinafter referred to as an Acquisition Transaction). Any letters of intent or other agreements, term sheets, understandings, negotiations or discussions covering potential Acquisition Transactions currently in effect shall be terminated and/or discontinued by Lincoln on or prior to execution of this Agreement. Lincoln and the Subsidiaries shall promptly communicate to First Merchants the terms of any proposal, written or oral, which Lincoln or any Subsidiary may receive with respect to an Acquisition Transaction and any request by or indication of interest on the part of any third party with respect to initiation of any Acquisition Transaction or discussion with respect thereto. The above provisions of this Section 7.05 notwithstanding, nothing contained in this Agreement shall prohibit (a) Lincoln from furnishing information to, or entering into new discussions or negotiations with, any person or entity that makes an unsolicited proposal of an Acquisition Transaction if and to the extent that (i) the Board of Directors of Lincoln, after consultation with legal counsel, determines in good faith that such action is required for the directors of Lincoln to fulfill their fiduciary duties and obligations to Lincoln's shareholders and other constituencies under Indiana law, and (ii) prior to furnishing such information to, or entering into discussions or negotiations with, such person or entity, Lincoln provides prompt written notice to First Merchants to the effect that it is furnishing information to, or entering into discussions or negotiations with, such person or entity, or (b) notwithstanding the provisions of Section 7.01, the Board of Directors of Lincoln from failing to make, withdrawing or modifying its recommendation to shareholders regarding the Merger following receipt of a proposal for an Acquisition Transaction if the Board of Directors of Lincoln, after consultation with and based upon the advice of legal counsel, determines in good faith that such action is required for the directors of Lincoln to fulfill their fiduciary duties and obligations to Lincoln's shareholders and other constituencies under Indiana law.

7.06 Announcements; Press Releases. In connection with the execution of this Agreement, Lincoln and First Merchants intend to jointly issue a press release mutually acceptable to the parties. Except as otherwise required by law, neither Lincoln nor any Subsidiary shall issue any additional press releases, conduct interviews, or make any other public announcements or disclosures relating to the Merger without the prior approval of First Merchants.

7.07 Disclosure Letter. Lincoln shall supplement, amend and update as of the Effective Date the Disclosure Letter with respect to any matters hereafter arising which, if in existence or having occurred as of the date of this Agreement, would have been required to be set forth or described in the Disclosure Letter. If, at any time prior to the Effective Date, Lincoln becomes aware of a fact or matter that might indicate that any of the representations and warranties of Lincoln herein may be untrue, incorrect or misleading in any material respect, Lincoln shall promptly disclose such fact or matter to First Merchants in writing.

7.08 Confidentiality. Lincoln and the Subsidiaries shall use commercially reasonable efforts to cause their respective officers, employees, and authorized representatives to hold in strict confidence all confidential data and information obtained by them from First Merchants, unless such information (a) was already known to Lincoln and the Subsidiaries, (b) becomes available to Lincoln and the Subsidiaries from other sources, (c) is independently developed by Lincoln and the Subsidiaries, (d) is disclosed outside of Lincoln and the Subsidiaries with and in accordance with the terms of prior written approval of First Merchants, or (e) is or becomes readily ascertainable from public or published information or trade sources or public disclosure of such information is required by law or requested by a court or other governmental agency, commission, or regulatory body. Lincoln and the Subsidiaries further agree that, in the event this Agreement is terminated, they will return to First Merchants all information

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obtained by Lincoln and the Subsidiaries from First Merchants, including all copies made of such information by Lincoln and the Subsidiaries. This provision shall survive the Effective Date or the earlier termination of this Agreement.

7.09 *Cooperation.* Lincoln and the Subsidiaries shall generally cooperate with First Merchants and its officers, employees, attorneys, accountants and other agents, and, generally, do such other acts and things in good faith as may be reasonable, necessary or appropriate to timely effectuate the intents and purposes of this Agreement and the consummation of the transactions contemplated hereby, including, without limitation, (a) Lincoln shall cooperate and assist First Merchants in preparation of and/or filing of all regulatory applications, the Registration Statement (as defined below), and all other documentation required to be prepared for consummation of the Merger and the Bank Merger and obtaining all necessary approvals, and (b) Lincoln shall furnish First Merchants with all information concerning itself and each Subsidiary that First Merchants may reasonably request in connection with the preparation of the documentation referenced above.

7.10 *Letter to Lincoln's Shareholders.* Within five (5) business days after execution of this Agreement by Lincoln and First Merchants, Lincoln shall deposit in the United States mail a letter to each of the shareholders of record of Lincoln as of the date of execution of this Agreement informing each shareholder about the execution of this Agreement and the proposed Merger. The terms of such letter to the shareholders of Lincoln shall be in a form mutually agreed to by First Merchants and Lincoln.

7.11 *Exercise of Options.*

(a) From and after the date hereof, Lincoln covenants that no additional stock options or stock appreciation rights shall be granted by Lincoln under any stock option plans of Lincoln or otherwise. Any stock options granted by Lincoln on or before the date of this Agreement, but which are currently not vested, may be amended to be immediately vested and exercisable. On or prior to the Effective Date, all outstanding stock options of Lincoln, disclosed pursuant to Section 5.03(e), may be exercised in accordance with the stock option plan under which such option was granted, and Lincoln shall use reasonable efforts to cause such stock options to be exercised on or immediately before the Effective Date.

(b) On or prior to the calendar day immediately preceding the Effective Date, or such other date mutually agreed to by Lincoln and First Merchants (the Option Deadline), Lincoln shall take all action necessary to terminate all stock option plans of Lincoln outstanding as of the Option Deadline and shall use reasonable efforts to obtain necessary consents from optionees to permit such termination in accordance with the foregoing provisions. No Lincoln stock options shall continue to be outstanding after the Option Deadline. Instead, as of the Option Deadline, any outstanding Lincoln stock options that have not been previously exercised are to be terminated in return for either (i) or (ii):

(i) A Cash amount determined using the following equation:

$$[(FMAP \times CR) - EP] \times OP$$

(For purposes of this equation, FMAP equals the First Merchants Average Price; CR equals the Conversion Ratio; EP equals the applicable exercise price per Lincoln common share issuable upon exercise of the applicable stock option; and OP equals the number of Lincoln common shares issuable upon exercise of such stock option.)

(ii) The number of Lincoln common shares issuable upon exercise of such Lincoln stock option in exchange for payment of the exercise price as required in the applicable stock option. For purposes of this item (ii), the required payment can also be made by cashless exercise, which also includes an equity swap, all as permitted in the applicable election form. In the event that the optionee fails to pay this exercise price in cash or through such cashless exercise on or before the Option Deadline, the optionee shall be deemed to have elected to receive the cash amount as referred to in the immediately preceding item (i).

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(c) An election to receive cash or common stock under Section 7.11(b) must be made no later than two (2) days prior to the Option Deadline. If an election is not made by such time, a non-electing optionee shall be deemed to have elected to receive cash under item (i) of Section 7.11(b). In addition, if the cash amount calculated under item (i) of Section 7.11(b) is negative, a non-electing optionee shall be entitled to nothing upon termination of the previously unexercised Lincoln stock option.

(d) In addition to those common shares issued upon exercise of stock options as provided in this section 7.11 (the Option Shares), Lincoln shall have no more than 5,319,731 common shares outstanding immediately prior to the Effective Date. Furthermore, the diversity of payment limitations contained in section 3.07 shall otherwise apply to the Option Shares, as well as all other Lincoln common shares outstanding as of the Effective Date.

7.12 SEC and Other Reports.

(a) Promptly upon its becoming available, Lincoln shall furnish to First Merchants one (1) copy of each financial statement, report, notice, or proxy statement sent by Lincoln to its shareholders generally and of each regular or periodic report, registration statement or prospectus filed by Lincoln with NASDAQ or the SEC or any successor agency, of any order issued by any Governmental Authority in any proceeding to which Lincoln is a party, and of any notice or communication received by Lincoln from NASDAQ or the SEC. For purposes of this provision, Governmental Authority shall mean any government (or any political subdivision or jurisdiction thereof), court, bureau, agency or other governmental entity having or asserting jurisdiction over Lincoln or any of its respective businesses, operations or properties.

(b) None of the information supplied or to be supplied by Lincoln for inclusion or incorporation by reference in (i) the Registration Statement (as defined in Section 8.01 hereof) will, at the time the Registration Statement and each amendment or supplement thereto, if any, becomes effective under the Securities Act of 1933, as amended, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they are made, not misleading, and (ii) the Proxy Statement (as defined in Section 8.01 hereof) and any amendment or supplement thereto will, at the date of mailing, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they are made, not misleading.

7.14 Adverse Actions. Lincoln shall not (a) take any action while knowing that such action would, or is reasonably likely to, prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368 of the Code; or (b) knowingly take any action that is intended or is reasonably likely to result in (i) any of its representations and warranties set forth in this Agreement being or becoming untrue in any material respect at any time at or prior to the Effective Date, (ii) any of the conditions to the Merger set forth in Section 9 not being satisfied, (iii) a material violation of any provision of this Agreement, or (iv) a material delay in the consummation of the Merger except, in each case, as may be required by applicable law or regulation.

7.15 Bank Merger Agreement. Lincoln shall cause the appropriate officers of the Bank to execute and deliver the Bank Merger Agreement contemporaneously herewith.

7.16 Employee Stock Ownership Plan. Lincoln shall establish a freeze and termination date for the ESOP that is no later than the day before the Effective Date. As of the Effective Date, the ESOP shall be frozen and all shares of Lincoln stock held by the ESOP shall be converted into rights to receive the Merger Consideration described in Section 3 in respect thereof. On or before the ESOP's receipt of a favorable determination letter from the Internal Revenue Service (IRS) with regard to termination, all outstanding indebtedness of the ESOP shall be repaid, any assets remaining in the suspense fund under the ESOP shall be allocated among the accounts of the ESOP Participants as additional earnings as otherwise provided in the ESOP and, after receipt of the such determination letter, the net assets of the ESOP shall be promptly distributed to Participants under the ESOP and their Beneficiaries, except as otherwise required by applicable law. Within five (5) business days following the

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approval of the Merger by the Lincoln shareholders, Lincoln shall file the notifications or applications with the IRS necessary to comply with the provisions of this Section 7.16. To the extent any notifications or applications with the IRS to comply with the provisions of this Section 7.16 are required to be filed after the Effective Date, First Merchants shall promptly make such notifications or applications. If for any reason the IRS does not permit the ESOP to be terminated or distributions to be made to employees of Lincoln and its Subsidiaries as provided above, First Merchants will, in its sole discretion, either (a) merge the ESOP into its existing 401(k) Plan or (b) amend the ESOP to provide for the ESOP to be continued after the Effective Date for the sole and exclusive benefit of the individuals participating therein or having accounts thereunder immediately prior to the Effective Date; provided, however, that (i) no such amendment shall require or have the effect of requiring First Merchants, Lincoln or their respective Subsidiaries to make any contributions to the ESOP at or after the Effective Date, (ii) no such amendment shall require or have the effect of requiring First Merchants, Lincoln or their respective Subsidiaries to make any contributions to the ESOP at or prior to the Effective Date in addition to any contributions that otherwise would be required, (iii) any such amendment shall be conditioned upon its not having an adverse effect upon the qualified status of the ESOP under Section 401(a) of the Code, and (iv) no such amendment shall require or have the effect of requiring continuation of the ESOP for more than three years after the Effective Date. Lincoln and its Subsidiaries shall make no contributions to the ESOP between the date hereof and the Effective Date other than elective deferrals (Compensation Reduction Amounts), matching contributions (Company Matched Contributions), but only at rates as currently provided in the ESOP, and such other contributions as may be required to maintain the tax-qualified status of the ESOP or to enable the ESOP to make required payments on the loans currently outstanding to it.

7.17 Lincoln Recognition and Retention Plan.

(a) As of the date hereof, 32,888 of the outstanding Lincoln Common Shares are held in trust in the Lincoln Federal Savings Bank Recognition and Retention Plan and Trust (the RRP Plan). On and after the date of this Agreement, no further contributions shall be made to the RRP Plan. However, on or before the Effective Date, but otherwise subject to any applicable statutory or regulatory requirements, Lincoln will: (a) modify any or all outstanding RRP Plan Awards held by employees or directors of Lincoln or its Subsidiaries to become fully vested on or before the Effective Date, (b) issue fully vested and previously unissued RRP Plan Awards to employees or directors of Lincoln and its Subsidiaries in accordance with the terms and conditions of the RRP Plan, and (c) make distributions of Lincoln Common Shares to applicable recipients as provided in the RRP Plan.

(b) If for any reason, the RRP Plan has not been terminated by the Effective Date, First Merchants agrees to promptly complete RRP Plan distributions as soon as reasonably possible after the Effective Date to the designated participants and beneficiaries of the RRP Plan; however, it is acknowledged that these final distributions will be in cash or First Merchants common stock as provided in Section 3.

(c) As soon as all Lincoln Common Shares and Merger Consideration, if any, held in the RRP Plan have been distributed to the officers and directors participating in the RRP Plan, it shall terminate.

SECTION 8

Covenants of First Merchants

First Merchants covenants and agrees with Lincoln and covenants and agrees to cause its Subsidiaries to act as follows:

8.01 *Approvals.* First Merchants and FMBCI shall proceed expeditiously, cooperate fully and use its best efforts to procure upon reasonable terms and conditions all consents, authorizations, approvals, registrations and certificates, to complete all filings and applications and to satisfy all other requirements prescribed by law which are necessary for consummation of the Merger on the terms and conditions provided in this Agreement at the earliest possible reasonable date. First Merchants agrees to use its best efforts to raise any additional capital which might be required to obtain any required regulatory approvals of the Merger. First Merchants shall provide

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Lincoln with copies of proposed regulatory filings in connection with the Merger and afford Lincoln the opportunity to offer comment on the filings before filing. Not in limitation of the foregoing, First Merchants agrees to prepare a registration statement on Form S-4 (the Registration Statement), to be filed by First Merchants with the SEC in connection with the issuance of First Merchants common stock in the Merger (including the proxy statements and prospectus and other proxy solicitation materials of Lincoln constituting a part thereof (the Proxy Statement) and all related documents). First Merchants agrees to advise Lincoln, promptly after First Merchants receives notice thereof, of the time when the Registration Statement has become effective or any supplement or amendment has been filed, of the issuance of any stop order or the suspension of the qualification of First Merchants common stock for offering or sale in any jurisdiction, of the initiation or threat of any proceeding for any such purpose, or of any request by the SEC for the amendment or supplement of the Registration Statement or for additional information. First Merchants agrees to use its reasonable best efforts to list, prior to the Effective Date, on the Global Select Market System of NASDAQ (subject to official notice of issuance), the shares of First Merchants common stock to be issued to the holders of Lincoln common shares in the Merger. The approval of the shareholders of First Merchants is not required for the approval of the Merger, the Bank Merger or the other transactions contemplated by this Agreement.

8.02 *Preservation of Business.* On and after the date of this Agreement and until the Effective Date or until this Agreement is terminated as herein provided, First Merchants and the Subsidiaries shall (a) carry on their business diligently, substantially in the same manner as heretofore conducted, and in the ordinary course of business; (b) use commercially reasonable efforts to preserve their business organizations intact, to keep their present officers and employees and to preserve their present relationship with customers and others having business dealings with them; and (c) not do or fail to do anything which will cause a material breach of, or material default in, any contract, agreement, commitment, obligation, understanding, arrangement, lease or license to which they are a party or by which they are or may be subject or bound.

8.03 *Certain Employee and Officer Matters.*

(a) As of the Effective Date, First Merchants will cover the Subsidiaries' employees under a tax-qualified retirement plan First Merchants maintains for its employees, provided that such an employee meets the applicable participation requirements, in lieu of the Subsidiaries' current tax-qualified retirement plan. Following the Effective Date, the Subsidiaries' employees will otherwise receive employee benefits that in the aggregate are substantially similar to the employee benefits provided to other employees of First Merchants and its subsidiaries on the Effective Date. For purposes of determining a Lincoln or Subsidiaries' employee's service under a First Merchants' Employee Benefit Plan that the employee is permitted to enter, service with Lincoln or the Subsidiaries will be treated as service with First Merchants for all purposes except that service with Lincoln or the Subsidiaries shall not be treated as service with First Merchants for purposes of benefit accrual of any defined benefit plan or the Service-Weighted Contributions under the First Merchants 401(k) Plan. First Merchants, in its sole discretion, shall determine whether Lincoln's and the Subsidiaries' tax-qualified retirement plan(s) are terminated or merged into First Merchants' plan(s).

(b) *Coverage Under First Merchants' Health Plan.* With respect to First Merchants' health plans under which employees of the Subsidiaries become participants under the provisions of Section 8.03(a) above, First Merchants agrees to waive all restrictions and limitations for pre-existing conditions and First Merchants will use its best efforts to cause any insurer providing a benefit to do the same. Employees of Lincoln or its subsidiaries who are hired by First Merchants or its subsidiaries shall not be subject to a waiting period for coverage under First Merchants' Health Plan.

(c) *COBRA.* First Merchants shall be responsible for providing COBRA continuation coverage to any qualified employee or former employee of Lincoln or the Subsidiaries and to their respective qualified beneficiaries, on and after the Effective Date, regardless of when the qualifying event occurred.

(d) *Change of Control/Employment Agreements.* First Merchants agrees to accept and honor any obligations of Lincoln or the Bank with the eleven (11) officers pursuant to their employment and change of control agreements previously disclosed to First Merchants and identified in the Disclosure Letter. First

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Merchants and Lincoln agree the Merger is a change in control for purposes of such agreements, and First Merchants agrees to make, within thirty (30) days after the Effective Date, lump sum payments for such change in control even though any such officer has not terminated employment as provided in those agreements. Except for Mr. Engle and Mr. Ditmars, the payments shall be in exchange for the respective employee's agreement to terminate his or her employment and/or change of control agreements as of the Effective Date without further liability of the Bank, Lincoln, First Merchants and/or FMBCI.

(e) *Restricted Stock Grants and Options.* Subsequent to the Effective Date, in exchange for their continued service to First Merchants and FMBCI, First Merchants and/or FMBCI will grant to certain senior management of Lincoln and/or the Bank restricted stock and/or stock options as follows:

(i) 6,400 restricted shares or 24,000 stock options or a combination of both to Jerry R. Engle;

(ii) 6,400 restricted shares or 24,000 stock options or a combination of both to John B. Ditmars; and

(iii) 19,200 restricted shares or 72,000 stock options or a combination of both in the aggregate to the remainder of the senior management of Lincoln and/or the Bank as allocated by First Merchants, after consultation with Mr. Engle and Mr. Ditmars.

8.04 *Press Release.* In connection with the execution of this Agreement, Lincoln and First Merchants intend to jointly issue a press release mutually acceptable to the parties. Except as otherwise required by law, neither First Merchants nor FMBCI shall issue any additional press releases or make any other public announcements or disclosures relating to the Merger or the Bank Merger without the prior approval of Lincoln.

8.05 *Confidentiality.* First Merchants and FMBIC shall, and shall use its best efforts to cause its Subsidiaries, officers, employees, and authorized representatives to, hold in strict confidence all confidential data and information obtained by them from Lincoln, unless such information (i) was already known to First Merchants and Subsidiaries, (ii) becomes available to First Merchants and Subsidiaries from other sources, (iii) is independently developed by First Merchants and Subsidiaries, (iv) is disclosed outside of First Merchants and Subsidiaries with and in accordance with the terms of prior written approval of Lincoln, or (v) is or becomes readily ascertainable from public or published information or trade sources or public disclosure of such information is required by law or requested by a court or other governmental agency, commission, or regulatory body. First Merchants and Subsidiaries further agree that in the event this Agreement is terminated, it will return to Lincoln all information obtained by it regarding Lincoln or any Subsidiary, including all copies made of such information by First Merchants and Subsidiaries. This provision shall survive the Effective Date or the earlier termination of this Agreement.

8.06 *Board of FMBCI.* Upon consummation of the Bank Merger, FMBCI shall be a national bank organized under the laws of the United States and the officers and directors of the Bank in office immediately prior to the consummation of the Merger shall be the officers and directors of the Bank at the Effective Date. Notwithstanding the foregoing, First Merchants and FMBCI shall take all action necessary to nominate and approve such Directors of the Bank who desire to continue to serve on the Board of Directors of FMBCI for at least the remainder of the terms to which they have been elected. FMBCI directors will be subject to First Merchants' policy of mandatory retirement at age seventy (70); provided, however, the policy of mandatory retirement will not apply to any of the Bank's current directors until twenty-four (24) months after the Effective Date.

8.07 *Board of First Merchants.* First Merchants shall cause all necessary action to be taken to cause Jerry R. Engle and another current Director of Lincoln chosen by First Merchants, to either (i) be nominated for election as members of the First Merchants' Board of Directors for a three (3) year term at the first annual meeting of the shareholders of First Merchants following the Effective Date; or (ii) to be appointed as members of the First Merchants' Board of Directors at the next meeting of the First Merchants' Board of Directors following the Effective Date to serve until the first annual meeting of the shareholders of First Merchants following the

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Effective Date and then to be nominated for election as members of the First Merchants Board of Directors for a three (3) year term at the first annual meeting of the shareholders of First Merchants following the Effective Date, whichever can be effected first depending on the timing of the occurrence of the Effective Date. The two (2) individuals from the Board of Directors of Lincoln elected to the Board of Directors of First Merchants shall be subject to First Merchants policy of mandatory retirement at age seventy (70); provided, however, the policy of mandatory retirement will not apply to such individuals until twenty-four (24) months after the Effective Date.

8.08 Directors and Officers Insurance.

(a) For a period of at least three years from the Effective Date, First Merchants shall use its reasonable best efforts to obtain an endorsement to its director's and officer's liability insurance policy to cover the present and former officers and directors of Lincoln and the Bank (determined as of the Effective Date) with respect to claims against such directors and officers arising from facts or events which occurred before the Effective Date, which insurance shall contain at least the same coverage and amounts, and contain terms and conditions no less advantageous, as that coverage currently provided by Lincoln; provided however, that if First Merchants is unable to obtain such endorsement, then Lincoln may purchase tail coverage under its existing director and officer liability insurance policy for such claims; provided further that in no event shall First Merchants be required to expend in the aggregate during each year in such three-year period more than two times the current annual amount spent by Lincoln (the Insurance Amount) to maintain or procure its current directors' and officers' insurance coverage; provided further, that if First Merchants is unable to maintain or obtain the insurance called for by this Section 8.07, First Merchants shall use its reasonable best efforts to obtain as much comparable insurance as is available for the Insurance Amount; provided, further, that officers and directors of Lincoln or the Bank may be required to make application and provide customary representations and warranties to First Merchants' insurance carrier for the purpose of obtaining such insurance.

(b) For six years after the Effective Date, the Continuing Company shall indemnify, defend and hold harmless the present and former officers and directors of Lincoln and the Bank against all losses, expenses (including attorneys' fees), claims, damages or liabilities arising out of actions or omissions occurring on or prior to the Effective Date (including, without limitation, the transactions contemplated by this Agreement) to the full extent then permitted under the Indiana Business Corporation Law and by First Merchants' or Lincoln's Articles of Incorporation as in effect on the date hereof (whichever is more favorable to the officers and directors of Lincoln and the Bank), including provisions relating to advances of expenses incurred in the defense of any action or suit.

(c) Following the Effective Date, First Merchants will provide any Lincoln or Bank officers, directors and employees who become officers, directors and employees of the Continuing Company or its subsidiaries with the same directors and officers liability insurance coverage and indemnification protections that First Merchants provides to other officers, directors and employees of First Merchants or its subsidiaries.

(d) If First Merchants shall consolidate with or merge into any other entity and shall not be the continuing or surviving entity of such consolidation or merger or shall transfer all or substantially all of its assets to any entity, then and in each case, proper provision shall be made so that the successors and assigns of First Merchants shall assume the obligations set forth in this Section 8.07.

8.09 SEC and Other Reports.

(a) Promptly upon its becoming available, First Merchants shall furnish to Lincoln one (1) copy of each financial statement, report, notice, or proxy statement sent by First Merchants to its shareholders generally and of each regular or periodic report, registration statement or prospectus filed by First Merchants with the SEC or any successor agency, of any order issued by any Governmental Authority in any proceeding to which First Merchants is a party, and of any notice or communication received by First Merchants from the SEC. For purposes of this provision, Governmental Authority shall mean any government (or any political subdivision or jurisdiction thereof), court, bureau, agency or other governmental entity having or asserting jurisdiction over First Merchants or any of its respective businesses, operations or properties.

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(b) None of the information supplied or to be supplied by First Merchants for inclusion or incorporation by reference in (i) the Registration Statement (as defined in Section 8.01 hereof) will, at the time the Registration Statement and each amendment or supplement thereto, if any, becomes effective under the Securities Act of 1933, as amended, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they are made, not misleading, and (ii) the Proxy Statement (as defined in Section 8.01 hereof) and any amendment or supplement thereto will, at the date of mailing, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they are made, not misleading.

8.10 *Disclosure Letter*. First Merchants shall supplement, amend and update as of the Effective Date the Disclosure Letter with respect to any matters hereafter arising which, if in existence or having occurred as of the date of this Agreement, would have been required to be set forth or described in the Disclosure Letter. If, at any time prior to the Effective Date, First Merchants becomes aware of a fact or matter that might indicate that any of the representations and warranties of First Merchants herein may be untrue, incorrect or misleading in any material respect, First Merchants shall promptly disclose such fact or matter to First Merchants in writing.

8.11 *Adverse Actions*. First Merchants shall not (a) take any action while knowing that such action would, or is reasonably likely to, prevent or impede the Merger from qualifying as a reorganization within the meaning of Section 368 of the Code; or (b) knowingly take any action that is intended or is reasonably likely to result in (i) any of its representations and warranties set forth in this Agreement being or becoming untrue in any respect at any time at or prior to the Effective Date, (ii) any of the conditions to the Merger set forth in Section 9 not being satisfied, (iii) a material violation of any provision of this Agreement, or (iv) a material delay in the consummation of the Merger except, in each case, as may be required by applicable law or regulation.

8.12 *Cooperation*. First Merchants shall generally cooperate with Lincoln and its officers, employees, attorneys, accountants and other agents, and, generally, do such other acts and things in good faith as may be reasonable, necessary or appropriate to timely effectuate the intents and purposes of this Agreement and the consummation of the transactions contemplated hereby. First Merchants shall furnish Lincoln with all information concerning itself and each of its direct and indirect subsidiaries that Lincoln may reasonably request.

8.13 *Bank Merger Agreement*. First Merchants shall cause the appropriate officers of FMBCI to execute and deliver the Bank Merger Agreement upon approval by FMBCI's Board of Directors.

SECTION 9

Conditions Precedent To The Merger and the Bank Merger

The obligation of each of the parties hereto to consummate the transactions contemplated by this Agreement is subject to the satisfaction and fulfillment of each of the following conditions on or prior to the Effective Date:

9.01 *Lincoln Shareholder Approval*. The shareholders of Lincoln shall have approved the Merger and confirmed this Agreement as required by applicable law.

9.02 *Registration Statement Effective*. First Merchants shall have registered its shares of common stock to be issued to shareholders of Lincoln in accordance with this Agreement with the SEC pursuant to the 1933 Act, and all state securities and blue sky approvals and authorizations required to offer and sell such shares shall have been received by First Merchants. The registration statement with respect thereto shall have been declared effective by the SEC and no stop order shall have been issued or threatened. The shares of First Merchants common stock shall have been listed for trading on the NASDAQ Global Select Market System (subject to official notice of issuance).

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9.03 *Tax Opinions.*

(a) Lincoln shall have obtained an opinion of Bose McKinney & Evans, LLP dated on or about the Effective Date to the effect that the Merger effected pursuant to this Agreement shall constitute a reorganization within the meaning of Section 368(a) of the Code, and that no gain or loss will be recognized by shareholders of Lincoln to the extent they receive shares of First Merchants common stock in the Merger in exchange for their Lincoln common shares, other than the gain or loss to be recognized as to cash received in lieu of fractional share interests and cash received in exchange for Lincoln common shares. Such opinions shall be based upon factual representations received by counsel from Lincoln and First Merchants, which representations may take the form of written certifications.

(b) First Merchants shall have obtained an opinion of Bingham McHale LLP dated on or about the Effective Date to the effect that the Merger effected pursuant to this Agreement shall constitute a reorganization within the meaning of Section 368(a) of the Code. Such opinions shall be based upon factual representations received by counsel from Lincoln and First Merchants, which representations may take the form of written certifications.

9.04 *Regulatory Approvals.* The Federal Reserve Board and the Indiana Department of Financial Institutions shall have authorized and approved the Merger and the transactions related thereto. In addition, all appropriate orders, consents, approvals and clearances from all other regulatory agencies and governmental authorities whose orders, consents, approvals or clearances are required by law for consummation of the Merger shall have been obtained.

9.05 *Officers Certificate.* First Merchants and Lincoln shall have delivered to each other a certificate signed by their respective Chairman or President and their Secretary, dated the Effective Date, certifying that (a) all the representations and warranties of their respective corporations are true, accurate and correct on and as of the Effective Date except for those representations and warranties which address matters only as of a particular date (which shall have been true and correct as of such date) or have been affected by the transactions contemplated by and specified within the terms of this Agreement; (b) all the covenants of their respective corporations have been complied with in all material respects from the date of this Agreement through and as of the Effective Date; and (c) their respective corporations have satisfied and fully complied with all conditions necessary to make this Agreement effective as to them.

9.06 *Fairness Opinion.* Lincoln shall have obtained an opinion from Sandler O'Neill Partners, L.P., to the effect that the consideration paid in the Merger is fair to the shareholders of Lincoln from a financial viewpoint. Such opinion shall be (a) in form and substance reasonably satisfactory to Lincoln, (b) dated as of a date not later than the mailing date of the Proxy Statement relating to the Merger and (c) included in the Proxy Statement.

9.07 *No Judicial Prohibition.* Neither Lincoln, any Subsidiary nor First Merchants or FMBCI shall be subject to any order, decree or injunction of a court or agency of competent jurisdiction which enjoins or prohibits the consummation of the Merger.

9.08 *Other Consents and Approvals.* All consents and other approvals required for the transfer of any contracts, agreements, leases, loans, etc. as a result of the Merger shall have been obtained, except where the failure to obtain such consents or approvals would not have a Material Adverse Effect.

9.09 *Options.* Except as otherwise provided in section 7.11: (a) all of the options disclosed in Section 5.03(e) of the Disclosure Letter shall have been exercised and/or terminated, (b) in addition to the Option Shares, Lincoln shall have no more than 5,319,731 shares of common stock issued and outstanding, (c) Lincoln shall have no commitment to issue any additional shares of common stock, and (d) all stock option plans of Lincoln shall have been terminated.

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9.10 *Executive Employment Agreements*. FMBCI shall enter into Executive Employment Agreements with Jerry R. Engle and John B. Ditmars in substantially the forms attached hereto as Exhibit B-1 and B-2, respectively, immediately prior to the Effective Date that will supersede their current employment agreements with Lincoln and/or the Bank, except for the obligation to make the lump sum payments described in Section 8.03(d) above.

9.11 *Opinions*. The parties shall have received the respective opinions of counsel described in Section 12.04 of this Agreement.

9.12 *Bank Merger Agreement*. FMBCI and the Bank shall have entered into the Bank Merger Agreement.

SECTION 10

Termination of Merger

10.01 *Manner of Termination*. This Agreement and the transactions contemplated hereby may be terminated at any time prior to the Effective Date by written notice delivered by First Merchants to Lincoln or by Lincoln to First Merchants only for the following reasons:

- (a) By the mutual consent of First Merchants and Lincoln, if the Board of Directors of each so determines by vote of a majority of the members of its entire Board;
- (b) By First Merchants or Lincoln, if its respective Board of Directors so determines by vote of a majority of the members of its entire Board, in the event of either: (i) a material breach by the other party of any representation or warranty contained herein which breach cannot be or has not been cured within 30 days after the giving of written notice to the breaching party of such breach; (ii) a material breach by the other party of any of the covenants or agreements contained herein, which breach cannot be or has not been cured within 30 days after the giving of written notice to the breaching party of such breach; or (iii) any event, fact or circumstance shall have occurred that has had or could reasonably be expected to have a Material Adverse Effect on the other party;
- (c) By Lincoln or First Merchants, if it shall determine in its sole discretion that the transactions contemplated by this Agreement have become inadvisable or impracticable by reason of commencement of material litigation or proceedings against any of the parties;
- (d) By First Merchants, if the Merger has not been consummated before January 1, 2009 (provided that First Merchants is not then in material breach of any representation, warranty, covenant or other agreement contained herein);
- (e) By First Merchants or Lincoln, pursuant to their respective termination rights set forth in Section 3.04 hereof;
- (f) By Lincoln, if the appropriate discharge of the fiduciary duties of the Board of Directors of Lincoln consistent with Section 7.05 requires that Lincoln terminate this Agreement;
- (g) By First Merchants, if Lincoln's Board of Directors fails to make, withdraws or modifies its recommendation to Lincoln's shareholders to vote in favor of the Merger following receipt of a written proposal for an Acquisition Transaction;
- (h) By First Merchants, if Lincoln fails to give any written notice as required by Section 7.05 or if within twenty (20) days after giving First Merchants written notice pursuant to Section 7.05 of its intent to furnish information to or enter into discussions or negotiations with another person or entity, Lincoln does not terminate all discussions, negotiations and information exchanges related to such Acquisition Transaction and provide First Merchants with written notice of such termination;

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(i) By either party (provided that the terminating party is not then in material breach of any representation or warranty contained in this Agreement or in material breach of any covenant or other agreement contained in this Agreement) in the event that any of the conditions precedent to the obligations of such party to consummate the Merger cannot be satisfied or fulfilled by the date specified in Section 10.01(k) of this Agreement;

(j) By Lincoln, if First Merchants enters into a definitive agreement in which it is the target company or the company to be acquired which would result in a change of control of First Merchants or require approval pursuant to the Bank Holding Company Act of 1956, as amended; or

(k) By Lincoln or First Merchants, if the Merger has not been consummated before June 30, 2009 (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained herein).

10.02 *Effect of Termination.* Except as provided below, in the event that this Agreement is terminated pursuant to the provisions of Section 10.01 hereof, no party shall have any liability to any other party for costs, expenses, damages or otherwise; provided, however, that notwithstanding the foregoing, in the event that this Agreement is terminated pursuant to Section 10.01(b) hereof on account of a willful breach of any of the representations and warranties set forth herein or any willful breach of any of the agreements set forth herein, then the non-breaching party shall be entitled to recover appropriate damages from the breaching party, including, without limitation, reimbursement to the non-breaching party of its costs, fees and expenses (including attorneys' , accountants' and advisors' fees and expenses) incident to the negotiation, preparation and execution of this Agreement and related documentation; provided, however, that nothing in the foregoing proviso shall be deemed to constitute liquidated damages for the breach by a party of the terms of this Agreement or otherwise limit the rights of the non-breaching party. Notwithstanding the foregoing, (i) in the event of termination by Lincoln in accordance with Section 10.01(f) or by First Merchants in accordance with Section 10.01(g) or 10.01(h), Lincoln shall pay First Merchants the sum of \$3,200,000 as liquidated damages, (ii) in the event of termination by Lincoln in accordance with Section 10.01(j), First Merchants shall pay Lincoln the sum of \$3,200,000, and (iii) in the event of termination by First Merchants in accordance with Section 10.01(d), First Merchants shall pay Lincoln the sum of \$2,000,000. Such liquidated damages shall be in lieu of costs, expenses and damages otherwise recoverable under the first sentence of this Section 10.02. Such payment shall be made within ten (10) days of the date of notice of termination. Each of First Merchants and Lincoln acknowledges the reasonableness of such amount in light of the considerable time and expense invested and to be invested by each of them and their respective representatives in furtherance of the Merger. Such amount was agreed upon by First Merchants and Lincoln as compensation for their time and expense and not as a penalty, it being impossible to ascertain the exact value of the time and expense to be invested. The prevailing party in the event of any litigation to enforce this Section 10.02 shall be entitled to recover reasonable attorneys' fees.

SECTION 11

Effective Date Of Merger

Subject to the terms and upon satisfaction of all requirements of law and the conditions specified in this Agreement, the Merger shall become effective at the close of business on the day specified in the Articles of Merger of Lincoln with and into First Merchants (the Articles of Merger) as filed with the Secretary of State of the State of Indiana (the Effective Date). Unless otherwise agreed to by the parties, the Effective Date shall be no later than the last business day of the month in which both (a) any waiting period following the last approval of the Merger by a state or federal regulatory agency or governmental authority expires and (b) the conditions precedent to the Merger outlined in Section 9 have been satisfied; provided, however the Effective Date shall not be before December 31, 2008, unless otherwise agreed by the parties.

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SECTION 12

Closing

12.01 *Closing Date and Place.* The closing of the Merger (the Closing) and the Bank Merger shall take place at the main office of First Merchants on the Effective Date or at such other time and place as mutually agreed to by First Merchants and Lincoln.

12.02 *Merger-Articles of Merger.* Subject to the provisions of this Agreement, on the Effective Date, the Articles of Merger shall be duly filed with the Secretary of State of the State of Indiana.

12.03 *Bank Merger-Articles of Merger.* Subject to the provisions of this Agreement, on the Effective Date, the articles of merger or other filings necessary to consummate the Bank Merger shall be duly filed.

12.04 *Opinions of Counsel.* At the Closing, (a) Lincoln shall deliver an opinion of its counsel, Bose McKinney & Evans LLP, to First Merchants, and (b) First Merchants shall deliver an opinion of its counsel, Bingham McHale LLP to Lincoln, each dated as of the date of Closing. The form of such opinion shall be as mutually agreed to by the parties hereto and their respective counsel; provided, however, the opinion of Lincoln's counsel shall also include an opinion that the ESOP termination and distribution contemplated under Section 7.16 hereof was conducted in accordance with all applicable plan documents, statutes, rules and regulations.

SECTION 13

Miscellaneous

13.01 *Effective Agreement.* This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but none of the provisions thereof shall inure to the benefit of any other person, firm, or corporation whomsoever other than Sections 7.11, 7.16, 7.17, 8.03, 8.06, 8.07 and 8.08, which may be enforced by the employees and officers of Lincoln and Lincoln's Subsidiaries. Neither this Agreement nor any of the rights, interests, or obligations hereunder shall be assigned or transferred by either party hereto without the prior written consent of the other party.

13.02 *Waiver; Amendment.*

(a) First Merchants and Lincoln may, each individually, by an instrument in writing executed in the same manner as this Agreement: (i) extend the time for the performance of any of the covenants or agreements of the other party under this Agreement; (ii) waive any inaccuracies in the representations or warranties of the other party contained in this Agreement or in any document delivered pursuant hereto or thereto; (iii) waive the performance by the other party of any of the covenants or agreements to be performed by it or them under this Agreement; or (iv) waive the satisfaction or fulfillment of any condition the nonsatisfaction or nonfulfillment of which is a condition to the right of the party so waiving to terminate this Agreement. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other or subsequent breach hereunder.

(b) Notwithstanding the prior approval by the shareholders of Lincoln, this Agreement may be amended, modified or supplemented by the written agreement of Lincoln, First Merchants, the Bank and FMBCI without further approval of such shareholders, except that no such amendment, modification or supplement shall decrease the consideration specified in Section 3 hereof, or shall otherwise materially adversely affect the rights of the shareholders of Lincoln without the further approval of such shareholders.

13.03 *Notices.* Any and all notices or other communications required or permitted under this Agreement shall be in writing and shall be deemed to be given (i) when delivered in person, or (ii) on the day of transmission if sent via facsimile transmission to the facsimile number given below, provided telephonic confirmation of

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receipt is obtained promptly after completion of transmission, or (iii) on the fifth (5th) day after sent by certified or registered mail, postage prepaid, return receipt requested, addressed as follows:

If to First Merchants:	With a copy to (which will not constitute notice):
200 E. Jackson Street	Bingham McHale LLP
Muncie, IN 47305	2700 Market Tower
Attn: Michael C. Rechin,	10 West Market Street
President and	Indianapolis, Indiana 46204-2982
Chief Executive Officer	Attn: David R. Prechtel, Esq.
(765) 741-7283	(317) 236-9907

If to Lincoln:	With a copy to (which will not constitute notice):
905 Southfield Drive	Bose McKinney & Evans LLP
Plainfield, Indiana 46168	111 Monument Circle
Attn: Jerry R. Engle	Suite 2700
Chairman of the Board,	Indianapolis, Indiana 46204
President and Chief	Attn: David A. Butcher
Executive Officer	(317) 684-5123
(317) 837-6903	

or to such substituted address as any of them have given to the other in writing. Notwithstanding the foregoing, all notices required to be given pursuant to Sections 3.04(b) and 3.04(c) hereof shall be given in the time periods specified in such sections by either hand delivery or facsimile transmission to the specified parties.

13.04 *Headings*. The headings in this Agreement have been inserted solely for the ease of reference and should not be considered in the interpretation or construction of this Agreement.

13.05 *Severability*. In case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal, or unenforceable provision or provisions had never been contained herein.

13.06 *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute one and the same instrument. In addition, this Agreement and the documents to be delivered hereunder may be executed by the parties hereto either manually or by facsimile signatures, each of which shall constitute an original signature.

13.07 *Governing Law*. This Agreement is executed in and shall be construed in accordance with the laws of the State of Indiana, without regard to choice of law principles.

13.08 *Entire Agreement*. This Agreement supersedes any other agreement, whether oral or written, between First Merchants and Lincoln relating to the matters contemplated hereby, and constitutes the entire agreement between the parties hereto.

13.09 *Expenses*. First Merchants and Lincoln shall each pay their own expenses incidental to the transactions contemplated hereby. It is understood that the fees of Sandler O'Neill Partners, L.P., and the cost of the fairness opinion referenced in Section 9.06, shall be borne by Lincoln whether or not the Merger is consummated. This provision shall survive the Effective Date or the earlier termination of this Agreement.

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13.10 *Certain Definitions*. For purposes of this Agreement, the term:

First Merchants Management shall mean any of Michael C. Rechin, Mark K. Hardwick and Michael J. Stewart.

Knowledge as used with respect to Lincoln's Management or First Merchants Management (including references to any such person knowing or being aware of a particular matter or any similar formulation) shall mean matters that are within the actual conscious knowledge of any such person after due inquiry.

Lincoln's Management shall mean any of Jerry R. Engle, John Ditmars, John Baer and Jonathan D. Slaughter.

Subsidiary means, with reference to any corporation, partnership, limited liability company, business trust, joint venture or other entity, ownership by such entity, directly or indirectly, of fifty percent (50%) or more of the voting equity of such entity, the holders of which are entitled to vote for the election of a majority of the board of directors or any similar governing body of such corporation, partnership, limited liability company, business trust, joint venture or other entity; and as used in this Agreement, may refer to a direct or indirect Subsidiary of either Lincoln or First Merchants as the context may require.

13.11 *Survival of Contents*. The provisions of Sections 7.08, 8.05, 10.02, 13.09 and this Section 13.11 shall survive beyond the termination of this Agreement. The provisions of Sections 7.11, 7.16, 7.17, 8.03, 8.06, 8.07, 8.08, 13.01, 13.09 and this Section 13.11 shall survive beyond the Effective Date.

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IN WITNESS WHEREOF, First Merchants and Lincoln have made and entered into this Agreement as of the day and year first above written and have caused this Agreement to be executed and attested by their duly authorized officers.

FIRST MERCHANTS CORPORATION

By: /s/ MICHAEL C. RECHIN
Michael C. Rechin,

President and Chief Executive Officer

LINCOLN BANCORP

By: /s/ JERRY R. ENGLE
Jerry R. Engle,

Chairman of the Board, President and

Chief Executive Officer

Lincoln Bank hereby joins in this Agreement of Reorganization and Merger as of the day and year first above written for the purpose of covenanting and agreeing to cause its duly authorized officer to execute and deliver the Agreement and Plan of Merger contemporaneously herewith.

LINCOLN BANK

By: /s/ JERRY R. ENGLE
Jerry R. Engle,

President and Chief Executive Officer

First Merchants Bank of Central Indiana hereby joins in this Agreement of Reorganization and Merger as of the day and year first above written for the purpose of covenanting and agreeing to cause its duly authorized officer to execute and deliver the Agreement and Plan of Merger contemporaneously herewith.

FIRST MERCHANTS BANK OF CENTRAL INDIANA

By: /s/ MICHAEL L. BAKER
Michael L. Baker,

President and Chief Executive Officer

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EXHIBIT A

AGREEMENT AND PLAN OF MERGER

Merging

LINCOLN BANK,

an Indiana state bank,

with and into

FIRST MERCHANTS BANK OF CENTRAL INDIANA,

NATIONAL ASSOCIATION,

a national bank

THIS AGREEMENT AND PLAN OF MERGER (this Agreement and Plan), made and entered into as of the 2nd day of September, 2008, by and between **FIRST MERCHANTS BANK OF CENTRAL INDIANA, NATIONAL ASSOCIATION**, a national bank (FMBCI), and **LINCOLN BANK**, an Indiana state bank (the Bank) (FMBCI and the Bank are sometimes referred to collectively as the Constituent Companies).

WITNESSETH

WHEREAS, the Constituent Companies desire to consummate the business combination transaction outlined in this Agreement and Plan pursuant to which the Bank will merge with and into FMBCI pursuant to the Bank Merger Act, 12 USC § 215a (collectively, the Law);

WHEREAS, this Agreement and Plan is being executed in connection with, and the consummation of this Agreement and Plan is expressly contingent upon the closing of, that certain Agreement of Reorganization and Merger (the Merger Agreement) between First Merchants Corporation (First Merchants) and Lincoln Bancorp (Lincoln) dated September 2, 2008 (the Holding Company Merger);

WHEREAS, the Boards of Directors of both FMBCI and the Bank have approved the transactions contemplated by this Agreement;

WHEREAS, First Merchants, as the sole shareholder of FMBCI, and Lincoln, as the sole shareholder of the Bank, have also approved the transactions contemplated by this Agreement and Plan;

NOW, THEREFORE, in consideration of the premises and of the mutual provisions, agreements, covenants, conditions and grants contained in this Agreement and Plan, and in accordance with the provisions of the Law, the parties mutually covenant and agree as follows:

ARTICLE I

The Merger

1.1. The Merger. At the Effective Time (as defined below), the Bank shall be merged with and into FMBCI in accordance with applicable provisions of the Law (the Merger). The separate existence and company organization of the Bank shall cease, and the company existence of FMBCI, including all its purposes, powers and objectives, shall continue unaffected and unimpaired by the Merger. FMBCI shall continue to be governed by the applicable laws of The National Bank Act and the regulations promulgated thereunder and shall succeed to all the rights, privileges, immunities, powers, duties and liabilities of the Bank as set forth in the Law.

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1.2. Further Assurances. If, after the Effective Time, FMBCI shall consider or be advised that any further deeds, assignments or assurances in the Law or any other things are necessary or desirable to (a) vest, perfect or confirm, of record or otherwise, in FMBCI, its right, title or interest in, to or under any rights, properties or assets of the Bank, or (b) otherwise carry out the purposes of this Agreement and Plan, the Bank and its officers and directors shall be deemed to have granted to FMBCI an irrevocable power of attorney to execute and deliver all such deeds, assignments or assurances in law and to do all acts necessary or proper to vest, perfect or confirm title to and possession of such rights, properties or assets in FMBCI and otherwise to carry out the purposes of this Agreement and Plan, and the officers and directors of FMBCI are authorized in the name of the Bank or otherwise to take any and all such action.

1.3. Offices. Immediately following the Merger, FMBCI's principal office shall be located at 33 West 10th Street, Anderson, Indiana 46016 and the Bank's principal office at 905 Southfield Drive, Plainfield, Indiana 46168 shall become a branch office of FMBCI.

1.4. Savings Accounts. By virtue of the Merger, savings accounts held at the Bank shall automatically, by operation of law, become savings accounts held at FMBCI.

ARTICLE II

Articles of Incorporation, Code of Bylaws,

Board of Directors and Officers

2.1. Name. The name of the surviving Indiana state bank shall be First Merchants Bank of Central Indiana, National Association.

2.2. Articles of Incorporation. The Articles of Association of FMBCI shall be the Articles of Association of the surviving national bank.

2.3. Code of Bylaws. The Code of Bylaws of FMBCI (the Code of Bylaws) shall be the Code of Bylaws of the surviving national bank.

2.4. Officers and Directors. The Directors of FMBCI shall all remain directors of the surviving national bank and shall hold such offices from the Effective Time until their respective successors are duly elected and qualified in the manner provided in the Code of Bylaws. As required by the Merger Agreement, the Board of Directors of FMBCI will be expanded so that Directors of the Bank who so desire will be appointed to the Board of Directors of FMBCI for at least the remainder of the terms for which they have been elected. The officers of FMBCI shall all remain officers of the surviving national bank and shall hold such offices from the Effective Time until their respective successors are duly elected and qualified in the manner provided in the Code of Bylaws.

ARTICLE III

Capital Stock of the Surviving National Bank

3.1 Shares of the Bank. At the Effective Time, by virtue of the Merger and without any further action on the part of FMBCI or the Bank, all one thousand (1,000) issued and outstanding shares of the common capital stock of the Bank, whose separate existence shall cease, shall automatically and by operation of law be canceled, void and of no further effect.

3.2 Shares of FMBCI. At the Effective Time, by virtue of the Merger and without any further action on the part of FMBCI or the Bank, all 114,000 issued and outstanding shares of the common capital stock of FMBCI, shall represent all of the issued and outstanding shares of the common capital stock of the surviving national bank.

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ARTICLE IV

No Dissenting Shareholders

First Merchants, as the sole shareholder of FMBCI, and Lincoln, as the sole shareholder of the Bank, have approved and consented to this Merger.

ARTICLE V

General Provisions

5.1. Condition Precedent to Closing. The following conditions must be satisfied prior to the closing of the Merger:

(a) appropriate approvals must be obtained from or notices filed with the Office of the Comptroller of the Currency, the Indiana Department of Financial Institutions and the Federal Deposit Insurance Corporation; and

(b) the merger of First Merchants and Lincoln contemplated by the Merger Agreement must occur.

5.2. Effective Time. The Merger shall become effective immediately following the Holding Company Merger, or such later time as designated by First Merchants and otherwise approved by the Office of the Comptroller of the Currency (the Effective Time).

5.3. Manner of Termination. This Agreement and Plan and the transactions contemplated hereby may be terminated at any time prior to the Effective Time:

(a) by the mutual consent of FMBCI and the Bank; or

(b) automatically and without further action by either FMBCI or the Bank if the Merger Agreement is terminated for any reason.

5.4. Effect of Termination. Upon termination as provided in Section 5.3, this Agreement and Plan shall be void and of no further force or effect, and there shall be no obligation on the part of FMBCI or the Bank or their respective officers, directors, employees, agents, or shareholders, except for payment of their respective expenses.

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IN WITNESS WHEREOF, the parties have executed this Agreement and Plan by their respective officers duly authorized as of the date and year first above written.

FMBCI

**FIRST MERCHANTS BANK OF CENTRAL INDIANA,
NATIONAL ASSOCIATION,**

a national bank,

By:

Printed:

Its:

ATTEST:

Secretary/Cashier

BANK

LINCOLN BANK,

an Indiana state bank,

By:

Printed:

Its:

ATTEST:

Secretary/Cashier

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EXHIBIT B-1

ENGLE EMPLOYMENT AGREEMENT

Employment Agreement

This Employment Agreement (Agreement) is made and entered into this 31st day of December, 2008, by and between JERRY R. ENGLE (Employee) and FIRST MERCHANTS BANK OF CENTRAL INDIANA, NATIONAL ASSOCIATION (Employer), a national banking association.

1. Employment.

Employer hereby employs Employee and Employee hereby accepts employment upon the terms and conditions set forth in this Agreement.

2. Term of Agreement.

Subject to the provisions for termination hereinafter provided, the Term of this Agreement shall commence on December 31, 2008, and continue for a term of twenty-four (24) months.

3. Duties.

During the Term of this Agreement, Employee shall be the Indianapolis Regional President and shall perform all duties related and necessary to that position; provided, however, that such duties shall be regularly performed in or from an office of the Employer in the greater Indianapolis area, as directed by Employer. Employee agrees to abide by all by-laws, policies, practices, procedures, and rules of Employer.

Employee shall devote all of his professional time, efforts, skill and ability to the business of Employer, and shall not, during the Term of this Agreement, be engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage, unless Employee has obtained the prior written approval of Employer; but this shall not be construed as preventing Employee from investing his assets in such form or manner as will not require any services on the part of Employee in the operation of the affairs of the companies in which such investments are made. Further, this Paragraph 3 shall not prevent Employee from participating in charitable or other not-for-profit activities as long as such activities do not materially interfere with Employee's work for Employer.

4. Business Opportunities.

Employee will take no action that deprives Employer of any business opportunities within the scope of Employee's existing duties and, should Employee be offered or become aware of any such opportunities, Employee shall advise Employer in writing, and Employer shall have the right of first refusal before Employee pursues such opportunity.

5. Compensation and Benefits.

Employer shall compensate Employee for services performed during the Term of this Agreement as follows:

- A. *Annual Salary.* Employer shall pay Employee a total Annual Salary of Two Hundred Ninety-Seven Thousand and 00/100 Dollars (\$297,000.00) (minus all applicable deductions and withholdings, including federal, state, and local taxes, and FICA), payable in accordance with Employer's normal payroll policies. At least annually, if not more often, Employer shall review and may increase Employee's Annual Salary as Employer determines to be reasonable and appropriate.

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- B. *Employee's Bonus.* In addition to his Annual Salary, Employee may be paid an Employee Bonus in the sole discretion of Employer.

- C. *Automobile Allowance.* Employer shall pay Employee Eight Hundred and 00/100 Dollars (\$800.00) per month, less applicable withholdings to compensate him for the business use of his automobile. Employee's automobile shall otherwise be owned, maintained and insured by Employee at his sole expense.

- D. *Other Benefits.* Employee shall be entitled to all other benefits otherwise provided to full-time employees of Employer and in accordance with Employer's policies. The terms and conditions on which Employer shall provide benefits to Employee are the same as it provides such benefits to its other management employees holding positions similar to that of Employee. Employee understands and agrees that all benefits are subject to change from time to time at the sole discretion of Employer.

- E. *Stock Options / Restricted Shares.* Pursuant to the Merger Agreement, as defined in Paragraph 19, Employee is to be provided with 6,400 restricted shares or 24,000 stock options or a combination of both. Employer will take all steps necessary to confirm that such forms of deferred compensation are promptly awarded to Employee after the execution of this Agreement based upon terms and conditions substantially similar to those included with awards made to other management employees holding positions similar to that of Employee with Employer or any affiliate of First Merchants Corporation.

6. Expense Reimbursement.

Employer shall reimburse Employee for all reasonable out-of-pocket expenses that are incurred by Employee in providing services to Employer hereunder, so long as Employee provides Employer with reasonable documentation necessary to support such expenses. All expense reimbursement shall be paid to Employee consistent with Employer's expense reimbursement policy, in effect from time to time.

7. Confidential Information and Return of Property.

Employee acknowledges that in the course of his employment with Employer, he will occupy a position of trust and confidence and will have access to and may develop Confidential Information of actual or potential value to, or otherwise useful to, Employer. Confidential Information means information that the Employer owns or possesses, that it uses or is potentially useful in its business, that it treats as proprietary, private or confidential, and that is not generally known to the public, including, but not limited to, trade secrets (as defined by the Indiana Trade Secrets Act, Ind. Code sec. 24-2-3-1, *et. seq.*), information relating to the Employer's business plans, financial condition, operating and other costs, sales, pricing, marketing, ideas, research records, plans for service improvements and development, lists of actual or potential customers, actual and potential customer usage and requirements, customer records, trade secrets, and any other information which derives independent economic value, either actual or potential. Information supplied to Employee from outside sources will also be presumed to be Confidential Information unless and until Employer designates it otherwise.

Employee agrees to use Confidential Information solely in the course of his duties as an employee of Employer and in furtherance of Employer's business. Employee hereby further agrees that the above-referenced information will be kept confidential at all times during the Term of this Agreement and thereafter, that he will not disclose or communicate to any third party any of the Confidential Information and will not make use of the Confidential Information on his own behalf or on the behalf of a third party.

Employee agrees that all Confidential Information is and shall remain the exclusive property of Employer. Employee agrees to return to Employer on or before Employee's termination of employment with Employer all Employer property, information and documents, including and without limitation, all reports, files, memoranda, records, software, hardware, credit cards, keys, computer access codes or disks, instruction or operational manuals, handbooks or manuals, written financial information, business plans or other physical and personal

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property which Employee received or prepared or helped prepare in connection with his employment with Employer; and Employee agrees that he will not retain any copies, duplicates, reproductions or excerpts thereof.

This Paragraph 7 shall survive the termination of this Agreement.

8. Non-Solicitation.

- A. *Customers.* Employee shall not, at any time during the Term or for a period of one (1) year thereafter, directly or indirectly, on Employee's own behalf or for any other person, firm, corporation or other business entity: (1) solicit, seek to obtain, divert or otherwise attempt to take away any of the banking or bank-related service business of any of Employer's customers; (2) provide services to or accept the business of any of Employer's customers for the banking or bank-related service business offered by Employer; or (3) request or advise any of Employer's customers to terminate, reduce, limit or otherwise change their banking or bank-related service business relationship with Employer. For purposes of this Section 8.A., Employer's customers shall mean those persons, firms, corporations and other business entities who are customers of Employer at the time of Employee's termination of employment with Employer or who were customers of Employer at any time during the two year period immediately preceding the termination of Employee's employment with Employer, whether or not Employee had direct contact with such customers on behalf of Employer.
- B. *Employees.* Employee shall not, at any time during the Term or for a period of one (1) year thereafter, directly or indirectly, on Employee's own behalf or for any other person, firm, corporation or other business entity, solicit, induce, request, advise, or otherwise attempt to take away or to influence any of Employer's employees to terminate his or her employment with Employer.
- C. *Exceptions.* If Employer terminates this Agreement without Cause, as set forth in Paragraph 10(D), or Employee terminates the Agreement for Good Reason, as provided in Paragraph 10(C), the foregoing Customers and Employees provisions of this Paragraph 8 shall only apply for the shorter of: (i) one (1) year following termination of this Agreement or (ii) the remaining portion of the Term (prior to termination) for which Employee is provided the lump sum payment under Paragraph 10D or 10(C). If the Agreement is not terminated, but rather expires as provided in Paragraph 2 at the conclusion of the twenty-four (24) month period, the foregoing Customers and Employees provisions of this Paragraph 8 shall expire contemporaneously therewith.

9. Breach of Agreement.

- A. Employee acknowledges that any breach of Paragraphs 7 or 8 of this Agreement, by Employee may cause irreparable damage to Employer and that the legal remedies available to Employer will be inadequate. Therefore, in the event of any threatened or actual breach of Paragraphs 7 or 8 of this Agreement by Employee, Employee agrees that Employer shall be entitled to specific enforcement of this Agreement through injunctive or other equitable relief in addition to legal remedies, without the need for posting bond. If Employee is found, by a court of competent jurisdiction, to have breached any of the terms of Paragraphs 7 or 8 of this Agreement, Employee agrees to pay Employer reasonable attorney's fees and costs incurred in seeking relief from Employee's breach of Paragraphs 7 or 8 of this Agreement. If a court of competent jurisdiction declines to find a breach by Employee of Paragraphs 7 or 8 has occurred, Employer agrees to pay Employee reasonable attorney's fees and costs Employee incurred in responding to Employer's request for relief.

Employee and Employer hereby submit to the jurisdiction and venue of the Delaware County, Indiana Courts and the United States District Court for the Southern District of Indiana, as applicable, in any cause of action to enforce the terms and conditions of Paragraphs 7 or 8 of this Agreement.

- B. Employee and Employer hereby agree that any claim, controversy, or dispute arising out of or relating to this Agreement or the breach thereof, except those identified in Paragraph 9(A) of this Agreement,

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shall be settled by binding arbitration in Delaware County, Indiana. Such arbitration shall be conducted in accordance with the rules of the American Arbitration Association, then in effect. Each party shall bear their own attorney's fees and costs in such proceeding. Arbitration shall be the sole and exclusive method of resolving such claims, controversies, or disputes under this Agreement.

C. This Paragraph 9 shall survive the termination of this Agreement.

10. Termination.

A. *Termination Due to Death.* In the event of Employee's death, this Agreement shall terminate as of the date of Employee's death. If this Agreement is terminated because of Employee's death, Employee's benefits shall be determined in accordance with the survivor's benefits, insurance, and other applicable programs of Employer, then in effect. Upon Employee's death, Employer's obligations to compensate Employee under Paragraph 5 of this Agreement shall immediately expire; provided, however, that within forty-five (45) business days of Employee's death, Employer shall pay to Employee's estate that portion of his Annual Salary and Bonus as provided in Paragraphs 5(A) and 5(B) of this Agreement that shall have been earned through the date of Employee's death, but not yet paid. Except as otherwise set forth herein or as otherwise required by applicable law, following the termination date established pursuant to this Paragraph 10(A), Employer and Employee (including Employee's heirs, executors, administrators, and personal representatives) shall have no further obligations to each other under this Agreement.

B. *Termination Due to Disability.* In the event Employee suffers a Disability, as defined herein, during the Term of Employment and is, therefore, unable to perform the duties required by the Agreement for more than ninety (90) calendar days during any consecutive twelve (12) month period, Employer shall have the right to terminate this Agreement and Employee's employment. Employer shall deliver written notice to Employee of Employer's intent to terminate this Agreement pursuant to this Paragraph 10(B) and specifying in such notice a termination date not less than thirty (30) days after the giving of the notice (Disability Notice Period). This Agreement and Employee's employment shall terminate at the close of business on the last day of the Disability Notice Period.

If this Agreement is terminated because of Employee's Disability, Employee shall be entitled to receive any applicable disability insurance benefits as allowed under Paragraph 5 (D) of this Agreement. Upon termination of this Agreement pursuant to this Paragraph 10(B), Employer's obligations to compensate Employee under Paragraph 5 of this Agreement shall immediately expire; provided, however, that within forty-five (45) business days after the termination of this Agreement, Employer shall pay to Employee that portion of his Annual Salary and Bonus as provided in Paragraphs 5(A) and 5(B) of this Agreement that shall have been earned through the termination date, but not yet paid. Except as otherwise set forth herein or as otherwise required by applicable law, following the termination date established pursuant to this Paragraph 10(B), Employer and Employee shall have no further obligations to each other under this Agreement.

For purposes of this Agreement only, the term Disability shall mean, the inability of Employee, because of injury, illness, disease, or bodily or mental infirmity, to engage in the performance of substantially all of the duties required by this Agreement with or without a reasonable accommodation. Employer shall reasonably and fairly determine such Disability upon receipt of, and in reliance on, medical advice from a licensed physician or physicians qualified to give professional medical advice.

C. *Termination by Employee.* Employee may terminate this Agreement at any time, with or without Good Reason, by providing Employer written notice of his intent to terminate this Agreement pursuant to this Paragraph 10(C) and specifying in such notice a termination date not less than thirty (30) days after the giving of the notice (Employee's Notice Period). This Agreement and Employee's employment shall terminate at the close of business on the last day of Employee's Notice Period.

For purposes of this Paragraph 10(C), Good Reason shall be defined as: (i) any action by Employer to remove Employee as Indianapolis Regional President of Employer, except for promotions, if any,

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and except where Employer properly acts to remove Employee for Cause as defined in Paragraph 10(D) below, (ii) any action by Employer to materially limit, increase or modify Employee's duties and/or authority as Indianapolis Regional President of Employer or to otherwise change the regular work location of Employee outside of the greater Indianapolis area, (iii) any failure of Employer to obtain the assumption of the obligation to perform this Agreement by any successor of Employer, or (iv) any material breach by Employer of a term, condition or covenant of this Agreement.

If Employee terminates this Agreement pursuant to this Paragraph 10(C), Employee shall immediately upon the termination of this Agreement forfeit all rights and benefits to which he would otherwise have been entitled under this Agreement; provided, however, that within fifteen (15) business days after the termination of this Agreement pursuant to this Paragraph 10(C),

1. If termination by Employee is without Good Reason, Employer shall pay to Employee that portion of his Annual Salary as provided in Paragraph 5(A) of this Agreement that shall have been earned through the termination date, but not yet paid; or
2. If termination by Employee is with Good Reason, Employer shall pay to Employee a lump sum payment equal to remaining portion of Employee's Annual Salary as provided in Paragraph 5(A) for the Term then in effect, plus that portion of Employee's Bonus as provided in Paragraph 5(B) of this Agreement that shall have been earned through the termination date, but not yet paid.

Except as otherwise set forth herein or as otherwise required by applicable law, following the termination date established pursuant to this Paragraph 10(C), Employer and Employee shall have no further obligations to each other under this Agreement.

- D. *Termination by Employer Without Cause.* At any time during the Term of Employment, Employer may terminate this Agreement (and, thus, terminate Employee's Employment) for any reason by providing Employee written notice of its intent to terminate this Agreement pursuant to this Paragraph 10(D) and specifying in such notice a termination date not less than thirty (30) days after the giving of the notice (Employer's Notice Period). This Agreement and Employee's employment shall terminate at the close of business on the last day of Employer's Notice Period.

If this Agreement is terminated pursuant to this Paragraph 10(D), Employee shall immediately upon the termination of this Agreement forfeit all rights and benefits to which he would otherwise have been entitled under this Agreement; provided, however, that within fifteen (15) business days after the termination of this Agreement pursuant to this Paragraph 10(D), Employer shall pay to Employee a lump sum payment equal to remaining portion of Employee's Annual Salary as provided in Paragraph 5(A) for the Term then in effect, plus that portion of Employee's Bonus as provided in Paragraph 5(B) of this Agreement that shall have been earned through the termination date, but not yet paid. Except as otherwise set forth herein or as otherwise required by applicable law, following the termination date established pursuant to this Paragraph 10(D), Employer and Employee shall have no further obligations to each other under this Agreement.

- E. *Termination by Employer With Cause.* At any time during the Term of Employment, Employer may terminate this Agreement and Employee's Employment for Cause. The term Cause as used herein shall mean a reasonable determination by Employer that Employee:

1. Engaged in willful and continued failure to perform substantially Employee's duties with Employer if such failure continues for a period of thirty (30) days after Employer delivers to Employee written demand for substantial performance, specifically identifying the manner in which Employee has not substantially performed his duties;
2. Engaged in unauthorized conduct and behavior that has the likelihood of exposing Employer to material liability or otherwise significantly jeopardizing Employer's business interests;

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3. Has been convicted of any crime constituting a felony or involving moral turpitude or controlled substance;

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4. Materially breached any term or condition of this Agreement; or

5. As otherwise defined in this Agreement.

Upon the occurrence of any of the foregoing, Employer may provide Employee written notice of its intent to terminate this Agreement pursuant to this Paragraph 10(E) and this Agreement and Employee's employment shall terminate at the close of business on the date on which Employer provides such notice.

If this Agreement is terminated pursuant to this Paragraph 10(E), Employee shall immediately upon the termination of this Agreement forfeit all rights and benefits to which he would otherwise have been entitled under this Agreement; provided, however, that Employer shall pay to Employee in accordance with Employer's normal payroll practices, that portion of Employee's Annual Salary as provided in Paragraph 5(A) of this Agreement that shall have been earned through the termination date. Except as otherwise set forth herein or as otherwise required by applicable law, following the termination date established pursuant to this Paragraph 10(E), Employer and Employee shall have no further obligations to each other under this Agreement.

F. *Exception to Loss of Rights and Benefits.* Notwithstanding any contrary provisions contained herein, termination of this Agreement for any reason shall not otherwise terminate the rights and benefits held by Employee under any separate written agreement between Employee and Employer or any affiliate of First Merchants Corporation, including, but not limited to, Employee's rights and benefits under any change in control agreement, stock options, restricted share awards, other deferred compensation agreements, and the Merger Agreement, as defined in Paragraph 19.

11. Indemnification of Employee.

Employer shall indemnify Employee to the fullest extent permitted by Employer's articles of incorporation, by-laws and applicable federal or state laws for all amounts (including, without limitation, judgments, fines, settlement payments, expenses and attorneys' fees) incurred or paid by Employee in connection with any action, suit, investigation or proceeding arising out of or relating to the performance by Employee or services for, or the acting by Employee as a director, officer or employee of, Employer, any subsidiary of Employer or any other person or enterprise at Employer's request. Expenses, including but not limited to attorneys' fees and disbursements, incurred in defending any action, suit, investigation or proceeding, for which Employee may be entitled to indemnification under this Paragraph 11 upon final disposition of such action, shall be paid by Employer in advance of the final disposition, to the maximum extent permitted by applicable laws and regulations; provided, however, that prior to making any such payments Employer shall receive an undertaking by or on behalf of Employee to repay such amounts if it shall ultimately be determined that he is not entitled to indemnification.

12. Suspension.

If Employee is suspended and/or temporarily prohibited from participating in the conduct of Employer's affairs by a notice served under Section 8(e)(3) or (g)(1) of the Federal Deposit Insurance Act (12 U.S.C. § 1818(e)(3) and (g)(1)), Employer's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, Employer shall (i) pay Employee all or part of the compensation withheld while its obligations under this Agreement were suspended and (ii) reinstate (in whole or in part) any of its obligations which were suspended.

13. Removal or Prohibition.

If Employee is removed and/or permanently prohibited from participating in the conduct of Employer's affairs by an order issued under section 8(e)(4) or (g)(1) of the Federal Deposit Insurance Act (12 U.S.C. § 1818(e)(4) or (g)(1)), all obligations of Employer under this Agreement shall terminate as of the effective date of the order and shall be considered a termination of Employee by Employer for Cause pursuant to Paragraph 10(E) of this Agreement.

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14. Default of Employer.

If Employer is in default (as defined in section 3(x)(1) of the Federal Deposit Insurance Act), all obligations under this Agreement shall terminate as of the date of default, and shall be considered a termination of Employee by Employer for Cause pursuant to Paragraph 10(E) of this Agreement.

15. Termination by Regulatory Action.

All obligations under this Agreement may be terminated except to the extent determined that the continuation of the Agreement is necessary for the continued operation of Employer: (i) by the Office of the Comptroller of the Currency (the Controller), at the time the Federal Deposit Insurance Corporation enters into an agreement to provide assistance to or on behalf of Employer under the authority contained in Section 13(c) of the Federal Deposit Insurance Act; or (ii) by the Controller at the time the Controller approves a supervisory merger to resolve problems related to operation of Employer or when Employer is determined to be in an unsafe and unsound condition.

16. Conflict with Regulations.

If any of the provisions in this Agreement shall conflict with 12 C.F.R. § 30, Appendix A, or the Controller policies adopted thereunder (as the same may be amended from time to time) the requirements of such regulation shall supersede any contrary provisions herein and shall prevail.

17. Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the successors and assigns of Employer, and unless clearly inapplicable, all references herein to Employer shall be deemed to include any such successor. In addition, this Agreement shall be binding upon and inure to the benefit of Employee and his heirs, executors, legal representatives and assigns; provided, however, that the obligations of Employee hereunder are personal in nature and may not be delegated without the prior written approval of Employer.

18. Choice of Law.

This Agreement shall be interpreted, construed, and governed by the laws of the State of Indiana, regardless of the place of execution or performance.

19. Entire Agreement

This Agreement contains the entire agreement of the parties and replaces and supersedes all employment agreements between Employee and Lincoln Bancorp or Lincoln Bank, including, but not limited to that certain Amended and Restated Employment Agreement between Lincoln Bank and Employee dated October 1, 2007 and effective as of January 1, 2005 (the Lincoln Agreements). Notwithstanding the foregoing, the obligation to make the lump sum payment upon Change in Control, as provided in the Lincoln Agreements and reaffirmed in the Agreement of Reorganization and Merger Between First Merchants Corporation and Lincoln Bancorp entered into this same date (the Merger Agreement), shall not be superseded or replaced, but shall continue to be in full force and effect.

This Agreement may not be changed orally, but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension, or discharge is sought.

This Agreement may be executed in multiple counterparts, each of which (or a facsimile thereof) shall be deemed an original, but all of which shall be considered a single instrument.

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If any provision of this Agreement shall be held by a court of competent jurisdiction to be contrary to law or public policy, the remaining provisions shall remain in full force and effect.

21. Notice.

Any notices, requests, demands, or other communications provided for by this Agreement shall be sufficient if in writing and if (i) delivered by hand to the other party; (ii) sent by facsimile communication with appropriate confirmation of delivery; (iii) sent by registered or certified United States Mail, return receipt requested, with all postage prepaid; or (iv) sent by recognized commercial express courier services, with all delivery charges prepaid; and addressed as follows:

If to Employer:
First Merchants Bank of Central Indiana, National Association

If to Employee:
Jerry R. Engle
345 South Oakwood Drive
Greenwood, Indiana 46142

or to such other address as either party hereto may have furnished to the other party in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

22. Successor.

Employer shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of Employer, by agreement in form and substance satisfactory to Employee to expressly assume and agree to perform this Agreement in the same manner and to the same extent that Employer would be required to perform it if no such succession had taken place. Failure of Employer to obtain such agreement prior to the effectiveness of any such succession shall be a material intentional breach of this Agreement and shall entitle Employee to terminate this Agreement with Good Reason pursuant to Paragraph 10(C) herein. Any successor assuming this Agreement shall be subject to the obligations of this Paragraph 22, similar to Employer.

23. Acknowledgement.

Employee represents and acknowledges that Employee has had adequate time to review this Agreement, Employee has had the opportunity to ask questions and receive answers from Employer regarding this Agreement, and Employee has had the opportunity to consult with legal advisors of his choice concerning the terms and conditions of this Agreement.

This Agreement is intended to supersede and replace all prior agreements, understandings and arrangements between or among Employer, or any agent thereof, and the Employee, or any agent thereof, relating to the employment of Employee.

[THIS SPACE INTENTIONALLY LEFT BLANK. SIGNATURE PAGE TO FOLLOW].

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IN WITNESS WHEREOF, the parties hereto have voluntarily executed this Agreement as of the day and year first above written.

EMPLOYER
FIRST MERCHANTS BANK OF
CENTRAL INDIANA,
NATIONAL ASSOCIATION

EMPLOYEE
JERRY R. ENGLE

By:

Jerry R. Engle

(Printed)

The undersigned, First Merchants Corporation, sole shareholder of Employer, agrees that if it shall be determined for any reason that any obligation on the part of Employer to continue to make any payments due under this Agreement to Employee is unenforceable for any reason, First Merchants Corporation agrees to honor the terms of this Agreement and continue to make any such payments due hereunder to Employee pursuant to the terms of this Agreement.

As otherwise provided in the Agreement of Reorganization and Merger Between First Merchants Corporation and Lincoln Bancorp, entered into this same date, First Merchants shall nominate and/or appoint Employee to serve as a member of First Merchant Corporation's Board of Directors, and, as a director of First Merchants Corporation, Employee shall be entitled to the same benefits and compensation for services as provided to other employee-directors of First Merchants Corporation.

FIRST MERCHANTS CORPORATION

Michael C. Rechin,
President and Chief Executive Officer

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EXHIBIT B-2

DITMARS EMPLOYMENT AGREEMENT

Employment Agreement

This Employment Agreement (Agreement) is made and entered into this 31st day of December, 2008, by and between JOHN B. DITMARS (Employee) and FIRST MERCHANTS BANK OF CENTRAL INDIANA, NATIONAL ASSOCIATION (Employer), a national banking association.

1. Employment.

Employer hereby employs Employee and Employee hereby accepts employment upon the terms and conditions set forth in this Agreement.

2. Term of Agreement.

Subject to the provisions for termination hereinafter provided, the Term of this Agreement shall commence on December 31, 2008, and continue for a term of twenty-four (24) months.

3. Duties.

During the Term of this Agreement, Employee shall be a Senior Vice President and shall perform all duties related and necessary to that position; provided, however, that such duties shall be regularly performed in or from an office of the Employer in the greater Indianapolis area, as directed by Employer. Employee agrees to abide by all by-laws, policies, practices, procedures, and rules of Employer.

Employee shall devote all of his professional time, efforts, skill and ability to the business of Employer, and shall not, during the Term of this Agreement, be engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage, unless Employee has obtained the prior written approval of Employer; but this shall not be construed as preventing Employee from investing his assets in such form or manner as will not require any services on the part of Employee in the operation of the affairs of the companies in which such investments are made. Further, this Paragraph 3 shall not prevent Employee from participating in charitable or other not-for-profit activities as long as such activities do not materially interfere with Employee's work for Employer.

4. Business Opportunities.

Employee will take no action that deprives Employer of any business opportunities within the scope of Employee's existing duties and, should Employee be offered or become aware of any such opportunities, Employee shall advise Employer in writing, and Employer shall have the right of first refusal before Employee pursues such opportunity.

5. Compensation and Benefits.

Employer shall compensate Employee for services performed during the Term of this Agreement as follows:

- A. *Annual Salary.* Employer shall pay Employee a total Annual Salary of One Hundred Eighty-Eight Thousand and 00/100 Dollars (\$188,000.00) (minus all applicable deductions and withholdings, including federal, state, and local taxes, and FICA), payable in accordance with Employer's normal payroll policies. At least annually, if not more often, Employer shall review and may increase Employee's Annual Salary as Employer determines to be reasonable and appropriate.

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- B. *Employee's Bonus.* In addition to his Annual Salary, Employee may be paid an Employee Bonus in the sole discretion of Employer.

- C. *Automobile Allowance.* Employer shall pay Employee Four Hundred and 00/100 Dollars (\$400.00) per month, less applicable withholdings to compensate him for the business use of his automobile. Employee's automobile shall otherwise be owned, maintained and insured by Employee at his sole expense.

- D. *Other Benefits.* Employee shall be entitled to all other benefits otherwise provided to full-time employees of Employer and in accordance with Employer's policies. The terms and conditions on which Employer shall provide benefits to Employee are the same as it provides such benefits to its other management employees holding positions similar to that of Employee. Employee understands and agrees that all benefits are subject to change from time to time at the sole discretion of Employer.

- E. *Stock Options / Restricted Shares.* Pursuant to the Merger Agreement, as defined in Paragraph 19, Employee is to be provided with 6,400 restricted shares or 24,000 stock options or a combination of both. Employer will take all steps necessary to confirm that such forms of deferred compensation are promptly awarded to Employee after the execution of this Agreement based upon terms and conditions substantially similar to those included with awards made to other management employees holding positions similar to that of Employee with Employer or any affiliate of First Merchants Corporation.

6. Expense Reimbursement.

Employer shall reimburse Employee for all reasonable out-of-pocket expenses that are incurred by Employee in providing services to Employer hereunder, so long as Employee provides Employer with reasonable documentation necessary to support such expenses. All expense reimbursement shall be paid to Employee consistent with Employer's expense reimbursement policy, in effect from time to time.

7. Confidential Information and Return of Property.

Employee acknowledges that in the course of his employment with Employer, he will occupy a position of trust and confidence and will have access to and may develop Confidential Information of actual or potential value to, or otherwise useful to, Employer. Confidential Information means information that the Employer owns or possesses, that it uses or is potentially useful in its business, that it treats as proprietary, private or confidential, and that is not generally known to the public, including, but not limited to, trade secrets (as defined by the Indiana Trade Secrets Act, Ind. Code sec. 24-2-3-1, *et. seq.*), information relating to the Employer's business plans, financial condition, operating and other costs, sales, pricing, marketing, ideas, research records, plans for service improvements and development, lists of actual or potential customers, actual and potential customer usage and requirements, customer records, trade secrets, and any other information which derives independent economic value, either actual or potential. Information supplied to Employee from outside sources will also be presumed to be Confidential Information unless and until Employer designates it otherwise.

Employee agrees to use Confidential Information solely in the course of his duties as an employee of Employer and in furtherance of Employer's business. Employee hereby further agrees that the above-referenced information will be kept confidential at all times during the Term of this Agreement and thereafter, that he will not disclose or communicate to any third party any of the Confidential Information and will not make use of the Confidential Information on his own behalf or on the behalf of a third party.

Employee agrees that all Confidential Information is and shall remain the exclusive property of Employer. Employee agrees to return to Employer on or before Employee's termination of employment with Employer all Employer property, information and documents, including and without limitation, all reports, files, memoranda, records, software, hardware, credit cards, keys, computer access codes or disks, instruction or operational manuals, handbooks or manuals, written financial information, business plans or other physical and personal

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property which Employee received or prepared or helped prepare in connection with his employment with Employer; and Employee agrees that he will not retain any copies, duplicates, reproductions or excerpts thereof.

This Paragraph 7 shall survive the termination of this Agreement.

8. Non-Solicitation.

- A. *Customers.* Employee shall not, at any time during the Term or for a period of one (1) year thereafter, directly or indirectly, on Employee's own behalf or for any other person, firm, corporation or other business entity: (1) solicit, seek to obtain, divert or otherwise attempt to take away any of the banking or bank-related service business of any of Employer's customers; (2) provide services to or accept the business of any of Employer's customers for the banking or bank-related service business offered by Employer; or (3) request or advise any of Employer's customers to terminate, reduce, limit or otherwise change their banking or bank-related service business relationship with Employer. For purposes of this Section 8.A., Employer's customers shall mean those persons, firms, corporations and other business entities who are customers of Employer at the time of Employee's termination of employment with Employer or who were customers of Employer at any time during the two year period immediately preceding the termination of Employee's employment with Employer, whether or not Employee had direct contact with such customers on behalf of Employer.
- B. *Employees.* Employee shall not, at any time during the Term or for a period of one (1) year thereafter, directly or indirectly, on Employee's own behalf or for any other person, firm, corporation or other business entity, solicit, induce, request, advise, or otherwise attempt to take away or to influence any of Employer's employees to terminate his or her employment with Employer.
- C. *Exceptions.* If: (a) Employer terminates this Agreement without Cause, as set forth in Paragraph 10(D); or (b) Employee terminates the Agreement for Good Reason, as provided in Paragraph 10(C), the foregoing Customers and Employees provisions of this Paragraph 8 shall only apply for the shorter of: (i) one (1) year following termination of this Agreement or (ii) the remaining portion of the Term (prior to termination) for which Employee is provided the lump sum payment under Paragraph 10D or 10(C). If the Agreement is not terminated, but rather expires as provided in Paragraph 2 at the conclusion of the twenty-four (24) month period, the foregoing Customers and Employees provisions of this Paragraph 8 shall expire contemporaneously therewith.

9. Breach of Agreement.

- A. Employee acknowledges that any breach of Paragraphs 7 or 8 of this Agreement, by Employee may cause irreparable damage to Employer and that the legal remedies available to Employer will be inadequate. Therefore, in the event of any threatened or actual breach of Paragraphs 7 or 8 of this Agreement by Employee, Employee agrees that Employer shall be entitled to specific enforcement of this Agreement through injunctive or other equitable relief in addition to legal remedies, without the need for posting bond. If Employee is found, by a court of competent jurisdiction, to have breached any of the terms of Paragraphs 7 or 8 of this Agreement, Employee agrees to pay Employer reasonable attorney's fees and costs incurred in seeking relief from Employee's breach of Paragraphs 7 or 8 of this Agreement. If a court of competent jurisdiction declines to find a breach by Employee of Paragraphs 7 or 8 has occurred, Employer agrees to pay Employee reasonable attorney's fees and costs Employee incurred in responding to Employer's request for relief.

Employee and Employer hereby submit to the jurisdiction and venue of the Delaware County, Indiana Courts and the United States District Court for the Southern District of Indiana, as applicable, in any cause of action to enforce the terms and conditions of Paragraphs 7 or 8 of this Agreement.

- B. Employee and Employer hereby agree that any claim, controversy, or dispute arising out of or relating to this Agreement or the breach thereof, except those identified in Paragraph 9(A) of this Agreement,

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shall be settled by binding arbitration in Delaware County, Indiana. Such arbitration shall be conducted in accordance with the rules of the American Arbitration Association, then in effect. Each party shall bear their own attorney's fees and costs in such proceeding. Arbitration shall be the sole and exclusive method of resolving such claims, controversies, or disputes under this Agreement.

C. This Paragraph 9 shall survive the termination of this Agreement.

10. Termination.

A. *Termination Due to Death.* In the event of Employee's death, this Agreement shall terminate as of the date of Employee's death. If this Agreement is terminated because of Employee's death, Employee's benefits shall be determined in accordance with the survivor's benefits, insurance, and other applicable programs of Employer, then in effect. Upon Employee's death, Employer's obligations to compensate Employee under Paragraph 5 of this Agreement shall immediately expire; provided, however, that within forty-five (45) business days of Employee's death, Employer shall pay to Employee's estate that portion of his Annual Salary and Bonus as provided in Paragraphs 5(A) and 5(B) of this Agreement that shall have been earned through the date of Employee's death, but not yet paid. Except as otherwise set forth herein or as otherwise required by applicable law, following the termination date established pursuant to this Paragraph 10(A), Employer and Employee (including Employee's heirs, executors, administrators, and personal representatives) shall have no further obligations to each other under this Agreement.

B. *Termination Due to Disability.* In the event Employee suffers a Disability, as defined herein, during the Term of Employment and is, therefore, unable to perform the duties required by the Agreement for more than ninety (90) calendar days during any consecutive twelve (12) month period, Employer shall have the right to terminate this Agreement and Employee's employment. Employer shall deliver written notice to Employee of Employer's intent to terminate this Agreement pursuant to this Paragraph 10(B) and specifying in such notice a termination date not less than thirty (30) days after the giving of the notice (Disability Notice Period). This Agreement and Employee's employment shall terminate at the close of business on the last day of the Disability Notice Period. If this Agreement is terminated because of Employee's Disability, Employee shall be entitled to receive any applicable disability insurance benefits as allowed under Paragraph 5 (D) of this Agreement. Upon termination of this Agreement pursuant to this Paragraph 10(B), Employer's obligations to compensate Employee under Paragraph 5 of this Agreement shall immediately expire; provided, however, that within forty-five (45) business days after the termination of this Agreement, Employer shall pay to Employee that portion of his Annual Salary and Bonus as provided in Paragraphs 5(A) and 5(B) of this Agreement that shall have been earned through the termination date, but not yet paid. Except as otherwise set forth herein or as otherwise required by applicable law, following the termination date established pursuant to this Paragraph 10(B), Employer and Employee shall have no further obligations to each other under this Agreement.

For purposes of this Agreement only, the term Disability shall mean, the inability of Employee, because of injury, illness, disease, or bodily or mental infirmity, to engage in the performance of substantially all of the duties required by this Agreement with or without a reasonable accommodation. Employer shall reasonably and fairly determine such Disability upon receipt of, and in reliance on, medical advice from a licensed physician or physicians qualified to give professional medical advice.

C. *Termination by Employee.* Employee may terminate this Agreement at any time, with or without Good Reason, by providing Employer written notice of his intent to terminate this Agreement pursuant to this Paragraph 10(C) and specifying in such notice a termination date not less than thirty (30) days after the giving of the notice (Employee's Notice Period). This Agreement and Employee's employment shall terminate at the close of business on the last day of Employee's Notice Period.

For purposes of this Paragraph 10(C), Good Reason shall be defined as: (i) any action by Employer to remove Employee as Senior Vice President of Employer, except for promotions, if any, and except

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where Employer properly acts to remove Employee for Cause as defined in Paragraph 10(D) below, (ii) any action by Employer to materially limit, increase or modify Employee's duties and/or authority as Senior Vice President of Employer or to otherwise change the regular work location of Employee outside of the greater Indianapolis area, (iii) any failure of Employer to obtain the assumption of the obligation to perform this Agreement by any successor of Employer, or (iv) any material breach by Employer of a term, condition or covenant of this Agreement.

If Employee terminates this Agreement pursuant to this Paragraph 10(C), Employee shall immediately upon the termination of this Agreement forfeit all rights and benefits to which he would otherwise have been entitled under this Agreement; provided, however, that within fifteen (15) business days after the termination of this Agreement pursuant to this Paragraph 10(C),

1. If termination by Employee is without Good Reason, Employer shall pay to Employee that portion of his Annual Salary as provided in Paragraph 5(A) of this Agreement that shall have been earned through the termination date, but not yet paid; or
2. If termination by Employee is with Good Reason, Employer shall pay to Employee a lump sum payment equal to remaining portion of Employee's Annual Salary as provided in Paragraph 5(A) for the Term then in effect, plus that portion of Employee's Bonus as provided in Paragraph 5(B) of this Agreement that shall have been earned through the termination date, but not yet paid.

Except as otherwise set forth herein or as otherwise required by applicable law, following the termination date established pursuant to this Paragraph 10(C), Employer and Employee shall have no further obligations to each other under this Agreement.

- D. *Termination by Employer Without Cause.* At any time during the Term of Employment, Employer may terminate this Agreement (and, thus, terminate Employee's Employment) for any reason by providing Employee written notice of its intent to terminate this Agreement pursuant to this Paragraph 10(D) and specifying in such notice a termination date not less than thirty (30) days after the giving of the notice (Employer's Notice Period). This Agreement and Employee's employment shall terminate at the close of business on the last day of Employer's Notice Period.

If this Agreement is terminated pursuant to this Paragraph 10(D), Employee shall immediately upon the termination of this Agreement forfeit all rights and benefits to which he would otherwise have been entitled under this Agreement; provided, however, that within fifteen (15) business days after the termination of this Agreement pursuant to this Paragraph 10(D), Employer shall pay to Employee a lump sum payment equal to remaining portion of Employee's Annual Salary as provided in Paragraph 5(A) for the Term then in effect, plus that portion of Employee's Bonus as provided in Paragraph 5(B) of this Agreement that shall have been earned through the termination date, but not yet paid. Except as otherwise set forth herein or as otherwise required by applicable law, following the termination date established pursuant to this Paragraph 10(D), Employer and Employee shall have no further obligations to each other under this Agreement.

- E. *Termination by Employer With Cause.* At any time during the Term of Employment, Employer may terminate this Agreement and Employee's Employment for Cause. The term Cause as used herein shall mean a reasonable determination by Employer that Employee:

1. Engaged in willful and continued failure to perform substantially Employee's duties with Employer if such failure continues for a period of thirty (30) days after Employer delivers to Employee written demand for substantial performance, specifically identifying the manner in which Employee has not substantially performed his duties;
2. Engaged in unauthorized conduct and behavior that has the likelihood of exposing Employer to material liability or otherwise significantly jeopardizing Employer's business interests;
3. Has been convicted of any crime constituting a felony or involving moral turpitude or controlled substance;

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4. Materially breached any term or condition of this Agreement; or

5. As otherwise defined in this Agreement.

Upon the occurrence of any of the foregoing, Employer may provide Employee written notice of its intent to terminate this Agreement pursuant to this Paragraph 10(E) and this Agreement and Employee's employment shall terminate at the close of business on the date on which Employer provides such notice.

If this Agreement is terminated pursuant to this Paragraph 10(E), Employee shall immediately upon the termination of this Agreement forfeit all rights and benefits to which he would otherwise have been entitled under this Agreement; provided, however, that Employer shall pay to Employee in accordance with Employer's normal payroll practices, that portion of Employee's Annual Salary as provided in Paragraph 5(A) of this Agreement that shall have been earned through the termination date. Except as otherwise set forth herein or as otherwise required by applicable law, following the termination date established pursuant to this Paragraph 10(E), Employer and Employee shall have no further obligations to each other under this Agreement.

F. *Exception to Loss of Rights and Benefits.* Notwithstanding any contrary provisions contained herein, termination of this Agreement for any reason shall not otherwise terminate the rights and benefits held by Employee under any separate written agreement between Employee and Employer or any affiliate of First Merchants Corporation, including, but not limited to, Employee's rights and benefits under any change in control agreement, stock options, restricted share awards, other deferred compensation agreements, and the Merger Agreement, as defined in Paragraph 19.

11. Indemnification of Employee.

Employer shall indemnify Employee to the fullest extent permitted by Employer's articles of incorporation, by-laws and applicable federal or state laws for all amounts (including, without limitation, judgments, fines, settlement payments, expenses and attorneys' fees) incurred or paid by Employee in connection with any action, suit, investigation or proceeding arising out of or relating to the performance by Employee or services for, or the acting by Employee as a director, officer or employee of, Employer, any subsidiary of Employer or any other person or enterprise at Employer's request. Expenses, including but not limited to attorneys' fees and disbursements, incurred in defending any action, suit, investigation or proceeding, for which Employee may be entitled to indemnification under this Paragraph 11 upon final disposition of such action, shall be paid by Employer in advance of the final disposition, to the maximum extent permitted by applicable laws and regulations; provided, however, that prior to making any such payments Employer shall receive an undertaking by or on behalf of Employee to repay such amounts if it shall ultimately be determined that he is not entitled to indemnification.

12. Suspension.

If Employee is suspended and/or temporarily prohibited from participating in the conduct of Employer's affairs by a notice served under Section 8(e)(3) or (g)(1) of the Federal Deposit Insurance Act (12 U.S.C. § 1818(e)(3) and (g)(1)), Employer's obligations under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, Employer shall (i) pay Employee all or part of the compensation withheld while its obligations under this Agreement were suspended and (ii) reinstate (in whole or in part) any of its obligations which were suspended.

13. Removal or Prohibition.

If Employee is removed and/or permanently prohibited from participating in the conduct of Employer's affairs by an order issued under section 8(e)(4) or (g)(1) of the Federal Deposit Insurance Act (12 U.S.C. § 1818(e)(4) or (g)(1)), all obligations of Employer under this Agreement shall terminate as of the effective date of the order and shall be considered a termination of Employee by Employer for Cause pursuant to Paragraph 10(E) of this Agreement.

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All obligations under this Agreement may be terminated except to the extent determined that the continuation of the Agreement is necessary for the continued operation of Employer: (i) by the Office of the Comptroller of the Currency (the Controller), at the time the Federal Deposit Insurance Corporation enters into an agreement to provide assistance to or on behalf of Employer under the authority contained in Section 13(c) of the Federal Deposit Insurance Act; or (ii) by the Controller at the time the Controller approves a supervisory merger to resolve problems related to operation of Employer or when Employer is determined to be in an unsafe and unsound condition.

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If any of the provisions in this Agreement shall conflict with 12 C.F.R. § 30, Appendix A, or the Controller policies adopted thereunder (as the same may be amended from time to time) the requirements of such regulation shall supersede any contrary provisions herein and shall prevail.

17. Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the successors and assigns of Employer, and unless clearly inapplicable, all references herein to Employer shall be deemed to include any such successor. In addition, this Agreement shall be binding upon and inure to the benefit of Employee and his heirs, executors, legal representatives and assigns; provided, however, that the obligations of Employee hereunder are personal in nature and may not be delegated without the prior written approval of Employer.

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Any notices, requests, demands, or other communications provided for by this Agreement shall be sufficient if in writing and if (i) delivered by hand to the other party; (ii) sent by facsimile communication with appropriate confirmation of delivery; (iii) sent by registered or certified United States Mail, return receipt requested, with all postage prepaid; or (iv) sent by recognized commercial express courier services, with all delivery charges prepaid; and addressed as follows:

If to Employer:

First Merchants Bank of Central Indiana, National Association

If to Employee:

John B. Ditmars

or to such other address as either party hereto may have furnished to the other party in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

22. Successor.

Employer shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of Employer, by agreement in form and substance satisfactory to Employee to expressly assume and agree to perform this Agreement in the same manner and to the same extent that Employer would be required to perform it if no such succession had taken place. Failure of Employer to obtain such agreement prior to the effectiveness of any such succession shall be a material intentional breach of this Agreement and shall entitle Employee to terminate this Agreement with Good Reason pursuant to Paragraph 10(C) herein. Any successor assuming this Agreement shall be subject to the obligations of this Paragraph 22, similar to Employer.

23. Acknowledgement.

Employee represents and acknowledges that Employee has had adequate time to review this Agreement, Employee has had the opportunity to ask questions and receive answers from Employer regarding this Agreement, and Employee has had the opportunity to consult with legal advisors of his choice concerning the terms and conditions of this Agreement.

This Agreement is intended to supersede and replace all prior agreements, understandings and arrangements between or among Employer, or any agent thereof, and the Employee, or any agent thereof, relating to the employment of Employee.

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[THIS SPACE INTENTIONALLY LEFT BLANK. SIGNATURE PAGE TO FOLLOW].

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IN WITNESS WHEREOF, the parties hereto have voluntarily executed this Agreement as of the day and year first above written.

EMPLOYER
FIRST MERCHANTS BANK OF
CENTRAL INDIANA,
NATIONAL ASSOCIATION

EMPLOYEE
JOHN B. DITMARS

By:

John B. Ditmars

(Printed)

The undersigned, First Merchants Corporation, sole shareholder of Employer, agrees that if it shall be determined for any reason that any obligation on the part of Employer to continue to make any payments due under this Agreement to Employee is unenforceable for any reason, First Merchants Corporation agrees to honor the terms of this Agreement and continue to make any such payments due hereunder to Employee pursuant to the terms of this Agreement.

FIRST MERCHANTS CORPORATION

Michael C. Rechin,
President and Chief Executive Officer

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APPENDIX B

Fairness Opinion

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September 2, 2008

Board of Directors

Lincoln Bancorp

905 Southfield Drive

Plainfield, IN 46168

Ladies and Gentlemen:

Lincoln Bancorp (Lincoln) and First Merchants Corporation (First Merchants) have entered into an Agreement of Reorganization and Merger, dated as of September 2, 2008 (the Agreement), pursuant to which Lincoln will merge with and into First Merchants, with First Merchants as the surviving entity (the Merger). Under the terms of the Agreement, upon consummation of the Merger, each share of Lincoln common stock issued and outstanding immediately prior to the Merger (the Lincoln Common Stock), other than certain shares specified in the Agreement, will be converted into the right to receive at the election of the holder thereof and subject to the proration procedures further described in the Agreement: (i) 0.7004 (the Conversion Ratio) shares of First Merchants common stock for each Lincoln common share held (the Share Option), or (ii) cash in the amount of \$15.76 for each share of Lincoln s common stock held (the Cash Option and together with the Share Option, the Merger Consideration). The terms of the Merger are more fully described in the Agreement. Capitalized terms used herein without definition shall have the meanings given to such terms in the Agreement. You have requested our opinion as to the fairness, from a financial point of view, of the Merger Consideration to the holders of Lincoln Common Stock.

Sandler O Neill & Partners, L.P., as part of its investment banking business, is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions. In connection with this opinion, we have reviewed, among other things: (i) the Agreement; (ii) certain publicly available financial statements and other historical financial information of Lincoln that we deemed relevant; (iii) certain publicly available financial statements and other historical financial information of First Merchants that we deemed relevant; (iv) internal financial projections for Lincoln for the years ending December 31, 2008 and an estimated growth rate for the years thereafter as prepared by and reviewed with management of Lincoln; (v) internal earnings estimates for First Merchants for the years ending December 31, 2008 and December 31, 2009 as discussed with senior management of First Merchants and an estimated long-term growth rate for the years thereafter as reviewed with senior management of First Merchants; (vi) the pro forma financial impact of the Merger on First Merchants based on assumptions relating to transaction expenses, purchase accounting adjustments and cost savings determined by the senior managements of Lincoln and First Merchants; (vii) the publicly reported historical price and trading activity for Lincoln s and First Merchants respective common stock, including a comparison of certain financial and stock market information for Lincoln and First Merchant with similar publicly available information for certain other companies the securities of which are publicly traded; (viii) the financial terms of certain recent business combinations in the commercial banking industry, to the extent publicly available; (ix) the current market environment generally and the banking environment in particular; and (x) such other information, financial studies, analyses and investigations and financial, economic and market criteria as we considered relevant. We also discussed with certain members of senior management of Lincoln the business, financial condition, results of operations and prospects of Lincoln and held similar discussions with certain members of senior management of First Merchants regarding the business, financial condition, results of operations and prospects of First Merchants.

In performing our review, we have relied upon the accuracy and completeness of all of the financial and other information that was available to us from public sources, that was provided to us by Lincoln and First Merchants or their respective representatives or that was otherwise reviewed by us and have assumed such accuracy and completeness for purposes of rendering this opinion. We have further relied on the assurances of the respective managements of Lincoln and First Merchants that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. We have not been asked to and have not

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undertaken an independent verification of any of such information and we do not assume any responsibility or liability for the accuracy or completeness thereof. We did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of Lincoln and First Merchants or any of their respective subsidiaries, or the collectibility of any such assets, nor have we been furnished with any such evaluations or appraisals. We did not make an independent evaluation of the adequacy of the allowance for loan losses of Lincoln and First Merchants nor have we reviewed any individual credit files relating to Lincoln and First Merchants. We have assumed, with your consent, that the respective allowances for loan losses for both Lincoln and First Merchants are adequate to cover such losses and will be adequate on a pro forma basis for the combined entity.

In preparing its analyses, Sandler O'Neill received internal estimates for Lincoln and First Merchants from the respective managements of Lincoln and First Merchants. The projections of transaction costs, purchase accounting adjustments and expected cost savings used by Sandler O'Neill in its analyses were prepared by and/or reviewed with the managements of Lincoln and First Merchants' management confirmed to us that they reflected the best currently available estimates and judgments of such management of the future financial performance of Lincoln and First Merchants, respectively, and we assumed that such performance would be achieved. We express no opinion as to such estimates or the assumptions on which they are based. We have also assumed that there has been no material change in Lincoln's and First Merchants' assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to us. We have assumed in all respects material to our analysis that Lincoln and First Merchants will remain as going concerns for all periods relevant to our analyses, that all of the representations and warranties contained in the Agreement and all related agreements are true and correct, that each party to the agreements will perform all of the covenants required to be performed by such party under the agreements, that the conditions precedent in the agreements are not waived and that the Merger will qualify as a tax-free reorganization for federal income tax purposes. Finally, with your consent, we have relied upon the advice Lincoln has received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the Merger and the other transactions contemplated by the Agreement.

Our opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof could materially affect this opinion. We have not undertaken to update, revise, reaffirm or withdraw this opinion or otherwise comment upon events occurring after the date hereof. We are expressing no opinion herein as to what the value of First Merchants' common stock will be when issued to Lincoln's shareholders pursuant to the Agreement or the prices at which Lincoln's and First Merchants' common stock may trade at any time.

We have acted as Lincoln's financial advisor in connection with the Merger and will receive a fee for our services, a substantial portion of which is contingent upon consummation of the Merger. We will also receive a fee for rendering this opinion. Lincoln has also agreed to indemnify us against certain liabilities arising out of our engagement.

In the ordinary course of our business as a broker-dealer, we may purchase securities from and sell securities to Lincoln and First Merchants and their affiliates. We may also actively trade the equity or debt securities of Lincoln and First Merchants or their affiliates for our own account and for the accounts of our customers and, accordingly, may at any time hold a long or short position in such securities.

Our opinion is directed to the Board of Directors of Lincoln in connection with its consideration of the Merger and does not constitute a recommendation to any shareholder of Lincoln as to how such shareholder should vote at any meeting of shareholders called to consider and vote upon the Merger or the form of consideration such shareholder should elect in the Merger. Our opinion is directed only to the fairness, from a financial point of view, of the Merger Consideration to holders of Lincoln Common Stock and does not address the underlying business decision of Lincoln to engage in the Merger, the relative merits of the Merger as compared to any other alternative business strategies that might exist for Lincoln or the effect of any other

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transaction in which Lincoln might engage. We were directed by the Board of Directors to contact several potential purchasers of the Company. Our opinion is not to be quoted or referred to, in whole or in part, in a registration statement, prospectus, proxy statement or in any other document, nor shall this opinion be used for any other purposes, without Sandler O'Neill's prior written consent. This Opinion has been approved by Sandler O'Neill's fairness opinion committee. We do not express any opinion as to the fairness of the amount or nature of the compensation to be received in the Merger by Lincoln's officers, directors, or employees, or class of such persons, relative to the compensation to be received in the Merger by any other shareholders of the company.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Merger Consideration is fair to the holders of Lincoln Common Stock from a financial point of view.

Very truly yours,

/s/ Sandler O'Neill & Partners, L.P.

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Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 20. Indemnification of Directors and Officers of First Merchants Corporation**

First Merchants Corporation (**First Merchants**) is an Indiana corporation. Section 23-1-37-1 *et seq.* of the Indiana Business Corporation Law contains detailed provisions on indemnification of directors and officers of an Indiana corporation against expenses, judgments, settlements, penalties and fines incurred with respect to certain proceedings.

First Merchants' Articles of Incorporation, as amended, and By-Laws, as amended, provide that First Merchants will indemnify any person who is or was a director, officer or employee of First Merchants or of any other corporation for which he is or was serving in any capacity at the request of First Merchants against all liability and expense that may be incurred in connection with, resulting from or arising out of any claim, action, suit or proceeding with respect to which such director, officer or employee is wholly successful or acted in good faith in a manner he reasonably believed to be in, or not opposed to, the best interests of First Merchants or such other corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful. A director, officer or employee of First Merchants is entitled to be indemnified as a matter of right with respect to those claims, actions, suits or proceedings where he has been wholly successful. In all other cases, such director, officer or employee will be indemnified only if the Board of Directors of First Merchants (acting by a quorum consisting of directors who are not parties to or who have been wholly successful with respect to such action) or independent legal counsel finds that he has met the standards of conduct set forth above.

The directors and officers of First Merchants are covered by an insurance policy indemnifying them against certain civil liabilities, including liabilities under the federal securities laws, which might be incurred by them in such capacity.

Item 21. Exhibits and Financial Statement Schedules.

(a) The following Exhibits are being filed as part of this Registration Statement except those which are incorporated by reference:

Exhibit	Description of Exhibit	Form S-4 Page
2.	Agreement of Reorganization and Merger	(A)
3.	a. First Merchants Corporation Articles of Incorporation and the Articles of Amendment thereto	(B)
	b. First Merchants Corporation By-Laws and amendments thereto	(C)
4.	a. First Merchants Corporation Amended and Restated Declaration of Trust of First Merchants Capital Trust II dated as of July 2, 2007	(D)
	b. Indenture dated as of July 2, 2007	(D)
	c. Guarantee Agreement dated as of July 2, 2007	(D)
	d. Form of Capital Securities Certification of First Merchants Capital Trust II	(D)
	e. Placement Agreement dated June 29, 2007	(D)
5.	Opinion of Bingham McHale LLP (legality)	*
8.	Opinion of Bingham McHale LLP (tax matters)	*
23.	a. Consent of BKD, LLP (First Merchants Corporation)	Ex. 23(a)-1
	b. Consent of BKD, LLP (Lincoln Bancorp)	Ex. 23(b)-1
	c. Consent of Bingham McHale LLP (legality)	(E)
	d. Consent of Bingham McHale LLP (tax matters)	(E)
	e. Consent of Sandler O'Neill & Partners, L.P.	Ex. 23(e)-1
24.	Power of Attorney included in Signatures section	S-1
99.	a. Form of Proxy for Lincoln Bancorp Shareholders Meeting	Ex. 99(a)-1
	b. Consent of Director Nominee	Ex. 99(b)-1
	c. Election Form for Lincoln Bancorp Shareholders	Ex. 99(c)-1

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* To be filed by amendment.

- (A) Included as Appendix A to the Prospectus.
- (B) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for quarter ended June 30, 1999.
- (C) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q for quarter ended September 30, 2007.
- (D) Incorporated by reference to Registrant's Form 8-K filed on July 3, 2007.
- (E) To be included in opinion.

Item 22. Undertakings.

(a) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(d) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(e) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Muncie, State of Indiana, on the 24th day of September, 2008.

FIRST MERCHANTS CORPORATION

By: /s/ MICHAEL C. RECHIN
Michael C. Rechin,

President And Chief Executive Officer

Each person whose signature appears below constitutes and appoints Michael C. Rechin and Mark K. Hardwick and each of them his true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement and any subsequent registration statement filed by First Merchants Corporation pursuant to Rule 462(b) of the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents full power and authority to perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed on the 24th day of September, 2008, by the following persons in the capacities indicated.

/s/ MICHAEL C. RECHIN	President, Chief Executive Officer, and Director (Principal Executive Officer)
Michael C. Rechin	
/s/ MARK K. HARDWICK	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
Mark K. Hardwick	
/s/ CHARLES E. SCHALLIOL	Chairman of the Board and Director
Charles E. Schalliol	
/s/ THOMAS B. CLARK	Director
Thomas B. Clark	
/s/ MICHAEL L. COX	Director
Michael L. Cox	
/s/ RODERICK ENGLISH	Director
Roderick English	
/s/ JOANN M. GORA	Director
JoAnn M. Gora	

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/s/ WILLIAM L. HOY Director

William L. Hoy

/s/ BARRY J. HUDSON Director

Barry J. Hudson

/s/ TERRY L. WALKER Director

Terry L. Walker

/s/ JEAN L. WOJTOWICZ Director

Jean L. Wojtowicz

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBITS

To

FORM S-4

REGISTRATION STATEMENT

Under

The Securities Act of 1933

Table of Contents**FIRST MERCHANTS CORPORATION****EXHIBIT INDEX**

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(D) Incorporated by reference to Registrant's Form 8-K filed on July 3, 2007.

(E) To be included in opinion.