FIRST MERCHANTS CORP
Form S-4/A
November 26, 2008
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As filed with the Securities and Exchange Commission on November 25, 2008

Registration Statement No. 333-153656

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PRE-EFFECTIVE

AMENDMENT NO. 4

TO

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA	**35-1544218**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

6021

(Primary Standard Industrial Classification Code Number)

200 East Jackson Street

Muncie, Indiana 47305

(765) 747-1500

(Address, including ZIP Code, and telephone number, including area code, of registrant s principal executive offices)

With copies to:

Mark K. Hardwick Executive Vice President and Chief Financial Officer First Merchants Corporation 200 East Jackson Street Muncie, Indiana 47305 (765) 747-1500	David R. Prechtel, Esq. Bingham McHale LLP 2700 Market Tower 10 West Market Street Indianapolis, Indiana 46204 (317) 635-8900	David A. Butcher, Esq. Bose McKinney & Evans LLP 111 Monument Circle Suite 2700 Indianapolis, Indiana 46204 (317) 684-5000

(Name, address, including ZIP Code, and telephone number, including area code, of agent for service)

Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement and upon the effective time of the merger described in the accompanying Proxy Statement-Prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities	Amount	Proposed maximum offering price per share (2)	Proposed maximum aggregate	Amount of

to be registered	to be registered (1)		offering price (2)	registration fee (3)(4)
Common Stock, no par value	Up to 3,576,417 shares	$20.57	$73,558,839	$2,891

(1) This represents the maximum number of shares to be offered to Lincoln Bancorp shareholders.

(2) The maximum offering price is based on an estimate solely for the purpose of calculating the registration fee and has been calculated in accordance with Rule 457(f)(1) under the Securities Act of 1933, as amended, using the average of the high and low prices of the Lincoln Bancorp common shares as reported on the NASDAQ Global Market System on September 22, 2008 ($14.46) for all 5,319,731 Lincoln Bancorp common shares to be exchanged in the merger. This amount less the minimum amount of cash to be paid by First Merchants Corporation in connection with the merger ($3,364,471.74) is the maximum offering price. The proposed maximum offering price per share has been determined by dividing the proposed maximum offering price by the number of shares being registered.

(3) The registration fee of $2,891 for the securities registered hereby has been calculated pursuant to Rule 457(f) under the Securities Act of 1933, as amended, as $73,558,839 multiplied by 0.0000393.

(4) Previously paid on September 24, 2008.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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LINCOLN BANCORP

YOUR VOTE IS VERY IMPORTANT

PROSPECTUS OF FIRST MERCHANTS CORPORATION FOR UP TO

3,576,417 SHARES OF COMMON STOCK

AND

PROXY STATEMENT OF LINCOLN BANCORP

Dear Shareholders of Lincoln Bancorp:

The Board of Directors of Lincoln Bancorp (**Lincoln**) and the Board of Directors of First Merchants Corporation (**First Merchants**) have agreed to merge Lincoln into First Merchants. This proposed strategic business combination will create a company with approximately 82 banking branches and combined assets of $4.7 billion, $3.6 billion in loans, $3.5 billion in deposits and total shareholders equity of $405 million.

In the merger, each Lincoln common share that you own will be converted into the right to receive, at your election, either 0.7004 shares of First Merchants common stock, subject to possible upward or downward adjustment as provided in the Merger Agreement and described in this document, or $15.76 in cash. The number of shares of First Merchants common stock and the amount of cash payable in connection with the merger is subject to various limitations and prorations. Under certain circumstances, an election to receive cash or First Merchants common stock may be converted, in whole or in part, into an election to receive the other type of consideration. First Merchants will also pay cash for any fractional share interests resulting from an exchange of your shares.

We cannot complete the merger unless the shareholders of Lincoln approve it. Lincoln will hold a special meeting of its shareholders to vote on adoption of the Merger Agreement. **Your vote is very important.** Whether or not you plan to attend the special shareholders meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote in favor of the merger. Not returning your card or not instructing your broker how to vote any shares held for you in street name will have the same effect as a vote against the merger.

The date, time and place of the special shareholders meeting is as follows:

, , 2008, : .m., local time

Guilford Township Community Center, Hummel Park,

1500 S. Center Street, Plainfield, Indiana

This document provides you with detailed information about this meeting and the proposed merger. You can also obtain information about Lincoln and First Merchants from publicly available documents that our companies have filed with the Securities and Exchange Commission. First Merchants common stock is quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. Lincoln common stock is quoted and traded on the NASDAQ Global Market System under the symbol LNCB.

We strongly support the merger of our companies. The Lincoln Board of Directors unanimously recommends that you vote in favor of the merger.

Jerry R. Engle President and Chief Executive Officer LINCOLN BANCORP	Michael C. Rechin President and Chief Executive Officer FIRST MERCHANTS CORPORATION

For a discussion of certain risk factors which you should consider in evaluating the merger, see Risk Factors

beginning on page 24. We encourage you to read this entire document carefully.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued pursuant to this proxy statement-prospectus or determined if this proxy statement-prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

These securities are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either of our companies, and they are not insured by the Federal Deposit Insurance Corporation, the bank insurance fund or any other federal or state governmental agency.

Proxy Statement-Prospectus dated , 2008,

and first mailed to shareholders on , 2008.

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LINCOLN BANCORP

905 Southfield Drive

Plainfield, Indiana 46168

NOTICE OF SPECIAL MEETING OF

SHAREHOLDERS TO BE HELD ON

, 2008

To Our Shareholders:

We will hold a special meeting of the shareholders of Lincoln Bancorp on , , 2008, at : .m. local time, at the Guilford Township Community Center, Hummel Park, 1500 S. Center Street, Plainfield, Indiana.

The purposes of the special meeting are the following:

1. To consider and vote upon a proposal to adopt the Agreement of Reorganization and Merger dated September 2, 2008, between First Merchants Corporation and Lincoln Bancorp, and to approve the transactions contemplated thereby. Pursuant to the Merger Agreement, Lincoln Bancorp will merge into First Merchants Corporation. The merger is more fully described in this proxy statement-prospectus and the Merger Agreement is attached as Appendix A to this proxy statement-prospectus;

2. To adjourn or postpone the special meeting to permit further solicitation of proxies in the event that an insufficient number of shares is present in person or by proxy to approve the Merger Agreement; and

3. To transact such other business which may properly be presented at the special meeting or any adjournment or postponement of the special meeting.

We have fixed the close of business on , 2008, as the record date for determining those shareholders who are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special meeting. Adoption of the Merger Agreement requires the affirmative vote of at least a majority of the outstanding Lincoln Bancorp common shares. **Your vote is very important.**

The Lincoln Board of Directors unanimously recommends that you vote in favor of the merger.

Whether or not you plan to attend the special meeting in person, please complete, date, sign and return the enclosed proxy card in the enclosed envelope, which requires no postage if mailed in the United States. If you attend the special meeting, you may vote in person if you wish, even if you have previously returned your proxy card. Not returning your card or not instructing your broker how to vote any shares held for you in street name will have the same effect as a vote against the merger.

By Order of the Board of Directors

Jerry R. Engle, Chairman of the Board
President and Chief Executive Officer
, 2008
Plainfield, Indiana

ADDITIONAL INFORMATION

This document incorporates important business and financial information about First Merchants Corporation (**First Merchants**) from other documents filed with the Securities and Exchange Commission that are not delivered with or included in this document. This information (including documents incorporated by reference) is available to you without charge upon your written or oral request. You may request these documents in writing or by telephone from First Merchants at the following address and telephone number:

First Merchants Corporation

200 East Jackson Street

Muncie, Indiana 47305

Attention: Cynthia G. Holaday,

Secretary

Telephone: (765) 747-1500

To ensure timely delivery, shareholders must request the documents containing the information described above no later than five business days before the date they must make their investment decision. Accordingly, if you would like to make such a request, please do so by , 2008, in order to receive the requested information before the meeting.

See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 145.

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FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements with respect to the financial condition, results of operations, and business of First Merchants and Lincoln and of First Merchants following completion of the merger. These statements are based on the beliefs and assumptions of each company s management, and on information currently available to management. Forward-looking statements are generally preceded by, followed by, or include the words will, believes, expects, anticipates, intends, plans, estimates, or similar expressions.

In particular, we have made statements in this document relating to the cost savings and revenue enhancements that are expected to be realized from the merger and the expected effect of the merger on First Merchants financial performance. These forward-looking statements describe certain risks and uncertainties. Actual results may differ materially from those contemplated by such forward-looking statements due to, among others, the following factors:

- expected cost savings from the merger that may not be fully realized;
- deposit attrition, customer loss, or revenue loss following the merger may be greater than expected;
- competitive pressure in the banking industry may increase significantly;
- costs or difficulties related to the integration of the businesses of First Merchants and Lincoln may be greater than expected;
- changes in the interest rate environment may reduce margins;
- a lack of liquidity in the financial markets may impede the ability to make loans and sell them in the secondary market;
- general economic conditions may decline, either nationally or regionally, resulting in, among other things, a deterioration in credit quality or a reduced demand for credit; and
- changes may occur in the regulatory environment, business conditions, inflation rate and the securities market.

Management of First Merchants and Lincoln believe these forward-looking statements are reasonable. However, you should not place undue reliance on such forward-looking statements, which are based on current expectations. Further information on other factors that could affect the financial results of First Merchants after the merger is included in the Securities and Exchange Commission filings incorporated by reference in this document. See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 145.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions. The future results and shareholder values of First Merchants following completion of the merger may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond First Merchants and Lincoln s ability to control or predict. For those statements, First Merchants and Lincoln claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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QUESTIONS AND ANSWERS

ABOUT THE MERGER AND THE SHAREHOLDERS MEETING

Q: Why are Lincoln and First Merchants proposing to merge?

A: We believe the merger is in the best interests of Lincoln and our shareholders. Lincoln and First Merchants believe that the merger will bring together two complementary institutions that share similar, community-oriented philosophies to create a strategically, operationally and financially strong company that is positioned for further growth. The merger will give the combined company greater scale, not only for serving existing customers more efficiently but also for future expansion. The combined institution is expected to be the sixth largest depository institution operating in the State of Indiana and the third largest based in the state. We believe the merger will enhance our capabilities to provide banking and financial services to our customers and strengthen the competitive position of the combined organization.

You should review the background and reasons for the merger described in greater detail at pages 33 and 35.

Q: What will Lincoln shareholders receive in the merger?

A: For each Lincoln common share you own before the merger, you will have the right to elect, on a share-by-share basis, to receive either:

- 0.7004 shares of First Merchants common stock (subject to adjustment as provided in the Merger Agreement), or
- $15.76 in cash.

Lincoln shareholders may elect to receive First Merchants common stock for some or all of their shares and/or cash for some or all of their shares. First Merchants will also pay cash in lieu of issuing fractional shares. The Merger Agreement provides that First Merchants is not required to issue more than 3,576,417 shares of its common stock or pay more than $16,800,000 in cash to Lincoln shareholders. $16,800,000 represents approximately 20% of the total merger consideration. These limitations are designed to permit First Merchants to maximize and maintain its capital structure. If Lincoln shareholder elections require more than 3,576,417 shares of First Merchants common stock to be issued or cash payments of $16,800,000 or more, your elections may be subject to proration as described under THE MERGER Exchange of Lincoln Common Shares on page 48. As a result of the proration, you may receive a lesser amount of cash and a greater amount of First Merchants common stock, or a lesser amount of First Merchants common stock and a greater amount of cash, than you elected.

Because the exchange ratio for the stock consideration is fixed, the value of the stock consideration will fluctuate with the market price of First Merchants common stock. Accordingly, at the time of the merger, the per share value of the stock consideration may be greater or less than the per share value of the cash consideration. As of September 2, 2008, the closing price for a share of First Merchants common stock was $19.89 and for a Lincoln common share was $10.35. As of , 2008, the closing price for a share of First Merchants common stock was $ and for a Lincoln common share was $. You should obtain current market prices for shares of First Merchants common stock and Lincoln common shares. First Merchants common stock is quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. Lincoln common shares are quoted and traded on the NASDAQ Global Market System under the symbol LNCB.

The 0.7004 conversion ratio is subject to possible upward or downward adjustment, if a chain of certain events occurs. The first of those events is that the average of the closing price of First Merchants common stock as reported in Bloomberg, L.P. for the 20 NASDAQ trading days preceding the 5th calendar day prior to the effective date of the merger must be either less than $16.50 or greater than $30.00. This calculation is defined in the Merger Agreement as the First Merchants Average Price. Since this calculation will be made just prior to the effective date of the merger, it is not possible to determine the First Merchants Average Price as of the date of this proxy statement-prospectus. The Merger Agreement may be terminated by

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Lincoln if the First Merchants Average Price falls below $16.50 or by First Merchants if the First Merchants Average Price increases above $30.00. The second event that must occur in order for the conversion ratio to be adjusted is either Lincoln or First Merchants must exercise its right to terminate the Merger Agreement based on the First Merchants Average Price. Finally, if either party exercises its right to terminate the Merger Agreement based on the First Merchants Average Price, then the other party has the right to adjust the conversion ratio according to a formula to avoid termination of the Merger Agreement. Upon termination by either party under this provision, a termination fee is not required. For a more detailed discussion of how the conversion ratio can be adjusted, see THE MERGER Conversion Ratio Adjustment.

Q: What risks should I consider before I vote on the merger?

A: You should review RISK FACTORS beginning on page 24.

Q: When is the merger expected to be completed?

A: We are working to complete the merger as quickly as possible. We have received the necessary regulatory approvals and must now obtain the approval of Lincoln shareholders at the special shareholders meeting. We currently expect to complete the merger during the fourth quarter of 2008.

Q: What are the tax consequences of the merger to me?

A: We have structured the merger so that First Merchants, Lincoln and Lincoln shareholders will not recognize any gain or loss for federal income tax purposes on the exchange of Lincoln shares for First Merchants shares in the merger. In other words, to the extent a Lincoln shareholder receives First Merchants shares in the merger, it will generally be tax-free. However, to the extent a Lincoln shareholder receives cash instead of First Merchants common stock, any gain such Lincoln shareholder realizes on the exchange will be taxed, but generally not in an amount in excess of the cash received. At the closing, each of Lincoln and First Merchants are to receive an opinion confirming these tax consequences. See MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES beginning on page 63. Your tax consequences will depend on your personal situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you.

Q: Will I have dissenters rights?

A: No. Lincoln shareholders are not entitled to dissenters rights under Indiana Code § 23-1-44, as amended, because the Lincoln common shares are traded on the NASDAQ Global Market System.

Q: What do I need to do now?

A: You should carefully read and consider the information contained in this document and any information incorporated by reference. Then, please fill out, sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares can be voted at the special shareholders meeting. If a returned proxy card is signed but does not specify a choice, your proxy will be voted **FOR** the merger proposal considered at the meeting and **FOR** adjournment or postponement of the special meeting to permit further solicitation of proxies in the event that an insufficient number of shares is present to approve the Merger Agreement. You should also complete your Election Form which will be forwarded to you in a separate mailing to specify the type of merger consideration you prefer (or provide instructions to your broker if you hold your shares in street name or to the trustee if you hold your shares through Lincoln s employee stock ownership plan).

Q: What if I don t vote or I abstain from voting?

A: If you do not vote or you abstain from voting, it will count as a **NO** vote on the merger.

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Q: If my shares are held by my broker in street name, will my broker vote my shares for me?

A: You should follow the directions provided by your broker to vote your shares. Your broker will vote your shares only if you instruct your broker on how to vote. If you do not provide your broker with instructions on how to vote your shares held in street name, your broker will not be permitted to vote your shares, which will have the effect of a **NO** vote on the merger.

Q: May I change my vote after I have mailed my signed proxy card?

A: Yes. You may change your vote at any time before your proxy is voted at the meeting. You can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. If you choose either of these two methods, you must submit your notice of revocation or your new proxy card to Lincoln at or before the special meeting. You should submit your notice of revocation or new proxy card to Lincoln Bancorp, 905 Southfield Drive, Plainfield, Indiana 46168, Attention: John M. Baer. Third, you may attend the meeting and vote in person. Simply attending the meeting, however, will not revoke your proxy. You must request a ballot and vote the ballot at the meeting. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

Q: How do I elect the form of payment that I prefer?

A: An Election Form will be forwarded to you through a separate mailing. You should complete the Election Form and send it in the envelope provided to the election agent, American Stock Transfer & Trust Company, LLC (**American Stock Transfer**). For you to make an effective election, your properly executed Election Form must be received by American Stock Transfer before 5:00 p.m. local time on , 2008, the election deadline. Please read the instructions on the Election Form prior to completing the form. If you hold your shares in street name with a broker, you should ask your broker for instructions on making your election and on tendering your Lincoln shares. Please read the instructions to the Election Form for information on completing the form. These instructions will also inform you what to do if your share certificates have been lost, stolen or destroyed. Please note that your proxy card and your Election Form must be returned to different addresses and must be mailed separately.

If you do not return a completed, properly executed Election Form by the election deadline, then you will be considered to have elected to receive First Merchants common stock for all of your Lincoln common shares, except that if the proration described herein is required, your Lincoln shares may be converted to cash before those shareholders who completed, signed and returned an Election Form by the deadline.

Q: Which form of payment should I choose? Why?

A: The form of payment you should elect will depend upon your personal financial and tax circumstances. We urge you to consult your financial or tax advisor if you have any questions about the form of payment you should elect.

Q: Can I change my election?

A: Yes. You can change your election by submitting a new Election Form to American Stock Transfer as provided in the Election Form. It must be received prior to the election deadline set forth on the Election Form. After the election deadline, no changes may be made.

Q: Are shareholders guaranteed they will receive the form of merger consideration cash, common stock or a combination thereof they request on their Election Forms?

A: No. There is a limit on the number of shares First Merchants is required to issue and a limit on the aggregate amount of cash First Merchants is required to pay in exchange for Lincoln s outstanding shares. Because First Merchants is not required to issue more than 3,576,417 shares of its common stock (a number which correlates to approximately 96% of Lincoln s outstanding common shares) or pay more than $16,800,000 in cash to Lincoln shareholders (a value which correlates to approximately 20% of Lincoln s outstanding shares), it is possible that some shareholders may receive a form of consideration they did not elect. For example, if you elect to receive all or a portion of the consideration in cash and the holders of more than approximately 20% of the outstanding Lincoln common shares elect to receive cash, you may receive a portion of First Merchants common stock instead of the cash you elected. Please read a more complete description of the proration procedures under THE MERGER Exchange of Lincoln Common Shares on page 48.

Q: Should I send in my stock certificate(s) now?

A: No. After the merger is completed, Lincoln shareholders will receive written instructions from First Merchants for exchanging their stock certificates for the consideration to be received by them in the merger.

Q: Whom should I contact if I have other questions about the Merger Agreement or the Merger?

A: If you are a Lincoln shareholder and you have more questions about the Merger Agreement or the merger, you should contact Georgeson Shareholder Communications, Inc., the Information Agent for the merger, at (800) - . Banks and brokerage firms should also call Georgeson Shareholder Communications, Inc. at (800) - .

Lincoln shareholders may also contact:

Lincoln Bancorp

905 Southfield Drive

Plainfield, Indiana 46168

Attention: John M. Baer,

Secretary and Treasurer

Telephone: (317) 839-6539

or

First Merchants Corporation

200 East Jackson Street

Muncie, Indiana 47305

Attention: Cynthia G. Holaday,

Secretary

Telephone: (765) 747-1500

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SUMMARY

This summary highlights selected information from this proxy statement-prospectus. Because this is a summary, it does not contain all of the information that is important to you. You should carefully read this entire document, its appendices and the documents we have referred you to before you decide how to vote. See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 145 for a description of documents that we incorporate by reference into this document. Each item in this summary includes a page reference that directs you to a more complete description in this document of the topic discussed.

The Companies (pages 77 and 79)

First Merchants Corporation

200 East Jackson Street

Muncie, Indiana 47305

(765) 747-1500

First Merchants is a multi-bank holding company and a financial holding company, incorporated under Indiana law and headquartered in Muncie, Indiana. First Merchants has four banking subsidiaries: First Merchants Bank, National Association; First Merchants Bank of Central Indiana, National Association; Lafayette Bank & Trust Company, National Association; and Commerce National Bank. Through these subsidiaries, First Merchants operates a general banking business. First Merchants also owns various non-bank subsidiaries that engage in the trust and asset management service business, title insurance and settlement services business, the reinsurance business and the full-service property casualty, personal and healthcare insurance business.

At September 30, 2008, on a consolidated basis, First Merchants had assets of approximately $3.9 billion, deposits of approximately $2.9 billion, and stockholders equity of approximately $352 million. First Merchants common stock is quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. See DESCRIPTION OF FIRST MERCHANTS on page 77.

Lincoln Bancorp

905 Southfield Drive

Plainfield, Indiana 46168

(317) 839-6539

Lincoln is a single bank holding company incorporated under Indiana law and headquartered in Plainfield, Indiana. Lincoln is the sole owner of Lincoln Bank, an Indiana state bank currently conducting its general banking business from 17 full-service offices located in Hendricks, Johnson, Morgan, Clinton, Montgomery, and Brown Counties, Indiana, with its main office located in Plainfield, Indiana.

At September 30, 2008, on a consolidated basis, Lincoln had assets of approximately $831 million, deposits of approximately $594 million, and shareholders equity of approximately $71 million. Lincoln common stock is quoted and traded on the NASDAQ Global Market System under the symbol LNCB. See DESCRIPTION OF LINCOLN on page 79.

The Merger (page 33)

*We have attached the Agreement of Reorganization and Merger (as amended by the First Amendment dated October 29, 2008) (**Merger Agreement**) to this document as Appendix A. Please read the Merger Agreement. It is the legal document that governs the merger.*

Lincoln will merge with First Merchants and, thereafter, Lincoln will cease to exist. We hope to complete the merger during the fourth quarter of 2008. Subsequent to the merger and subject to prior regulatory approvals, Lincoln Bank will merge with and into First Merchants Bank of Central Indiana, National Association.

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Reasons for the Merger (page 35)

First Merchants. First Merchants Board of Directors considered a number of financial and nonfinancial factors in making its decision to merge with Lincoln, including its respect for the ability and integrity of the Lincoln Board of Directors, management and staff. The Board believes that expanding First Merchants operations in the markets in which Lincoln operates offers long-term strategic benefits to First Merchants. First Merchants also believes that several synergies exist between the banking businesses of the parties, making the transaction even more attractive.

Lincoln. In considering the merger with First Merchants, Lincoln s Board of Directors collected and evaluated a variety of economic, financial and market information regarding First Merchants and its subsidiaries, their respective businesses and First Merchants reputation and future prospects. In the opinion of Lincoln s Board of Directors, favorable factors included:

- the fact that the value of the merger consideration represented a premium over the $10.35 closing price of Lincoln s common stock on September 2, 2008 (the last trading day before the merger was announced);

- the increased level of competition within the banking sector generally and within the market areas served by Lincoln from other, larger financial institutions and non-bank competitors;

- the current and prospective economic climate for smaller financial institutions generally and Lincoln specifically, including declining net interest margins for many financial institutions, slower deposit growth and the increasing cost of regulatory burdens;

- the effect of the merger on Lincoln Bank s employees, including the prospect of continued employment and enhanced employment opportunities with a much larger and more diversified financial organization;

- the effect of the merger on Lincoln Bank s customers and community, including First Merchants community banking orientation and its compatibility with Lincoln;

- more diverse financial products and services for Lincoln customers and an enhanced competitive position in the markets in which Lincoln operates;

- the desire to provide shareholders with the prospects for greater future appreciation on their investments in Lincoln common stock than Lincoln could likely achieve independently;

- the greater liquidity of First Merchants common stock, which is traded on the NASDAQ Global Select Market System;

- the higher level of dividends paid by First Merchants on its common stock than Lincoln would be likely to achieve in the near future;

- the potential tax advantage to Lincoln shareholders of accepting stock or stock and cash; and

- the opinion delivered by Sandler O Neill & Partners, L.P. (**Sandler**) that the merger consideration is fair, from a financial point of view, to the shareholders of Lincoln.

Opinion of Lincoln s Financial Advisor (page 38)

The Board of Directors of Lincoln received the written opinion of Sandler dated September 2, 2008, stating that the merger consideration to be received by Lincoln shareholders is fair from a financial point of view. We have attached a copy of the fairness opinion to this document as *Appendix B*. Lincoln shareholders should read the fairness opinion in its entirety.

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What Lincoln Shareholders Will Receive (page 48)

As a Lincoln shareholder, each of your Lincoln common shares will be converted into the right to receive, at your election, either (i) 0.7004 shares of First Merchants common stock, subject to possible upward or downward adjustment of the conversion ratio as provided in the Merger Agreement, or (ii) $15.76 in cash. You may elect to receive a combination of First Merchants common stock for some of your Lincoln shares and cash for some of your Lincoln shares. The number of shares of First Merchants common stock and the amount of cash payable in connection with the merger is subject to various limitations and prorations. Under certain circumstances, an election to receive stock or cash may be converted into an election to receive the other type of consideration. If you fail to make an election, you will be considered to have elected to receive First Merchants common stock for your Lincoln shares, but if it is necessary to convert some stock elections to cash elections under the proration provisions of the Merger Agreement, Lincoln shares for which no election was made will be the first to be changed from receiving stock to receiving cash. Cash will be paid in lieu of issuing any fractional shares of First Merchants common stock.

Because the conversion ratio is fixed within certain parameters and because the market price of common stock of First Merchants will fluctuate, the market value of the stock of First Merchants you will receive in the merger is not fixed. See SUMMARY Comparative Market Price Information on page 15.

Conversion Ratio Adjustment (page 50)

As mentioned above, the 0.7004 conversion ratio is subject to possible upward or downward adjustment, if a chain of certain events occurs. The first of those events is that the average of the closing price of First Merchants common stock as reported in Bloomberg, L.P. for the 20 NASDAQ trading days preceding the 5th calendar day prior to the effective date of the merger must be either less than $16.50 or greater than $30.00. This calculation is defined in the Merger Agreement as the First Merchants Average Price. Since this calculation will be made just prior to the effective date of the merger, it is not possible to determine the First Merchants Average Price as of the date of this proxy statement-prospectus. The Merger Agreement may be terminated by Lincoln if the First Merchants Average Price falls below $16.50 or by First Merchants if the First Merchants Average Price increases above $30.00. The second event that must occur in order for the conversion ratio to be adjusted is either Lincoln or First Merchants must exercise its right to terminate the Merger Agreement based on the First Merchants Average Price. Finally, if either party exercises its right to terminate the Merger Agreement based on the First Merchants Average Price, then the other party has the right to adjust the conversion ratio according to a formula to avoid termination of the Merger Agreement. For a more detailed discussion of how the conversion ratio can be adjusted, see THE MERGER Conversion Ratio Adjustment.

Recommendation to Shareholders (page 37)

The Board of Directors of Lincoln believes that the merger is in your best interests and unanimously recommends that you vote **FOR** the proposal to adopt the Merger Agreement. In reaching its decision, the Lincoln Board of Directors considered a number of factors, which are described in the section titled THE MERGER Lincoln s Reasons for the Merger . Because of the wide variety of factors considered, the Lincoln Board of Directors did not believe it practicable, nor did it attempt, to quantify or otherwise assign relative weight to the specific factors it considered in reaching its decision.

The Shareholders Meeting (page 28)

The special meeting of Lincoln shareholders will be held on , , 2008, at _: .m. local time, at Guilford Township Community Center, Hummel Park, 1500 S. Center Street, Plainfield, Indiana. You will be asked at the special meeting to consider and vote upon the adoption of the

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Merger Agreement and to act upon any other items of business that may be properly submitted to vote at the special meeting. In the event that an insufficient number of shares is present in person or by proxy at the special meeting to approve the merger, you may also be asked to vote to approve a proposal to adjourn or postpone the meeting to allow time for the solicitation of additional proxies.

Record Date; Votes Required (page 28)

You may vote at the Lincoln special meeting of shareholders if you owned common shares of Lincoln at the close of business on , 2008. You are entitled to cast one vote for each common share you owned on that date. The holders of at least a majority of the outstanding Lincoln common shares must vote in favor of adoption of the Merger Agreement. No approval by First Merchants shareholders is required to complete the merger. Approval of the proposal to adjourn or postpone the special meeting, if necessary, requires only that more votes be cast in favor of the proposal than are cast against it. Broker non-votes and abstentions from voting will not be treated as NO votes on this proposal (as they are with the approval of the Merger Agreement) and, therefore, will have no effect on the outcome. You can vote your shares by attending the special meeting or you can mark the enclosed proxy card with your vote, sign it and mail it in the enclosed return envelope.

As of September 18, 2008, Lincoln s executive officers, directors and their affiliates owned 319,718 shares or approximately 6.01% of the Lincoln common shares outstanding. Each member of the Board of Directors of Lincoln and certain executive officers of Lincoln and Lincoln Bank signed a voting agreement as of September 2, 2008, the date the Merger Agreement was executed, in which they agreed to cause all Lincoln common shares owned by them of record or beneficially to be voted in favor of the merger. As of , 2008, Lincoln s executive officers, directors and their affiliates owned shares or approximately % of the Lincoln common shares outstanding.

No Dissenters Rights (page 51)

Under Indiana Code § 23-1-44, dissenters rights are not available to holders of shares quoted and traded on the NASDAQ Global Market System or a similar market. Because Lincoln s common shares are presently quoted and traded on the NASDAQ Global Market System, shareholders of Lincoln presently have no dissenters rights in respect of their shares. See THE MERGER Rights of Dissenting Shareholders on page 51.

What We Need to Do to Complete the Merger (page 52)

Completion of the merger depends on a number of conditions being met. In addition to our compliance with the Merger Agreement, these conditions include among others:

- adoption of the Merger Agreement by the shareholders of Lincoln;
- approval of the merger by the Board of Governors of the Federal Reserve System (which has been obtained) and the expiration of any regulatory waiting period;
- approval of the merger by the Indiana Department of Financial Institutions (which has been obtained);
- the receipt by Lincoln of an opinion of Bose McKinney & Evans LLP that the merger will be treated, for U.S. federal income tax purposes, as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and that no gain or loss will be recognized by Lincoln shareholders in the merger to the extent they receive shares of First Merchants common stock as consideration for their Lincoln common shares;
- the receipt by First Merchants of an opinion of Bingham McHale LLP that the merger will be treated, for U.S. federal income tax purposes, as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended;

other customary conditions and obligations of the parties set forth in the Merger Agreement.

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Regulatory Approvals (page 56)

The merger has been approved by the Board of Governors of the Federal Reserve System (**Federal Reserve**) and the Indiana Department of Financial Institutions (**DFI**).

Conduct of Business Pending Merger (page 55)

Under the Merger Agreement, Lincoln must carry on its business in the ordinary course and may not take certain extraordinary actions without first obtaining First Merchants approval.

We have agreed that Lincoln will continue to pay quarterly dividends at no more than the current rate of $0.14 per share until the merger closes. We will each cooperate to insure that Lincoln shareholders will receive only one quarterly dividend for the quarter in which the merger closes, and not one from both First Merchants and Lincoln.

Agreements of First Merchants (pages 56, 57, 58, and 59)

In the Merger Agreement, First Merchants has agreed to:

- Proceed and use its best efforts to obtain any consents and approvals and use its best efforts to raise any additional capital that may be required in order to obtain regulatory approvals of the merger. See THE MERGER Regulatory Approvals on page 56.

- Cover Lincoln and subsidiaries employees, no later than the effective date of the Merger, under any tax-qualified retirement plan that First Merchants maintains for its employees, so long as such employees meet any applicable participation requirements, and provide for waiver of all restrictions and limitations for pre-existing conditions under First Merchants health plans. See THE MERGER Employee Benefit Plans on page 59.

- Take the action necessary to cause Jerry R. Engle and another current Director of Lincoln as chosen by First Merchants to be nominated for a position on the First Merchants Board of Directors for a three-year term and allow current members of the Lincoln Bank Board of Directors to remain as directors of the merged bank. See THE MERGER Management After the Merger on page 57.

- Provide, or allow for, director and officer liability insurance and indemnification. See THE MERGER Indemnification and Insurance on page 58.

Management and Operations After the Merger (page 57)

Lincoln s corporate existence will cease after the merger. Accordingly, directors and officers of Lincoln will not serve in such capacities after the effective date of the merger. Upon completion of the merger, the current officers and directors of First Merchants will continue to serve in such capacities. In addition, Jerry R. Engle, who currently serves as Chairman of the Board and President and Chief Executive Officer of Lincoln, and another director of Lincoln chosen by First Merchants will be nominated for election to the Board of Directors of First Merchants to each serve for a three-year term following the merger. A condition of the completion of the merger is the effectiveness of new employment agreements between First Merchants and Jerry R. Engle and John B. Ditmars. In addition, First Merchants has agreed to allow current members of the Lincoln Bank Board of Directors to remain as directors of the merged bank if they choose to do so.

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Interests of Directors and Officers in the Merger That Are Different From Your Interests (page 60)

You should be aware that some of Lincoln s and Lincoln Bank s directors and executive officers may have interests in the merger that are different from, or in addition to, their interests as shareholders. Both Lincoln s Board of Directors and First Merchants Board of Directors were aware of these interests and took them into account in approving the merger. These interests are as follows:

In the Merger Agreement, First Merchants has agreed that it will cause Jerry R. Engle, who currently serves as Chairman of the Board and President and Chief Executive Officer of Lincoln and President and Chief Executive Officer of Lincoln Bank, and another current director of Lincoln as chosen by First Merchants, to be nominated for election to the First Merchants Board of Directors for a three-year term at the first annual meeting of First Merchants shareholders following the merger. Mr. Engle will not be separately compensated for his services as a director of First Merchants. If the First Merchants Board meets after the merger but before the next annual meeting of First Merchants shareholders, the Board must appoint each of Mr. Engle and such other person as chosen by First Merchants as a director to serve until the next annual meeting of First Merchants shareholders and then nominate each individual for election to a three-year term as a director at such annual meeting. See THE MERGER Management After the Merger, page 57.

First Merchants has indicated its intention to offer two year employment or other agreements to at least two current officers of Lincoln (Jerry R. Engle and John Ditmars), to be effective following the effective time of the merger, and the closing of the merger is conditioned upon the signing of those agreements. Under his Employment Agreement, Mr. Engle will be paid an annual salary of $297,000. Mr. Ditmars will be paid an annual salary of $188,000. In addition, the Merger Agreement provides that the officers and directors of Lincoln Bank immediately prior to the merger will remain the officers and directors of Lincoln Bank after the merger until they resign or until their successors are duly elected and qualified. Lincoln Bank directors who desire to continue to serve in that capacity shall serve for at least the remainder of the term to which they have been elected as a director of the merged bank.

Directors and officers of Lincoln and Lincoln Bank held stock options that entitled them to purchase, in the aggregate, up to 561,622 shares of Lincoln s common stock as of September 2, 2008. Options for 69,400 of these shares are not currently exercisable. The Merger Agreement provides that Lincoln must use reasonable efforts to cause each option to acquire Lincoln common shares to become exercisable and be exercised prior to the merger. The exercise prices of these options range from $7.32 to $19.40 per share and, therefore, not all of them may have any value as of the effective time of the merger. Under the Merger Agreement, the value of these options is tied to the market value of First Merchants common stock. Assuming a $19.49 market value for First Merchants common stock (the equivalent of a $13.65 market value for Lincoln s common stock), options for approximately 271,826 shares would be in the money. However, assuming all of such options are exercised, the directors and officers holding these options will receive, prior to tax withholdings but net of approximately $3.0 million in exercise prices, a net aggregate of 190,387 shares of First Merchants common stock or $4.3 million in cash at the effective time of the merger, depending on their election.

As of September 2, 2008, certain of the directors and executive officers of Lincoln and Lincoln Bank had a right to receive, in the aggregate, 15,251 shares of Lincoln s common stock under Lincoln s Recognition and Retention Plan. An additional 17,637 unallocated shares under the plan were subsequently allocated to directors of Lincoln and Lincoln Bank. Under the Merger Agreement, all of the allocated shares will vest before closing, and assuming none of such shares are otherwise forfeited before the effective date of the merger, the directors and executive officers holding these shares will receive, prior to tax withholdings and depending on their elections, an aggregate of 23,033 shares of First Merchants common stock or approximately $518,000 in cash at the effective time of the merger.

As of September 2, 2008, certain of the directors of Lincoln and Lincoln Bank had a right to receive, in the aggregate, approximately $1.1 million in future cash payments under Lincoln s Unfunded Deferred Compensation Plan. As a result of the change-in-control provisions in the plan, these directors will have a right to receive this amount within 30 days after the effective time of the merger. In addition, the directors of Lincoln are participants in a nonqualified supplemental pension plan, the benefits under which become fully vested upon termination of the plan or upon the occurrence of a change in control. Under the Merger Agreement, this plan is to be frozen at or before the effective time of the merger. Assuming benefit accruals under the plan cease as of December 31, 2008 and assuming the plan is terminated and all of such participants elect to receive lump sum distributions on January 2, 2009 equal to the then present value of their accrued pension benefits under the plan, these participants would receive cash distributions on January 2, 2009 in the aggregate amount of approximately $1.4 million.

Certain executive officers of Lincoln and Lincoln Bank have change in control agreements or employment agreements that provide for the executive to receive, following a change in control, a multiple of the executive s compensation prior to the change in control, subject to certain limitations. Under these agreements, 11 of such executive officers would be entitled to receive an aggregate of approximately $3.1 million.

First Merchants has agreed to offer Mr. Engle, Mr. Ditmars and certain other Lincoln executives an aggregate of 32,000 shares of restricted First Merchants common stock or options to acquire 120,000 shares of First Merchants common stock, or a combination of both, following the merger. Approximately 40% of these shares or options will be split evenly between Mr. Engle and Mr. Ditmars with the balance to be distributed among certain other Lincoln executives. Assuming a $19.49 per share price for First Merchants common stock, the 32,000 shares of restricted stock would be worth approximately $623,680. If stock options are issued in lieu of the restricted stock, they would be issued at an exercise price equal to the then current fair market value of First Merchants common stock.

First Merchants has agreed that for a period of six years after the effective time of the merger, it will succeed to Lincoln s obligations with respect to indemnification or exculpation now existing in favor of the directors and officers of Lincoln and Lincoln Bank as provided in Lincoln s articles of incorporation and by-laws. First Merchants has also agreed to maintain directors and officers liability insurance in force for the directors and officers of Lincoln for a period of three years following the effective time of the merger, subject to certain conditions in the Merger Agreement.

For additional information regarding these interests in the proposed merger, see THE MERGER Interests of Certain Persons in the Merger beginning on page 60.

Termination of the Merger (page 54)

We can mutually agree to terminate the Merger Agreement before we complete the merger. In addition, either Lincoln or First Merchants acting alone can terminate the Merger Agreement under the circumstances described on page 54.

Lincoln has agreed to pay First Merchants the amount of $3,200,000 in liquidated damages if:

Lincoln s Board of Directors terminates the Merger Agreement in the exercise of its fiduciary duties after receipt of an unsolicited acquisition proposal from a third party;

First Merchants terminates the Merger Agreement because Lincoln s Board of Directors withdraws or modifies its recommendation to Lincoln s shareholders to vote for the merger following receipt of a written proposal for an acquisition from a third party; or

First Merchants terminates the Merger Agreement because Lincoln fails to give First Merchants written notice that it intends to furnish information to or enter into discussions or negotiations with a third party relating to a proposed acquisition of Lincoln, or if Lincoln, within 20 days after giving such

written notice to First Merchants of Lincoln s intent to furnish information to or enter into discussions or negotiations with another person or entity, does not terminate all discussions, negotiations and information exchanges related to such acquisition proposal.

First Merchants has agreed to pay Lincoln the amount of $2,000,000 in liquidated damages if First Merchants terminates the Merger Agreement because the merger has not been consummated before January 1, 2009.

First Merchants has agreed to pay Lincoln the amount of $3,200,000 in liquidated damages if Lincoln terminates the Merger Agreement because 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.

Material U.S. Federal Income Tax Consequences (page 63)

It is a condition to the closing of the merger that Bose, McKinney & Evans LLP and Bingham McHale LLP deliver opinions, effective as of the date of the merger, to Lincoln and First Merchants, respectively, substantially to the effect that:

- the merger will be treated for United States tax purposes as a reorganization within the meaning of Section 368 of the Internal Revenue Code; and

- First Merchants and Lincoln will be treated as a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code.

These opinions will not, however, bind the Internal Revenue Service which could take a different view.

Determining the actual tax consequences of the merger to you can be complicated. We suggest you consult with your own tax advisors with respect to the tax consequences of the merger to you.

For a more detailed description of certain federal income tax consequences of the merger to Lincoln shareholders, see MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES on page 60.

Accounting Treatment (page 62)

The merger will be accounted for as a purchase transaction for accounting and financial reporting purposes. As a result, Lincoln s assets, including identified intangible assets, and liabilities will be recorded by First Merchants on its books at their fair market values and added to those of First Merchants. Any excess payment by First Merchants over the fair market value of the net assets and identifiable intangibles of Lincoln will be recorded as goodwill on the financial statements of First Merchants. Conversely, any excess of the fair value of the net assets acquired over the payment made by First Merchants will be reflected as a reduction of certain long-lived assets.

Comparative Rights of First Merchants Shareholders and Lincoln Shareholders (page 134)

The rights of shareholders of First Merchants and Lincoln differ in some respects. The rights of holders of First Merchants common stock are governed by First Merchants Articles of Incorporation and By-Laws. Your rights as holders of Lincoln common shares are governed by Lincoln s Articles of Incorporation and By-Laws. Upon completion of the merger, Lincoln shareholders who receive First Merchants common stock will take such stock subject to First Merchants Articles of Incorporation and By-Laws.

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The following are material differences in shareholder rights:

First Merchants	Lincoln
Authorized But Unissued Shares	
First Merchants Articles of Incorporation authorize the issuance of 50,000,000 shares of common stock, of which 18,272,085 shares were outstanding as of July 31, 2008. First Merchants Board of Directors may authorize the issuance of additional shares of common stock up to the amounts authorized in First Merchants Articles of Incorporation without shareholder approval. First Merchants has 500,000 shares of preferred stock authorized. No shares of preferred stock are currently outstanding. These shares are available to be issued, without prior shareholder approval, in classes with the rights, privileges and preferences determined for each class by the Board of Directors of First Merchants.	The Articles of Incorporation of Lincoln authorize the issuance of 22,000,000 shares of capital stock. The shares of authorized capital stock are divided into 20,000,000 shares of common stock and 2,000,000 shares of preferred stock. As of September 18, 2008, there were 5,319,731 shares of common stock outstanding. No shares of preferred stock are currently outstanding. The Lincoln Board of Directors may authorize and direct the issuance of shares of common and preferred stock up to the authorized amounts, subject only to the restrictions of the Indiana Business Corporation Law and the Articles of Incorporation. The preferred shares may be issued by the Board of Directors, without prior shareholder approval, in classes with designations, privileges, limitations and rights determined for each class by the Board of Directors of Lincoln.
As of September 18, 2008, First Merchants had 248,774 shares of its common stock reserved and remaining available for issuance under its 1999 Long-term Equity Incentive Plan; and 264,266 shares of its common stock reserved and remaining available for issuance under its Dividend Reinvestment and Stock Purchase Plan. In addition, as of September 18, 2008, First Merchants had 3,474 options granted, but unexercised, under its 1994 Stock Option Plan and 919,867 options granted, but unexercised, under its 1999 Long-term Equity Incentive Plan, with shares reserved and remaining available equal to the outstanding options under each plan.	As of August 31, 2008, Lincoln had a total of 492,222 shares of its common stock reserved and remaining available for issuance under its 1999 and 2005 Stock Option Plans.
The issuance of additional shares of First Merchants common stock or the issuance of First Merchants preferred stock may adversely affect the interests of First Merchants shareholders by diluting their voting and ownership interests.	
Number of Directors and Term of Office	
First Merchants Articles of Incorporation provide that the number of directors shall be set in the By-Laws by the Board of Directors and shall be at least 9 and no more than 21. First Merchants Articles of Incorporation also provide for classes of directors with staggered terms. Amendment of this provision of First Merchants Articles of Incorporation requires the approval of three-fourths	The Articles of Incorporation of Lincoln provide that the total number of directors shall not be less than five nor more than 15 as may be specified from time to time by resolution adopted by a majority of members of the Board of Directors. If the Board of Directors has not specified the number of directors, the number shall be nine. The Articles of

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First Merchants	Lincoln
(3/4) of the voting stock. First Merchants By-Laws specify that the number of directors is 10. The By-Laws provide that the number of directors may be amended only by a two-thirds (2/3) vote of the entire Board of Directors. Consistent with its Articles of Incorporation, First Merchants By-Laws provide that the Board of Directors is divided into 3 classes with 4 directors in 1 of the classes and 3 directors in the other 2 classes. The directors in each class are elected for 3-year staggered terms. Thus, approximately only one-third (1/3) of First Merchants Board of Directors is elected at each annual meeting of shareholders. Because First Merchants Board of Directors is divided into classes, a majority of First Merchants directors can be replaced only after 2 annual meetings of shareholders. A two-thirds (2/3) vote of the entire Board of Directors is required to amend this provision of First Merchants By-Laws.	Incorporation also provide for three classes of directors with staggered three-year terms. Amendment of this provision of the Lincoln Articles of Incorporation requires the affirmative vote of the holders of at least 80% of the voting power of all of the then-outstanding shares of voting stock, voting together as a single class. The By-Laws of Lincoln also require that the Directors have (a) their primary domicile in Brown, Clinton, Hendricks, Montgomery, Morgan or Johnson Counties, Indiana, and (b) a loan or deposit relationship with Lincoln Bank which they have maintained for at least a continuous period of nine months immediately prior to their nomination to the Board of Directors. In addition, each Director who is not an employee of Lincoln or its subsidiaries must have served as a member of a civic or community organization based in one of the aforementioned Indiana counties for at least a continuous period of 12 months during the five years prior to his or her nomination to the Board of Directors. The Board of Directors may waive one more of the foregoing requirements in connection with the acquisition of another financial institution or the acquisition or opening of a new branch by its subsidiary. The By-Laws may be altered, amended or repealed by the affirmative vote of a majority of the full Board of Directors of Lincoln.
Nomination of Directors	
Under First Merchants By-Laws, only the Nominating and Governance Committee of the Board of Directors may nominate a candidate for the Board of Directors. Shareholders may suggest a person for nomination by sending a notice to the Committee setting forth at a minimum:	Pursuant to the Articles of Incorporation and By-Laws of Lincoln, nominations to the Board of Directors may be made by any nominating committee or person appointed by the Board of Directors or by any shareholder entitled to vote for the election of directors. Nominations, other than those made by or at the direction of the Board of Directors, may be made by written notice to the Secretary of Lincoln setting forth at a minimum:
the name and address of each suggested nominee;	the name, age, business and residence addresses of each suggested nominee;
the principal occupation of each suggested nominee;	the principal occupation of each suggested nominee;
the total number of shares of First Merchants capital stock held by the notifying shareholder; and	the class and number of shares of Lincoln capital stock held by the nominee;
the name and residence address of the notifying shareholder.	

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First Merchants	Lincoln
	the class and number of shares of Lincoln capital stock held by the notifying shareholder; and
	the name and record address of the notifying shareholder.

See COMPARISON OF COMMON STOCK on page 134 to learn more about the differences between the rights of holders of First Merchants common stock and holders of Lincoln common shares.

Recent Developments (page 104)

On September 3, 2008, the date Lincoln and First Merchants announced the signing of the Merger Agreement, Lincoln determined that goodwill with a carrying amount of $23.9 million would need to be evaluated for impairment in accordance with Statement of Financial Accounting Standards No. 142 (**SFAS 142**). This evaluation required an extensive fair value determination of Lincoln s assets and liabilities to determine an estimate of the implied fair value of goodwill. Upon conclusion of the evaluation, Lincoln determined that the full $23.9 million of goodwill should be eliminated from its books. This elimination will be recognized as a noncash expense as part of Lincoln s results of operations for the three month and nine month periods ending September 30, 2008.

This charge has no effect on Lincoln s cash flow or the regulatory capital or regulatory capital ratios of Lincoln or Lincoln Bank. Regulatory capital measurements used to assess the strength of individual banks, as well as the safety and soundness of the entire banking system, exclude goodwill as a component of capital.

Comparative Market Price Information

Shares of First Merchants common stock are quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. Lincoln common shares are quoted and traded on the NASDAQ Global Market System under the symbol LNCB. The following table presents quotation information for First Merchants common stock on the NASDAQ Global Select Market System and for Lincoln common stock on the NASDAQ Global Market System on September 2, 2008, the business day before the merger was publicly announced, and , 2008, the last practicable trading day for which information was available prior to the date of this proxy statement-prospectus.

	First Merchants Common Stock			Lincoln Common Shares		
	(Dollars Per Share)					
	High	Low	Close	High	Low	Close
September 2, 2008	$ 20.80	$ 19.32	$ 19.89	$ 10.35	$ 9.92	$ 10.35
, 2008	$	$	$	$	$	$

The market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately $75 million (or $14.01 per Lincoln common share) based on 5,319,731 Lincoln common shares outstanding, First Merchants closing stock price of $19.89 on September 2, 2008, the business day before the merger was publicly announced, and the maximum number of Lincoln common shares being exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The assumption of 5,319,731 Lincoln common shares outstanding was calculated under the assumption all outstanding stock options are exchanged for cash. Using this same First Merchants closing stock price and number of outstanding Lincoln common shares, but assuming that 80% of Lincoln s common shares are exchanged for First Merchants common stock and 20% of Lincoln s common shares are exchanged for cash in the merger, the market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately $76 million (or $14.30 per Lincoln common share).

The market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately $ million (or $ per Lincoln common share) based on Lincoln common shares outstanding, First Merchants closing stock price of $ on , 2008, the last practicable trading day for which information was available prior to the date of this proxy statement-prospectus, and the maximum number of Lincoln common shares being exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The assumption of Lincoln common shares outstanding was calculated by adding the outstanding stock options and the outstanding common shares as of , 2008. Using this same First Merchants closing stock price and number of outstanding Lincoln common shares, but assuming that 80% of Lincoln s common shares are exchanged for First Merchants common stock and 20% of Lincoln s common shares are exchanged for cash in the merger, the market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately $ million (or $ per Lincoln common share).

Also set forth below for each of the closing prices of First Merchants common stock on September 2, 2008, and , 2008, is the equivalent pro forma price of Lincoln common shares, which we determined by multiplying the applicable price of First Merchants common stock by the number of shares of First Merchants common stock we are issuing for a Lincoln common share in the merger, which is the conversion ratio of 0.7004. The equivalent pro forma price of Lincoln common shares shows the implied value to be received in the merger by Lincoln shareholders who receive First Merchants common stock in exchange for a Lincoln common share on these dates.

	First Merchants Common Stock	Lincoln Common Shares	Lincoln Equivalent Pro Forma
September 2, 2008	$ 19.89	$ 10.35	$ 13.93
, 2008	$	$	$

We urge you to obtain current market quotations for First Merchants common stock and Lincoln common shares. We expect that the market price of First Merchants common stock will fluctuate between the date of this document and the date on which the merger is completed and thereafter. Because the market price of First Merchants common stock is subject to fluctuation, the value of the shares of First Merchants common stock that Lincoln shareholders will receive in the merger may increase or decrease prior to and after the merger, while the conversion ratio is fixed within certain parameters. Lincoln shareholders who receive cash will receive a fixed amount of $15.76 per share.

Comparative Per Share Data

The following table shows historical information about our companies earnings per share, dividends per share and book value per share, and similar information reflecting the merger, which we refer to as pro forma information. In presenting the comparative pro forma information, we have assumed that we were merged through the periods shown in the table. The pro forma information reflects the purchase method of accounting. The information is presented under two separate assumptions relating to the level of Lincoln common shares which are exchanged for First Merchants common stock in the merger. The financial information presented under Alternative A was compiled assuming the maximum number of Lincoln common shares are exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The financial information presented under Alternative B was compiled assuming 80% of the outstanding Lincoln common shares are exchanged for shares of First Merchants common stock and 20% of the outstanding Lincoln common shares are exchanged for cash in the merger. For a more detailed description of these assumptions and how we derived the First Merchants and Lincoln pro forma data, see Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 23 and UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION on page 67.

The information listed as equivalent pro forma was obtained by multiplying the pro forma amounts by the conversion ratio of 0.7004. This information is presented to reflect the value of shares of First Merchants common stock that Lincoln shareholders will receive in the merger for each share of Lincoln common stock exchanged.

We expect that we will incur reorganization and restructuring expenses as a result of combining our companies. We also anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses and the opportunity to earn more revenue. The pro forma information, while helpful in illustrating the financial characteristics of the new company under two sets of assumptions, does not take into account these expected expenses or these anticipated financial benefits, and does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the merged company would have been had our companies been merged during the periods presented.

The information in the following table is based on historical financial information of Lincoln and of First Merchants which are included in each company s respective prior Securities and Exchange Commission filings. The historical financial information of First Merchants has been incorporated into this document by reference. Certain historical financial information for Lincoln is included in this document. Additional historical financial information of Lincoln has been incorporated into this document by reference. See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 145 for a description of documents that we incorporate by reference into this document and how to obtain copies of them.

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FIRST MERCHANTS AND LINCOLN

HISTORICAL AND PRO FORMA PER SHARE DATA

	First Merchants Historical	First Merchants Pro Forma Alternative A (1)	First Merchants Pro Forma Alternative B (2)	Lincoln Historical	Lincoln Equivalent Pro Forma Alternative A (1)(3)	Lincoln Equivalent Pro Forma Alternative B (2)(4)
Net income per share						
Nine months ended September 30, 2008						
Basic	$ 1.13	$ (0.09)	$ (0.10)	$ (4.43)	$ (0.06)	$ (0.07)
Diluted	$ 1.13	$ (0.09)	$ (0.10)	$ (4.43)	$ (0.06)	$ (0.07)
Twelve months ended December 31, 2007						
Basic	$ 1.73	$ 1.53	$ 1.54	$ 0.35	$ 1.07	$ 1.08
Diluted	$ 1.73	$ 1.53	$ 1.54	$ 0.34	$ 1.07	$ 1.08
Cash dividends per share						
Nine months ended September 30, 2008	$ 0.69	$ 0.69	$ 0.69	$ 0.42	$ 0.48	$ 0.48
Twelve months ended December 31, 2007	$ 0.92	$ 0.92	$ 0.92	$ 0.56	$ 0.64	$ 0.64
Book value per share						
At September 30, 2008	$ 19.43	$ 16.22	$ 16.64	$ 13.22	$ 11.36	$ 11.65
At December 31, 2007	$ 18.88	$ 19.11	$ 19.10	$ 18.63	$ 13.38	$ 13.38

(1) See Note (1) in Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 23.

(2) See Note (2) in Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 23.

(3) Calculated by multiplying the First Merchants Pro Forma Alternative A combined per share data by the assumed conversion ratio of 0.7004.

(4) Calculated by multiplying the First Merchants Pro Forma Alternative B combined per share data by the assumed conversion ratio of 0.7004.

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SELECTED HISTORICAL AND UNAUDITED PRO FORMA

CONSOLIDATED FINANCIAL DATA

The following tables set forth certain summary historical consolidated financial data for First Merchants and Lincoln. First Merchants and Lincoln s balance sheet data and income statement data as of and for the five years ended December 31, 2007 are taken from each of their respective audited consolidated financial statements. First Merchants and Lincoln s balance sheet data and income statement data as of and for the nine months ended September 30, 2008 and 2007 are taken from their respective unaudited consolidated financial statements. Results for the nine months ended September 30, 2008 do not necessarily indicate results for the entire year.

The following tables also set forth certain summary unaudited pro forma consolidated financial information for First Merchants and Lincoln reflecting the merger. The income statement information presented gives effect to the merger as if it occurred on the first day of each period presented. The balance sheet information presented gives effect to the merger as if it occurred on September 30, 2008. The information is presented under two separate assumptions relating to the level of Lincoln common shares which are exchanged for First Merchants common stock in the merger. The financial information presented under Alternative A was compiled assuming the maximum number of Lincoln common shares are exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The financial information presented under Alternative B was compiled assuming 80% of the outstanding Lincoln common shares are exchanged for shares of First Merchants common stock and 20% of the outstanding Lincoln common shares are exchanged for cash in the merger. For a more detailed description of these assumptions, see Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 23.

The pro forma information reflects the purchase method of accounting, with Lincoln s assets and liabilities recorded at their estimated fair values as of September 30, 2008. The actual fair value adjustments to the assets and the liabilities of Lincoln will be made on the basis of appraisals and evaluations that will be made as of the date the merger is completed. Thus, the actual fair value adjustments may differ significantly from those reflected in these pro forma financial statements. In the opinion of First Merchants management, the estimates used in the preparation of these pro forma financial statements are reasonable under the circumstances.

We expect that we will incur reorganization and restructuring expenses as a result of combining our companies. We also anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses and the opportunity to earn more revenue. The pro forma information, while helpful in illustrating the financial characteristics of the new company under two sets of assumptions, does not take into account these expected expenses or these anticipated financial benefits, and does not attempt to predict or suggest future results.

This selected financial data is only a summary and you should read it in conjunction with First Merchants consolidated financial statements and related notes incorporated into this document by reference and Lincoln s consolidated financial statements and related notes included in this document, and in conjunction with the Unaudited Pro Forma Combined Consolidated Financial Information appearing on page 20 in this document. See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 145 for a description of documents that we incorporate by reference into this document and how to obtain copies of such documents.

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FIRST MERCHANTS

FIVE YEAR SUMMARY OF SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

(Dollars In Thousands, Except Per Share Amounts)

	For the Nine Months Ended September 30		For the Years Ended December 31				
	2008	2007	2007	2006	2005	2004	2003
Summary of Operations							
Interest income	$ 165,737	$ 171,406	$ 230,733	$ 208,606	$ 177,209	$ 156,974	$ 155,530
Interest expense	69,501	88,181	117,613	98,511	66,080	51,585	52,388
Net interest income	96,236	83,225	113,120	110,095	111,129	105,389	103,142
Provision for loan losses	17,987	6,057	8,507	6,258	8,354	5,705	9,477
Net interest income after provision	78,249	77,168	104,613	103,837	102,775	99,684	93,665
Noninterest income	30,081	30,418	40,551	34,613	34,717	34,554	35,902
Noninterest expense	79,792	76,935	102,182	96,057	93,957	91,642	91,279
Net income before income tax	28,538	30,651	42,982	42,393	43,535	42,596	38,288
Income tax expense	8,121	8,322	11,343	12,195	13,296	13,185	10,717
Net Income	**$ 20,417**	**$ 22,329**	**$ 31,639**	**$ 30,198**	**$ 30,239**	**$ 29,411**	**$ 27,571**
Per Share Data (1)							
Net income							
Basic	$ 1.13	$ 1.22	$ 1.73	$ 1.64	$ 1.64	$ 1.59	$ 1.51
Diluted	$ 1.13	$ 1.22	$ 1.73	$ 1.64	$ 1.63	$ 1.58	$ 1.50
Cash dividends (2)	$ 0.69	$ 0.69	$ 0.92	$ 0.92	$ 0.92	$ 0.92	$ 0.90
Balances End of Period							
Total assets	$ 3,864,074	$ 3,754,300	$ 3,782,087	$ 3,554,870	$ 3,237,079	$ 3,191,668	$ 3,076,812
Total loans	3,080,830	2,873,329	2,880,578	2,698,014	2,462,337	2,431,418	2,356,546
Total deposits	2,914,283	2,759,175	2,884,121	2,750,538	2,382,576	2,408,150	2,362,101
Fed funds purchased	57,600	95,697	52,350	56,150	50,000	32,550	
Securities sold under repurchase agreements	100,227	103,846	106,497	42,750	106,415	87,472	71,095
Federal home loan bank advances	237,225	310,100	294,101	242,408	247,865	223,663	212,779
Total subordinated debentures, revolving credit lines, term loans	176,256	110,826	115,826	99,456	103,956	97,206	97,782
Stockholders equity	352,093	332,741	339,936	327,325	313,396	314,603	303,965
Selected Ratios							
Return on average assets	0.72%	0.83%	0.87%	0.90%	0.95%	0.95%	0.93%
Return on average equity	7.81%	9.05%	9.56%	9.45%	9.58%	9.49%	9.39%

(1) Restated for all stock dividends and splits.
(2) Dividends per share are for First Merchants only, not restated for pooling transactions.

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LINCOLN

FIVE YEAR SUMMARY OF SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

(Dollars In Thousands, Except Per Share Amounts)

	For the Nine Months Ended September 30		For the Years Ended December 31				
	2008	2007	2007	2006	2005	2004	2003
Summary of Operations							
Interest income	$ 35,710	$ 40,310	$ 53,694	$ 51,218	$ 43,882	$ 34,328	$ 30,128
Interest expense	17,654	24,112	31,908	29,007	21,008	15,528	14,474
Net interest income	18,056	16,198	21,786	22,211	22,874	18,800	15,654
Provision for loan losses	2,162	457	957	884	2,642	655	753
Net interest income after provision	15,894	15,741	20,829	21,327	20,232	18,145	14,901
Noninterest income	5,527	3,281	5,023	5,429	5,067	3,963	3,431
Noninterest expense	43,647	18,463	24,492	23,043	24,140	17,396	13,568
Net income before income tax	(22,226)	559	1,360	3,713	1,159	4,712	4,764
Income tax expense (benefit)	138	(340)	(389)	813	(40)	1,057	1,175
Net Income	$ (22,364)	$ 899	$ 1,749	$ 2,900	$ 1,199	$ 3,655	$ 3,589
Per Share Data (1)							
Net income							
Basic	$ (4.43)	$ 0.18	$ 0.35	$ 0.58	$ 0.24	$ 0.84	$ 0.91
Diluted	$ (4.43)	$ 0.17	$ 0.34	$ 0.56	$ 0.23	$ 0.81	$ 0.88
Cash dividends (2)	$ 0.42	$ 0.42	$ 0.56	$ 0.56	$ 0.56	$ 0.53	$ 0.49
Balances End of Period							
Total assets	$ 830,907	$ 889,373	$ 889,314	$ 883,543	$ 844,454	$ 808,967	$ 591,685
Total loans	636,946	644,575	642,416	635,412	600,389	572,884	441,204
Total deposits	594,458	678,185	656,405	655,664	600,572	516,329	321,839
Fed funds purchased							
Securities sold under repurchase agreements	14,843	15,494	16,767	16,864	10,064	6,500	
Federal home loan bank advances	139,043	87,208	108,052	103,608	127,072	174,829	184,693
Total subordinated debentures, revolving credit lines, term loans	1,215		1,125			3,000	
Stockholders equity	71,422	98,659	98,986	99,300	99,940	101,755	79,227
Selected Ratios							
Return on average assets	3.43%	0.13%	0.20%	0.33%	0.14%	0.53%	0.64%
Return on average equity	30.33%	1.21%	1.76%	2.89%	1.18%	4.08%	4.53%

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FIRST MERCHANTS

UNAUDITED PRO FORMA SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars In Thousands, Except Per Share Amounts)

	For The Nine Months Ended September 30, 2008		For The Year Ended December 31, 2007	
	Alternative A (1)	Alternative B (2)	Alternative A (1)	Alternative B (2)
Summary of Operations				
Interest income	$ 201,377	$ 201,377	$ 284,288	$ 284,288
Interest expense	87,030	87,334	149,273	149,880
Net interest income	114,347	114,043	135,015	134,408
Provision for loan losses	20,149	20,149	9,464	9,464
Net interest income after provision	94,198	93,894	125,551	124,944
Noninterest income	35,608	35,608	45,574	45,574
Noninterest expense	123,454	123,546	126,752	127,041
Net income before income tax	6,352	5,956	44,373	43,477
Income tax expense	8,275	8,117	10,966	10,608
Net income	$ (1,923)	$ (2,161)	$ 33,407	$ 32,869
Per Share Data				
Net income				
Basic	$ (0.09)	$ (0.10)	$ 1.53	$ 1.54
Diluted	$ (0.09)	$ (0.10)	$ 1.53	$ 1.54
Cash dividends declared	$ 0.69	$ 0.69	$ 0.92	$ 0.92
Book value at end of period	$ 16.22	$ 16.64	$ 19.11	$ 19.10
Balances End of Period				
Total assets	$ 4,705,851	$ 4,707,472		
Earning assets	4,256,253	4,238,490		
Investment securities	513,188	513,188		
Loans, net	3,657,377	3,675,377		
Total deposits	3,511,257	3,511,257		
Borrowings	726,308	716,308		
Stockholders equity	421,798	411,304		
Allowance for loan losses	43,304	43,304		

Notes to Unaudited Pro Forma Summary of Selected Financial Data appear on the following page.

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NOTES TO UNAUDITED PRO FORMA SUMMARY OF SELECTED

CONSOLIDATED FINANCIAL DATA

(Dollars in Thousands, Except Per Share Amounts)

(1) Alternative A Issuance of 3,576,417 shares of First Merchants common stock:
Assumes the maximum number of Lincoln common shares being exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The average of the closing prices of First Merchants common stock on August 29, September 2, 3, 4 and 5, 2008, the two days before public announcement of the merger, the day of such public announcement, and the two days after such public announcement, was $19.49. Such amount is less than or equal to $30.00 per share and greater than or equal to $16.50 per share. Accordingly, it has been assumed for the purposes of this pro forma consolidated financial data that there will be no adjustment to the conversion ratio and 0.7004 shares of First Merchants common stock will be issued for each share of Lincoln common stock subject to a stock election. Whether the conversion ratio is actually adjusted will be determined at the time of closing of the merger pursuant to the adjustment mechanism described in greater detail in THE MERGER Conversion Ratio Adjustment, on page 50. Using the assumptions outlined above, Lincoln shareholders would receive an aggregate of $4,684,896 in cash payments. Based on such assumptions and a $19.49 per share price for First Merchants common stock, the purchase price is computed as follows:

Common stock (3,576,417 shares at stated value of $0.125 per share)	$ 447
Capital surplus (3,576,417 shares at $19.365 per share)	69,258
Total stock issued (3,576,417 shares at $19.49 per share)	69,705
Transaction costs (estimated)	500
Cash price	4,685
Total purchase price	$ 74,890

(2) Alternative B Issuance of 3,038,003 shares of First Merchants common stock:
Assumes 4,337,525 Lincoln common shares (80%) become subject to stock elections and 1,065,990 Lincoln common shares (20%) become subject to cash elections. The average of the closing prices of First Merchants common stock on August 29, September 2, 3, 4 and 5, 2008, the two days before public announcement of the merger, the day of such public announcement, and the two days after such public announcement, was $19.49. Such amount is less than or equal to $30.00 per share and greater than or equal to $16.50 per share. Accordingly, it has been assumed that there would be no adjustment to the conversion ratio and 0.7004 shares of First Merchants common stock would be issued for each Lincoln common share subject to a stock election and $15.76 cash is issued for each Lincoln common share subject to a cash election. Whether the conversion ratio is actually adjusted will be determined at the time of closing of the merger pursuant to the adjustment mechanism described in greater detail in THE MERGER Conversion Ratio Adjustment, on page 50. Assuming 80% of the outstanding Lincoln common shares become subject to elections to receive First Merchants common stock and a $19.49 per share price for First Merchants common stock, the purchase price is computed as follows:

Common stock (3,038,003) shares at stated value of $0.125 per share)	$ 380
Capital surplus (3,038,003 shares at $19.365 per share)	58,831
Total stock issued (2,979,320 shares at $19.49 per share)	59,211
Cash price:	
1,065,990 Lincoln common shares at $15.76 per share	16,800
Transaction costs (estimated)	500
Total purchase price	$ 76,511

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RISK FACTORS

In determining whether to vote to adopt the Merger Agreement and the merger, along with the other information contained in this prospectus, you should carefully consider the following risk factors as well as those listed under the heading Risk Factors contained in First Merchants Annual Report on Form 10-K for the year ended December 31, 2007, which is incorporated by reference into this prospectus.

The integration of Lincoln s business with First Merchants business may be difficult.

Even though First Merchants has acquired other financial services businesses in the past, the success of the merger with Lincoln will depend on a number of factors, including, but not limited to, the merged company s ability to:

- integrate Lincoln s operations with the operations of First Merchants;
- maintain existing relationships with First Merchants depositors and the depositors of Lincoln to minimize withdrawals of deposits subsequent to the acquisition;
- maintain and enhance existing relationships with borrowers from First Merchants and Lincoln;
- achieve projected net income of Lincoln and expected cost savings and revenue enhancements from the merged company;
- control the incremental non-interest expense to maintain overall operating efficiencies;
- retain and attract key and qualified management, lending and other banking personnel; and
- compete effectively in the communities served by First Merchants and Lincoln, and in nearby communities.

The merged company s failure to successfully integrate Lincoln with First Merchants may adversely affect its financial condition and results of operations.

The First Merchants common stock and cash received by Lincoln shareholders may differ from their elections.

The Merger Agreement provides that Lincoln shareholders may elect to receive all First Merchants common stock for their shares, all cash for their shares or a combination of First Merchants common stock for a portion of their shares and cash for a portion of their shares. Although Lincoln shareholders will have the opportunity to elect the form of merger consideration they prefer to receive, the Merger Agreement provides that First Merchants is not required to issue more than 3,576,417 shares of its common stock or pay more than $16,800,000 in cash to Lincoln shareholders in connection with the merger. As a result, you may not receive all of the stock or cash merger consideration you elect. This may result in adverse financial or tax consequences to you. You will not know the mix of stock and cash consideration you will receive until after we complete the merger.

If it is necessary to reduce the amount of stock or cash elections under the Merger Agreement, the cash elections will be reduced on a pro rata basis only to the extent necessary to reduce the aggregate cash payment to less than $16,800,000, and the stock elections will be reduced by first converting all non-electing shares to cash elections and then reducing stock elections on a pro rata basis only to the extent necessary to reduce the aggregate shares being issued to less than 3,576,417, as applicable. You should also be aware that The Lincoln Bank Employee Stock Ownership Plan and 401(k) Saving Plan and Trust Agreement (**Lincoln ESOP**) may be exempt from this adjustment of its election if its trustee(s) determine that the adjustment will violate certain ERISA requirements.

The value of merger consideration for those Lincoln shareholders who receive First Merchants common stock will fluctuate. If the merger is completed, Lincoln shareholders who do not receive $15.76 in cash per share for their Lincoln common shares will receive a number of shares of First Merchants common stock based on a fixed

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exchange ratio of 0.7004 shares of First Merchants common stock for each Lincoln common share, subject to the possibility of an adjustment upward or downward to the conversion ratio as provided in the Merger Agreement. Because the market value of First Merchants common stock may fluctuate, the value of the consideration you receive for your shares may also fluctuate. The market value of First Merchants common stock could fluctuate for any number of reasons, including those specific to First Merchants and those that influence trading prices of equity securities generally. As a result, you will not know the exact value of the shares of First Merchants common stock you would receive at the time you must make your election. The value of the First Merchants common stock on the closing date of the merger may be greater or less than the market price of First Merchants common stock on the record date, on the date of this proxy statement-prospectus, on the date of the special meeting or on the date you submit your election. Moreover, the fairness opinion of Sandler is dated as of September 2, 2008. Lincoln does not intend to obtain any further update of the Sandler fairness opinion. Changes in the operations and prospects of First Merchants and Lincoln, general market and economic conditions and other factors which are both within and outside of the control of First Merchants and Lincoln, on which the opinion of Sandler is based, may alter the relative value of the companies. Therefore, the Sandler opinion does not address the fairness of the merger consideration at the time the merger will be completed.

We urge you to obtain current market quotations for First Merchants common stock and Lincoln common shares because the value of the shares you receive may be more or less than the value of such shares as of the date of this document.

The merged company will have increased its leverage and reduced its borrowing capacity.

To fund the cash paid to Lincoln shareholders in the merger, First Merchants expects to incur a maximum $17 million of additional indebtedness through increased borrowing on its existing line of credit Increased indebtedness may reduce the merged company s flexibility to respond to changing business and economic conditions or fund the capital expenditure or working capital needs of its subsidiaries. In addition, covenants the merged company makes in connection with the financing may limit the merged company s ability to incur additional indebtedness, and the leverage may cause potential lenders to be unwilling to loan funds to the merged company in the future. To the extent permitted by the merged company s regulators, it will require greater dividends from its subsidiaries than those historically received in order to satisfy its debt service requirements. If its subsidiaries pay dividends to the merged company, they will have less capital to address their capital expenditures and working capital needs.

The merged company s allowance for loan losses may not be adequate to cover actual loan losses.

The merged company s loan customers may not repay their loans according to their terms, and the customers collateral securing the payment of their loans may be insufficient to assure repayment. Approximately 59% of the merged company s loans are comprised of commercial real estate and commercial lines of credit and term and development loans, which can result in higher loan loss experience than residential loans in economic downturns. The underwriting, review and monitoring that will be performed by the merged company s officers and directors cannot eliminate all of the risks related to these loans.

Each of First Merchants and Lincoln make various assumptions and judgments about the collectability of loan portfolios and provide allowances for potential losses based on a number of factors. If the assumptions are wrong or the facts and circumstances subsequently change, the allowance for loan losses may not be sufficient to cover the merged company s loan losses. The merged company may have to increase the allowance in the future. Increases in the merged company s allowance for loan losses would decrease its net income.

Loan quality deterioration will adversely affect the merged company s results of operations and financial condition.

Each of First Merchants and Lincoln seeks to mitigate the risks inherent in their respective loan portfolios by adhering to sound underwriting practices. Their lending strategies also include emphasizing diversification on a geographic, industry and customer level, regular credit quality reviews and management reviews of large credit

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exposures and loans experiencing deterioration of credit quality. There is continuous review of their loan portfolios, including internally administered loan watch lists and independent loan reviews. The evaluations take into consideration identified credit problems, as well as the possibility of losses inherent in the loan portfolio that are not specifically identified. In connection with recent negative economic developments, many financial institutions, including First Merchants and Lincoln, have experienced unusual and significant declines in the performance of their loan portfolios, and the values of real estate collateral supporting many loans have declined. If current trends in the housing and real estate markets continue, we expect that loan delinquencies and credit losses may increase. Although First Merchants and Lincoln believe their underwriting and loan review procedures are appropriate for the various kinds of loans they make, the merged company s results of operation and financial condition will be adversely affected in the event the quality of their respective loan portfolios deteriorates. As of September 30, 2008, First Merchants had $38,014,000 and Lincoln had $13,223,000 in non-performing loans. As of December 31, 2007, First Merchants had $29,176,000 and Lincoln had $7,900,000 in non-performing loans.

Changes in interest rates may reduce the merged company s net interest income.

Like other financial institutions, the merged company s net interest income is its primary revenue source. Net interest income is the difference between interest earned on loans and investments and interest expense incurred on deposits and other borrowings. The merged company s net interest income will be affected by changes in market rates of interest, the interest rate sensitivity of its assets and liabilities, prepayments on its loans and investments and limits on increases in the rates of interest charged on its residential real estate loans.

The merged company will not be able to predict or control changes in market rates of interest. Market rates of interest are affected by regional and local economic conditions, as well as monetary policies of the Federal Reserve Board. The following factors also may affect market interest rates:

- inflation;
- slow or stagnant economic growth or recession;
- unemployment;
- money supply;
- international disorders;
- instability in domestic and foreign financial markets; and
- others factors beyond the merged company s control.

Each of First Merchants and Lincoln has policies and procedures designed to manage the risks from changes in market interest rates; however, despite risk management, changes in interest rates could adversely affect the merged company s results of operations and financial condition.

Changes in economic conditions and the geographic concentration of the merged company s markets could adversely affect the merged company s financial condition.

The merged company s success will depend to a great extent upon the general economic conditions of the Central Indiana and Central Ohio areas. Unlike larger banks that are more geographically diversified, the merged company will provide banking and financial services to customers primarily in the Central Indiana and Central Ohio areas. Favorable economic conditions may not exist in the merged company s markets.

An economic slowdown could have the following consequences:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for the products and services of Lincoln and First Merchants may decline; and

collateral for loans made by Lincoln and First Merchants may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with existing loans.

Anti-takeover defenses may delay or prevent future mergers.

Provisions contained in First Merchants Articles of Incorporation and By-Laws and certain provisions of Indiana law could make it more difficult for a third party to acquire First Merchants, even if doing so might be beneficial to First Merchants shareholders. See COMPARISON OF COMMON STOCK Anti-Takeover Provisions on page 140. These provisions could limit the price that some investors might be willing to pay in the future for shares of First Merchants common stock and may have the effect of delaying or preventing a change in control.

If the merger is not completed, Lincoln will have incurred substantial expenses without realizing the expected benefits.

Lincoln has incurred substantial expenses in connection with the transactions described in this proxy statement-prospectus. The completion of the merger depends on the satisfaction of several conditions. We cannot guarantee that these conditions will be met. Lincoln expects to incur approximately $ in merger related expenses, which include legal, accounting and financial advisory expenses and which excludes the investment banker s commission on the sale and any termination fees, if applicable. These expenses could have a material adverse impact on the financial condition of Lincoln because it would not have realized the expected benefits of the merger. There can be no assurance that the merger will be completed.

The termination fee and the restrictions on solicitation contained in the Merger Agreement may discourage other companies from trying to acquire Lincoln.

Until the completion of the merger, with some exceptions, Lincoln is prohibited from soliciting, initiating, encouraging or participating in any discussion of or otherwise considering any inquiries or proposals that may lead to an acquisition proposal, such as a merger or other business combination transaction, with any person other than First Merchants. In addition, Lincoln has agreed to pay a termination fee and expenses of $3,200,000 to First Merchants if the Lincoln Board of Directors does not recommend approval of the Merger Agreement to the Lincoln shareholders. These provisions could discourage other companies from trying to acquire Lincoln even though such other companies might be willing to offer greater value to Lincoln s shareholders than First Merchants has offered in the Merger Agreement. The payment of the termination fee also could have a material adverse effect on Lincoln s financial condition.

The merger may not be completed based on fluctuations in the market price of First Merchants common stock.

If the First Merchants Average Price is less than $16.50 and First Merchants chooses not to adjust the 0.7004 exchange ratio, Lincoln may choose to terminate the Merger Agreement. If the First Merchants Average Price is greater than $30.00 and Lincoln chooses not to adjust the 0.7004 exchange ratio, First Merchants may choose to terminate the Merger Agreement. Neither party will owe a termination fee to the other party if the termination is pursuant to these provisions.

THE LINCOLN SPECIAL MEETING

Special Meeting of Shareholders of

Lincoln Bancorp

General Information

We are furnishing this document to the shareholders of Lincoln in connection with the solicitation by the Board of Directors of Lincoln of proxies for use at the Lincoln special meeting of shareholders to be held on , , 2008, at : .m., local time, at Guilford Township Community Center, Hummel Park, 1500 S. Center Street, Plainfield, Indiana. This document is first being mailed to Lincoln shareholders on , 2008, and includes the notice of Lincoln special meeting, and is accompanied by a form of proxy. The Election Form will be sent to you through a separate mailing.

Matters To Be Considered

The purposes of the special meeting are for you to consider and vote upon adoption of the Merger Agreement, by and between First Merchants and Lincoln, to consider and vote upon a proposal to adjourn or postpone the meeting to permit further solicitation of proxies, and to consider and vote upon any other matters that properly come before the special meeting or any adjournment or postponement of the special meeting. Pursuant to the Merger Agreement, Lincoln will merge into First Merchants. The Merger Agreement is attached to this document as Appendix A and is incorporated in this document by this reference. For a description of the Merger Agreement, see THE MERGER, beginning on page 33.

Votes Required

Adoption of the Merger Agreement requires the affirmative vote of at least a majority of the outstanding Lincoln common shares. Lincoln has fixed , 2008, as the record date for determining those Lincoln shareholders entitled to notice of, and to vote at, the special meeting. Accordingly, if you were a Lincoln shareholder of record at the close of business on , 2008, you will be entitled to notice of and to vote at the special meeting. If you are not the record holder of your shares and instead hold your shares in a street name through a bank, broker or other record holder, that person will vote your shares in accordance with the instructions you provide them on the enclosed proxy. Each Lincoln common share you own on the record date entitles you to one vote on each matter presented at the special meeting. At the close of business on the record date of , 2008, there were approximately Lincoln common shares outstanding held by approximately shareholders.

As of the record date, Lincoln s executive officers, directors and their affiliates had voting power with respect to an aggregate of shares or approximately % of the Lincoln common shares outstanding. Each member of the Board of Directors of Lincoln as of September 2, 2008, the date the Merger Agreement was executed, signed a voting agreement with First Merchants to cause all Lincoln common shares owned by them of record or beneficially to be voted in favor of the merger. See THE MERGER Voting Agreement on page 61. As of the record date, the members of the Lincoln Board of Directors and their affiliates had power to vote an aggregate of Lincoln common shares outstanding. In addition, we also currently expect that the executive officers of Lincoln will vote all of their shares in favor of the proposal to adopt the Merger Agreement.

Proxies

If you are a Lincoln shareholder, you should have received a proxy card for use at the Lincoln special meeting with this proxy statement-prospectus. The accompanying proxy card is for your use at the special meeting if you are unable or do not wish to attend the special meeting in person. The shares represented by proxies properly signed and returned will be voted at the special meeting as instructed by the Lincoln shareholders giving the proxies. Proxy cards that are properly signed and returned but do not have voting

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instructions will be voted **FOR** adoption of the Merger Agreement and **FOR** adjournment or postponement of the special meeting to permit further solicitation of proxies in the event that an insufficient number of shares is present to approve the Merger Agreement.

If you deliver a properly signed proxy card, you may revoke your proxy at any time before it is exercised by:

- delivering to the Secretary of Lincoln at or prior to the special meeting a written notice of revocation addressed to John M. Baer, Lincoln Bancorp, 905 Southfield Drive, Plainfield, Indiana 46168; or
- delivering to Lincoln at or prior to the special meeting a properly executed proxy having a later date; or
- voting in person by ballot at the special shareholders meeting.

Therefore, your right to attend the special meeting and vote in person will not be affected by executing a proxy. If your shares are held in the name of your broker, bank or other nominee, and you wish to vote in person, you must bring an account statement and authorization from your nominee so that you may vote your shares in person or by proxy at the special meeting. In addition, to be effective, Lincoln must receive the revocation before the proxy is exercised.

Because adoption of the Merger Agreement requires the affirmative vote of at least a majority of the outstanding Lincoln common shares, abstentions and broker non-votes will have the same effect as voting against adoption of the Merger Agreement. Accordingly, your Board of Directors urges all Lincoln shareholders to complete, date and sign the accompanying proxy and return it promptly in the enclosed postage-paid envelope. You should not send stock certificates with your proxy card.

Participants in Lincoln s ESOP

If you participate in the Employee Stock Ownership Plan portion of Lincoln s 401(k) plan, you will receive a voting instruction form that reflects all shares you may vote under the employee stock ownership plan. Under its terms, all shares held in the employee stock ownership plan will be voted by the employee stock ownership plan trustee, but each participant in the employee stock ownership plan may direct the trustee how to vote the shares of Lincoln common stock allocated to his or her employee stock ownership plan account. Unallocated shares of Lincoln common stock held by the employee stock ownership plan trust and allocated shares for which no timely voting instructions are received will be voted by the trustee in the same proportion as shares for which the trustee has received voting instructions, subject to the exercise of its fiduciary duties. The deadline for returning your voting instructions to the trustee is , 2008.

Participants in Lincoln s Dividend Reinvestment Plan

If you participate in Lincoln s dividend reinvestment plan, you will receive a voting instruction form that reflects all shares you may vote under the plan. Under the terms of the plan, all shares will be voted by the plan trustee, but each participant in the dividend reinvestment plan may direct the trustee how to vote the shares of Lincoln common stock allocated to his or her dividend reinvestment plan account.

Solicitation of Proxies

Lincoln will bear the entire cost of soliciting proxies from Lincoln shareholders. In addition, Lincoln will bear the cost of printing and mailing this document. Lincoln will request that banks, brokers and other record holders send proxies and proxy material to the beneficial owners of stock held by them and secure their voting instructions, if necessary. Lincoln will reimburse these banks, brokers and other record holders for their reasonable expenses. In addition to solicitation of proxies by mail, proxies may be solicited personally or by telephone by directors, officers and certain employees of Lincoln, who will not be specially compensated for such soliciting. In addition, Georgeson Shareholder Communications, Inc. has been engaged to assist with the solicitation of proxies and the return of election forms and will receive fees estimated at $ plus reimbursement of out-of-pocket expenses. Lincoln will also make arrangements with brokerage firms, fiduciaries and other custodians who hold shares of record to forward solicitation materials to the beneficial owners of these shares. Lincoln will reimburse these brokerage firms, fiduciaries and other custodians for their reasonable out-of-pocket expenses in connection with this solicitation.

In soliciting proxies, no one has any authority to make any representations and warranties about the merger or the Merger Agreement in addition to or contrary to the provisions stated in this document. No statement regarding the merger or the Merger Agreement should be relied upon except as expressly stated in this document.

Recommendation of the Board of Directors

Lincoln s Board of Directors has unanimously approved the Merger Agreement and the merger. Lincoln s Board believes that the merger is fair to and in the best interests of Lincoln and its shareholders. The Board unanimously recommends that the Lincoln shareholders vote **FOR** the Merger Agreement. See THE MERGER Lincoln s Reasons for the Merger on page 35 and THE MERGER Recommendation of the Board of Directors on page 37.

Proposal to Adjourn or Postpone the Special Meeting

In addition to the proposal to approve the merger, you are also being asked to approve a proposal to adjourn or postpone the special meeting to permit further solicitation of proxies in the event that an insufficient number of shares is present in person or by proxy to approve the merger.

Pursuant to Indiana law, the holders of at least a majority of the outstanding shares of Lincoln s common stock are required to approve the merger. It is rare for a company to achieve 100% (or even 90%) shareholder participation at a meeting of shareholders, and only a majority of the holders of the outstanding shares of common stock of Lincoln are required to be represented at the special meeting, in person or by proxy, in order for a quorum to be present. In the event that shareholder participation at the special meeting is lower than expected, Lincoln would like the flexibility to adjourn or postpone the meeting in order to attempt to secure broader shareholder participation in the decision to merge the two companies.

Approval of the proposal to adjourn or postpone the special meeting to allow extra time to solicit proxies (Proposal 2 on your proxy card) requires more votes to be cast in favor of the proposal than are cast against it. Abstentions and broker non-votes will not be treated as NO votes (as they are with respect to the merger) and, therefore, will have no effect on this proposal.

Lincoln s Board of Directors recommends that you vote **FOR** this proposal.

Other Matters

The special meeting of Lincoln shareholders has been called for the purposes set forth in the Notice to Lincoln shareholders included in this document. Your Board of Directors is unaware of any other matter for action by shareholders at the special meeting other than the proposal to adopt the Merger Agreement. However, the enclosed proxy will give discretionary authority to the persons named in the proxy with respect to matters which are not known to your Board of Directors as of the date hereof and which may properly come before the special meeting. It is the intention of the persons named in the proxy to vote with respect to such matters in accordance with the recommendations of the management of Lincoln.

Security Ownership of Lincoln Management

The following table shows, as of November 19, 2008, the number and percentage of shares of common stock held by Lincoln s directors, executive officers, holders of more than five percent of Lincoln s common stock, and directors and executive officers as a group.

The information provided in the table is based on our records, information filed with the U.S. Securities and Exchange Commission, and information provided to us, except where otherwise noted.

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The number of shares beneficially owned by each individual is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose, including the ability to vote such shares at the special meeting. Under these rules, beneficial ownership includes any shares as to which the individual has the right to acquire within 60 days after November 19, 2008 through the exercise of any stock option or other right. Unless otherwise indicated, each person has sole voting and investment power (or shares these powers with his or her spouse) with respect to the shares set forth in the following table.

Security Ownership

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Lester N. Bergum	57,497(1)	1.06%
Dennis W. Dawes	31,209(2)	*
Jerry R. Engle	158,633(3)	2.90%
W. Thomas Harmon	81,717(4)	1.51%
Jerry R. Holifield	67,003(5)	1.23%
David E. Mansfield	46,000(6)	*
R. J. McConnell	49,380(7)	*
Patrick A. Sherman	40,519(8)	*
John M. Baer	133,835(9)	2.45%
J. Douglas Bennett	13,880(10)	*
John B. Ditmars	95,554(11)	1.75%
Bryan Mills	12,564(12)	*
Jonathan D. Slaughter	20,809(13)	*
Fiserve, Inc., as trustee under the Lincoln Bancorp Employee Stock Ownership and 401(k) Plan and Trust	465,292(14)	8.61%
All directors and executive officers as a group (13 persons)	808,600(15)	13.97%

* Less than 1% of the class.

(1) Includes 19,694 shares held jointly by Mr. Bergum and his spouse and options for 22,000 shares granted under Lincoln s option plans.

(2) Includes options for 25,500 shares granted under Lincoln s option plans.

(3) Includes 34,603 shares held jointly by Mr. Engle and his spouse, all of which are held in a brokerage account securing a margin loan to Mr. Engle, 72,000 shares subject to options granted under Lincoln s option plans and 3,788 shares allocated to Mr. Engle s account under the 401(k) Plan.

(4) Includes 22,000 shares granted under Lincoln s option plans, 15,401 shares held in trust for the benefit of his spouse, as to which Mr. Harmon serves as trustee, and 14,130 shares held in his wife s trust for Mr. Harmon s benefit, as to which his wife serves as trustee.

(5) Includes 15,297 shares held jointly by Mr. Holifield and his spouse and options for 32,000 shares granted under Lincoln s option plans.

(6) Includes 11,107 shares held in a trust for the benefit of Mr. Mansfield s children, as to which Mr. Mansfield and his spouse serve as trustees and options for 31,480 shares granted under Lincoln s option plans.

(7) Includes 6,087 shares held in a trust for the benefit of Mr. McConnell, 3,774 shares held jointly with his spouse, all of which are pledged to secure a bank loan to Mr. McConnell, and options for 32,000 shares granted under Lincoln s option plans.

(8) Includes 32,000 shares granted under Lincoln s option plans.

(9) Includes 24,891 shares held jointly by Mr. Baer and his spouse, 15,391 of which are pledged to secure a bank loan to Mr. Baer, options for 62,342 shares granted under Lincoln s option plans, and 17,702 shares allocated to Mr. Baer s account under the 401(k) Plan.

(10) Includes 7,250 shares subject to options granted under Lincoln s stock option plans and 155 shares allocated to Mr. Bennett s account under the 401(k) Plan.

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(11) Includes 6,016 shares held jointly by Mr. Ditmars and his spouse, 984 shares held in a trust of which Mr. Ditmars is a beneficiary, 52,250 shares subject to options granted under Lincoln s option plans, and 2,692 shares allocated to Mr. Ditmars account under the 401(k) Plan.

(12) Includes 4,500 shares subject to options granted under Lincoln s stock option plans, 81 shares held as custodian for Mr. Mills daughter and 2,533 shares allocated to Mr. Mills account under the 401(k) Plan.

(13) Includes options for 7,250 shares granted under Lincoln s option plans and 3,095 shares allocated to Mr. Slaughter s account under the 401(k) Plan.

(14) These shares are held by the Trustee of the Lincoln Bancorp Employee Stock Ownership and 401(k) Plan and Trust. The employees participating in that plan are entitled to instruct the Trustee how to vote shares held in their accounts under the plan. Unallocated shares held in a suspense account under the employee stock ownership portion of the plan are required under the plan terms to be voted by the Trustee in the same proportion as allocated shares are voted.

(15) Includes options for 386,288 shares granted under Lincoln s option plans, and 29,965 shares allocated to the accounts of those persons under the 401(k) Plan.

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THE MERGER

At the special meeting, the shareholders of Lincoln will consider and vote upon adoption of the Merger Agreement. The following summary highlights some of the terms of the Merger Agreement. Because this is a summary of the Merger Agreement, it does not contain a description of all of the terms of the Merger Agreement and is qualified in its entirety by reference to the Merger Agreement. To understand the merger, you should read carefully the entire Merger Agreement, which is attached to this document as Appendix A and is incorporated herein by reference.

Description of the Merger

Under the terms of the Merger Agreement, Lincoln will merge with First Merchants and the separate corporate existence of Lincoln will cease. The Articles of Incorporation and By-Laws of First Merchants, as in effect prior to the merger, will continue to be the Articles of Incorporation and By-Laws of First Merchants after the merger.

Background of the Merger

The Board of Directors and management of Lincoln have periodically explored and discussed strategic options potentially available to Lincoln in light of the growing competition and continuing consolidation in the banking and financial services industry and the increasing difficulty financial institutions such as Lincoln have in competing effectively with larger financial institutions. These strategic discussions have included, among other things, continuing as an independent institution, pursuing strategies for organic growth and acquiring, affiliating or merging with other financial institutions. On certain occasions, representatives of Lincoln have had informal exploratory discussions with representatives of other financial institutions concerning the possibility of a business combination. Until early 2008, the Lincoln Board of Directors had concluded that Lincoln s shareholders, customers and employees were best served by Lincoln remaining as an independent financial institution.

At its January 22, 2008 meeting, the Lincoln Board of Directors met with representatives of Sandler O Neill & Partners, L.P. (**Sandler**) and determined to engage Sandler to render financial advisory and investment banking services in connection with the evaluation of strategic alternatives, including a possible combination with another financial institution. At this meeting, Lincoln and Sandler discussed the universe of potential buyers, compiled preliminary information on Lincoln and examined the financial impact of a potential business combination. By letter dated January 23, 2008, Lincoln retained Sandler.

In a series of meetings of the Lincoln Board of Directors held between January and April, 2008, the Board continued to consider the advantages and disadvantages of engaging in a business combination at the present time. Lincoln s Board and senior management also worked with Sandler to prepare a Confidential Information Memorandum to be used to determine the level of interest of other financial institutions in acquiring Lincoln.

In late April 2008, Sandler began contacting on behalf of Lincoln potential strategic partners, including First Merchants, and distributed confidentiality agreements to those who expressed an initial interest. Seven financial institutions executed confidentiality agreements. In early May 2008, Confidential Information Memoranda were distributed to the seven parties that executed confidentiality agreements. Each of the parties receiving Confidential Information Memoranda were asked to review the information provided in that document in conjunction with publicly available information regarding Lincoln in order to provide an initial, non-binding indication of interest by May 22, 2008.

On May 27, 2008, Sandler reviewed the results of the solicitation process with management and the Board of Directors of Lincoln. In that meeting, Sandler detailed each non-binding indication of interest submitted, the pro forma impact of a business combination with each institution that submitted a non-binding indication of interest, the general banking environment and the current merger and acquisition environment. Of the seven parties receiving Confidential Information Memoranda, three financial institutions submitted a written, non-binding indication of interest for an affiliation with Lincoln, subject to due diligence and negotiation of a definitive agreement. After reviewing these preliminary indications of interest with Sandler, the Board of Directors of Lincoln elected to invite those three institutions to interview with the Board of Directors of Lincoln. At a meeting on June 4, 2008, the Lincoln Board of Directors did interview the three institutions, and after consideration of each institution s indication of interest, organizational background, strategic objectives and potential approach to integration of a potential acquisition with Lincoln, the Board of Directors of Lincoln elected to invite two of the three financial institutions to conduct due diligence investigations of Lincoln.

During the period between June 16, 2008 and June 28, 2008 the two financial institutions conducted their due diligence reviews of Lincoln. First Merchants submitted a revised indication of interest on July 23, 2008. The other financial institution notified Lincoln that it was withdrawing from the process.

The revised indication of interest submitted by First Merchants differed in many respects from the Merger Agreement ultimately signed by the parties. For example, the upper limit on the range of stock prices within which the transaction could be completed was increased significantly, in the final Merger Agreement, which allowed Lincoln shareholders more potential upside from pre-closing improvements in the First Merchants stock price. The indication of interest would have imposed $4 million in liquidated damages on Lincoln if the Lincoln Board of Directors had subsequently accepted a better acquisition proposal as opposed to $3.2 million in the Merger Agreement. First Merchants also proposed that it should be able to abandon the transaction without any consequences if for any reason the merger were not completed by December 31, 2008, compared to the $2 million in liquidated damages owed by First Merchants under the Merger Agreement if it is terminated for this reason.

On July 29, 2008, with the assistance of Sandler, the Lincoln Board of Directors reviewed the revised indication of interest from First Merchants. Sandler made a presentation summarizing the perceived advantages and disadvantages of the proposal and provided an update on prevailing market conditions for publicly-traded financial stocks. The Lincoln Board of Directors determined that a transaction with First Merchants might present the best strategic opportunity for Lincoln and its shareholders and directed management to proceed with negotiation of the exchange ratio and other terms set forth in First Merchants indication of interest.

As negotiations progressed, Lincoln began conducting an on-site due diligence investigation of First Merchants on August 11, 2008. During the next several days, management of Lincoln, Sandler and legal counsel conducted additional due diligence reviews of First Merchants.

During the month of August, Lincoln, through its legal counsel and Sandler, negotiated a Merger Agreement with First Merchants and its legal counsel. During that period, the parties also prepared disclosure letters to accompany the Merger Agreement, conducted additional due diligence investigations and negotiated the voting agreement that First Merchants requested the directors and certain executive officers of Lincoln and Lincoln Bank to sign. The management of Lincoln provided the Board of Directors with an update on the status of the negotiations at its regularly scheduled board meeting on August 19, 2008.

On August 27, 2008, drafts of the Merger Agreement were sent by overnight delivery to the members of the Board of Directors of Lincoln for their initial review. At a meeting of the Board of Directors on August 29, 2008, legal counsel, together with Sandler, led the Board of Directors of Lincoln through a page-by-page, detailed review and discussion of the Merger Agreement, including additional changes from the drafts sent to the directors for their review, and outlined relevant outstanding issues. Following that meeting, members of the management teams of Lincoln and First Merchants and their respective legal counsel engaged in further negotiations on the outstanding issues, including principally the circumstances under which First Merchants or Lincoln could terminate the Merger Agreement and the amount of liquidated damages that either party would owe the other if it chose to terminate the Merger Agreement for various reasons.

On August 29, 2008, the First Merchants Board of Directors approved the terms of the Merger Agreement and authorized its executive officers to complete any further negotiations of the terms of the Merger Agreement within certain parameters.

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On September 2, 2008, the Board of Directors of Lincoln held a special meeting with legal counsel and Sandler to receive an update on the events that had transpired to date and further review and discuss the finalized Merger Agreement and voting agreement. At that meeting, legal counsel reviewed the terms of the Merger Agreement and pointed out changes from the drafts previously reviewed by the Lincoln Board of Directors. Additionally, legal counsel discussed the directors fiduciary duties under Indiana law. Also at that meeting, Sandler rendered its opinion to the Board of Directors of Lincoln that the consideration to be received under the terms of First Merchants offer was fair to the shareholders of Lincoln from a financial point of view. Following review and discussion, the Board of Directors of Lincoln, by a unanimous vote, (1) determined that the Merger Agreement and the transactions contemplated under the Merger Agreement, including the merger, were in the best interests of Lincoln and its shareholders, (2) authorized management to execute and deliver the Merger Agreement, (3) recommended that the shareholders of Lincoln adopt and approve the Merger Agreement and the merger and (4) directed that the Merger Agreement and the merger be submitted to the shareholders at a special meeting. The directors and executive officers of Lincoln and Lincoln Bank also executed the proposed voting agreement.

The Merger Agreement was finalized and executed by all parties following the Lincoln board meeting in the evening of September 2, 2008. On the morning of September 3, 2008, Lincoln and First Merchants issued a joint press release announcing the signing of the Merger Agreement.

First Merchants Reasons for the Merger

In reaching its decision to approve the Merger Agreement and the merger, the First Merchants Board of Directors considered a number of factors concerning First Merchants benefits from the merger. Without assigning any relative or specific weights to the factors, the First Merchants Board considered the following material factors:

- First Merchants respect for the ability and integrity of the Lincoln Board of Directors, management, and staff, and their affiliates;
- First Merchants belief that expanding its operations offers important long-term strategic benefits to First Merchants;
- Lincoln s community banking orientation and its compatibility with First Merchants and its subsidiaries;
- management s view that the acquisition of Lincoln provides an attractive opportunity to enhance First Merchants presence in Central Indiana and the greater Indianapolis market, which is consistent with its strategic objectives to expand in desirable markets;
- the likelihood of a successful integration of Lincoln s business, operations and workforce with those of First Merchants and of successful operation of the combined company despite the challenges of this integration;
- a review of (i) the business, operations, earnings, and financial condition including the capital levels and asset quality, of Lincoln on a historical, prospective, and pro forma basis in comparison to other financial institutions in the area, (ii) the demographic, economic, and financial characteristics of the market in which Lincoln operates, including existing competition, history of the market areas with respect to financial institutions, and average demand for credit, on a historical and prospective basis, and (iii) the results of First Merchants due diligence review of Lincoln; and
- a variety of factors affecting and relating to the overall strategic focus of First Merchants.

Lincoln s Reasons for the Merger

The Lincoln Board of Directors determined that the Merger Agreement and the merger consideration are in the best interests of Lincoln and its shareholders and recommends that Lincoln shareholders vote in favor of the approval of the Merger Agreement and the transactions contemplated by the Merger Agreement, including the merger.

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In its deliberations and in making its determination, the Lincoln Board of Directors considered many factors including, without limitation, the following:

- the fact that the value of the merger consideration represented a premium over the $10.35 closing price of Lincoln s common stock on September 2, 2008 (the last trading day before the merger was announced);
- the information that was included in the Sandler presentation to the Lincoln Board of Directors that indicated that the merger consideration represented a multiple to last twelve months earnings per share which was higher than the median for selected bank merger transactions in the Midwest and for selected bank merger transactions nationwide;
- the increased level of competition within the banking sector generally and within the market areas served by Lincoln from other, larger financial institutions and non-bank competitors;
- the current and prospective economic climate for smaller financial institutions generally and Lincoln specifically, including declining net interest margins for many financial institutions, slower deposit growth and the increasing cost of regulatory burdens;
- the effect of the merger on Lincoln Bank s employees, including the prospect of continued employment and enhanced employment opportunities with a much larger and more diversified financial organization;
- the effect of the merger on Lincoln Bank s customers and community, including First Merchants community banking orientation and its compatibility with Lincoln;
- more diverse financial products and services for Lincoln customers and an enhanced competitive position in the markets in which Lincoln operates;
- the desire to provide shareholders with the prospects for greater future appreciation on their investments in Lincoln common stock than Lincoln could likely achieve independently;
- the greater liquidity of First Merchants common stock, which is traded on the NASDAQ Global Select Market System;
- the higher level of dividends paid by First Merchants on its common stock than Lincoln would be likely to achieve in the near future;
- the potential tax advantage to Lincoln shareholders of accepting stock or stock and cash; and
- the opinion delivered by Sandler that the merger consideration is fair, from a financial point of view, to the shareholders of Lincoln.

The Lincoln Board of Directors also identified several risks, uncertainties and disadvantages of the proposed transaction including, without limitation, the following:

the potential risks to Lincoln shareholders of accepting First Merchants stock for their Lincoln shares and thereby continuing to be subject to the uncertain market for financial institution stocks;

the possibility that by remaining independent Lincoln might obtain a higher price for shareholders at some time in the future;

the information that was included in the Sandler presentation to the Lincoln Board of Directors that indicated that the merger consideration represented a core deposit premium of 0.8% and was 104.9% of tangible book value, which were each lower than the corresponding median for selected bank merger transactions in the Midwest and for selected bank merger transactions nationwide;

the possible negative effects of the transaction on Lincoln s employees, customers and local community;

the possible disruption to Lincoln s business that might result from the announcement of the transaction, the distractions of its management s attention from the day-to-day operation of Lincoln s business and certain restrictions in the Merger Agreement on Lincoln s operations pending the completion of the merger; and

the liquidated damages to be paid by Lincoln if the Merger Agreement were terminated under certain circumstances.

In its deliberations and in making its determination, the Lincoln Board of Directors specifically considered the information that was included in the Sandler presentation to the Lincoln Board of Directors and concluded that in view of Lincoln s recent stock trading prices, the positive factors in the Sandler presentation that the merger consideration represented a premium over market price and a multiple to last twelve months earnings per share which was higher in each case than the median for selected bank merger transactions in the Midwest and for selected bank merger transactions nationwide outweighed the negative factors in the Sandler presentation that the merger consideration represented a core deposit premium and a multiple of tangible book value which were lower in each case than the median for selected bank merger transactions in the Midwest and for selected bank merger transactions nationwide.

The foregoing discussion of the information and factors considered by Lincoln is not intended to be exhaustive. In reaching its determination to enter into the Merger Agreement, Lincoln did not assign any relative or specific weights to the foregoing factors.

Recommendation of the Board of Directors

Lincoln s Board of Directors has carefully considered and unanimously approved the Merger Agreement and unanimously recommends to Lincoln shareholders that you vote FOR the adoption of the Merger Agreement.

Funding of the Merger

First Merchants will need cash in the amount of approximately $4 million to $17 million, depending on Lincoln shareholder elections, to fund the cash consideration portion of the merger consideration. First Merchants proposes to obtain the necessary funds to acquire the common stock of Lincoln through borrowings under its existing line of credit with Bank of America and from internal cash sources.

Effects of the Merger

The respective Boards of Directors of First Merchants and Lincoln believe that, over the long-term, the merger will be beneficial to First Merchants shareholders, including the current shareholders of Lincoln who will become First Merchants shareholders if the merger is completed. The First Merchants Board of Directors believes that one of the potential benefits of the merger is the cost savings that may be realized by combining the two companies, which savings are expected to enhance First Merchant s earnings.

First Merchants expects to reduce expenses by combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which will enable First Merchants to achieve economies of scale in these areas. First Merchants estimates these reductions will be approximately $26 million over the first three years following the merger. Promptly following the completion of the merger, which is expected to occur during the fourth quarter of 2008, First Merchants plans to begin the process of eliminating redundant functions, and eliminating duplicative expenses. The amount of any cost savings First Merchants may realize in 2009 will depend upon how quickly and efficiently First Merchants is able to implement the processes outlined above during the year.

First Merchants believes that it will achieve cost savings based on the assumption that it will be able to:

reduce data processing costs;

reduce staff;

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achieve economies of scale in advertising and marketing budgets;

reduce legal and accounting fees; and

achieve other savings through reduction or elimination of miscellaneous items such as insurance premiums, travel and automobile expense, and investor relations expenses.

First Merchants has based these assumptions on its present assessment of where savings could be realized based upon the present independent operations of the two companies. Actual savings in some or all of these areas could be higher or lower than is currently expected.

First Merchants also believes that the merger will be beneficial to the customers of Lincoln as a result of the additional products and services offered by First Merchants and its subsidiary banks and because of the increased lending capability.

Opinion of Lincoln s Financial Advisor

As described above, the opinion of Sandler was among the many factors taken into consideration by the Lincoln Board of Directors in making its determination to approve the merger.

By letter dated January 23, 2008, Lincoln retained Sandler to act as its financial advisor in connection with a possible business combination. Sandler is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler acted as financial advisor to Lincoln in connection with the proposed transaction and participated in certain of the negotiations leading to the execution of the Merger Agreement on September 2, 2008. At the September 2, 2008 meeting at which the Lincoln Board of Directors considered and approved the Merger Agreement, Sandler delivered to the Lincoln Board of Directors its oral opinion, later confirmed in writing, that, as of such date, the merger consideration was fair to the holders of Lincoln common stock, from a financial point of view. **The full text of Sandler s opinion is attached as *Appendix B* to this proxy statement-prospectus and Sandler has consented thereto in writing. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the full text of the opinion. Lincoln s shareholders are urged to read the entire opinion carefully in connection with their consideration of the proposed merger.**

Sandler s opinion speaks only as of the date of the opinion. The opinion was directed to the Lincoln Board of Directors and is directed only to the fairness of the merger consideration to the holders of Lincoln common stock from a financial point of view. The opinion does not address the underlying business decision of Lincoln to engage in the merger or any other aspect of the merger and is not a recommendation to any Lincoln shareholder as to how such shareholder should vote at the special meeting with respect to the merger or any other matter. Sandler has reviewed the proxy statement prospectus and has approved the attachment of its opinion to this proxy statement prospectus and the references to and quotes from its opinion contained herein.

In connection with rendering its September 2, 2008 opinion, Sandler reviewed and considered, among other things:

(i) the Merger Agreement;

(ii) certain publicly available financial statements and other historical financial information of Lincoln that Sandler deemed relevant;

(iii) certain publicly available financial statements and other historical financial information of First Merchants that Sandler deemed relevant;

(iv) internal financial projections for Lincoln for the year 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 Merchants 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 and savings institution 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 that Sandler considered relevant.

Sandler 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 its review, Sandler relied upon the accuracy and completeness of all the financial and other information that was available to them from public sources, that was provided to Sandler by Lincoln and First Merchants or their respective representatives or that was otherwise reviewed by Sandler, and Sandler has assumed such accuracy and completeness for purposes of rendering this opinion. Sandler 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. Sandler has not been asked to and has not undertaken an independent verification of any of such information and Sandler does not assume any responsibility or liability for the accuracy or completeness thereof. Sandler did not make an independent evaluation or appraisal of the specific assets, the collateral securing the 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 has Sandler been furnished with any such evaluations or appraisals. Sandler did not make an independent evaluation of the adequacy of the allowance for loan losses of Lincoln and First Merchants nor has Sandler reviewed any individual credit files relating to Lincoln and First Merchants. Sandler has assumed, with Lincoln s 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 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 in its analyses were prepared by and/or reviewed with the managements of Lincoln and First Merchants and were confirmed to Sandler 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 Sandler assumed that such performance would be achieved. Sandler expresses no opinion as to such estimates or the assumptions on which they are based. Sandler has 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 Sandler. Sandler has assumed in all respects material to its analysis that Lincoln and First Merchants will remain as going concerns for all periods relevant to its analyses, that all of the representations and warranties

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contained in the Merger 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 Lincoln s consent, Sandler 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 Merger Agreement.

Sandler s opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to them of the date of its opinion. Events occurring after the date of its opinion could materially affect its opinion. Sandler has not undertaken to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after the date of its opinion. Sandler expressed no opinion as to what the value of First Merchants common stock will be when issued to Lincoln s shareholders pursuant to the Merger Agreement or the prices at which Lincoln s and First Merchants common stock may trade at any time. Sandler s opinion was approved by its fairness opinion committee and the opinion does not address in any way 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 Lincoln.

In rendering its September 2, 2008 opinion, Sandler performed a variety of financial analyses. The following is a summary of the material analyses performed by Sandler, but is not a complete description of all the analyses underlying Sandler s opinion. The summary includes information presented in tabular format. **In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.** The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler s comparative analyses described below is identical to Lincoln or First Merchants and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Lincoln and First Merchants and the companies to which they are being compared.

In performing its analyses, Sandler also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Lincoln, First Merchants and Sandler. The analyses performed by Sandler are not necessarily indicative of actual values or future results, both of which may be significantly more or less favorable than suggested by such analyses. Sandler prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the Lincoln Board of Directors at its September 2, 2008 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Sandler s analyses do not necessarily reflect the value of Lincoln s common stock or the prices at which Lincoln s common stock may be sold at any time. The combined analyses of Sandler and the opinion provided were among a number of factors taken into consideration by the Lincoln Board of Directors in making its determination to adopt the plan of merger contained in the Merger Agreement and the analyses described below should not be viewed as determinative of the decision of the Lincoln Board of Directors or management with respect to the fairness of the merger.

In arriving at its opinion Sandler did not attribute any particular weight to any analysis or factor that it considered. Rather it made qualitative judgments as to the significance and relevance of each analysis and factor. Sandler did not form an opinion as to whether any individual analysis or factor (positive or negative) considered

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in isolation supported or failed to support its opinion; rather Sandler made its determination as to the fairness of the per share consideration on the basis of its experience and professional judgment after considering the results of all its analyses taken as a whole. Accordingly, Sandler believes that the analyses and the summary of the analyses must be considered as a whole and that selecting portions of the analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinions. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute complete descriptions of the financial analyses presented in such tables.

Summary of Proposal. Sandler reviewed the financial terms of the proposed transaction. Based on the right to elect a cash consideration of $15.76 per share or a fixed exchange ratio of 0.7004 shares of First Merchants common stock for each share of Lincoln, subject to proration such that the cash portion will not exceed $16,800,000, Sandler calculated a transaction value of $13.96 per share. The calculation of transaction value was based on First Merchants stock price of $19.92 on August 29, 2008, and assumed Lincoln shareholders would elect to receive the maximum amount of cash. The transaction value was based on 5,319,731 Lincoln common shares outstanding and 527,722 options outstanding with a weighted-average exercise price of $13.29. Based upon draft financial information for Lincoln as of and for the twelve month period ended June 30, 2008, Sandler calculated the following transaction ratios:

Transaction Ratios

Transaction Price/LTM 2008 Earnings per Share	27.9x
Transaction Price/Estimated FY 2008 Earnings per Share (1)	22.1x
Transaction Price/Tangible Book Value	104.9%
Core Deposit Premium (2)	0.8%
Premium over Current Market Price (3)	40.7%

(1) Based on Lincoln management estimates.
(2) Assumes CDs greater than $100,000 are non-core deposits.
(3) Based on Lincoln s stock price of $9.92 as of August 29, 2008.

Comparable Company Analysis. Sandler used publicly available information for Lincoln and First Merchants to perform a comparison of selected financial and market trading information.

Sandler used this financial information to compare selected financial and market trading information for Lincoln and a group of financial institutions selected by Sandler which consisted of publicly traded commercial banks and thrifts headquartered in the Midwest with total assets between $750 million and $1.2 billion (**Lincoln Peer Group**):

Ames National Corp.
Baylake Corp.
Blue Valley Ban Corp.
Community Bank Shares of Indiana
Dearborn Bancorp Inc.
Farmers National Banc Corp.
Farmers & Merchants Bancorp
First Banking Center Inc. (1)
First Business Financial Services Inc.
First Financial Service Corp.
First Mid-Illinois Bancshares
HF Financial Corp.
HopFed Bancorp Inc.
Indiana Community Bancorp
LNB Bancorp Inc.
Monroe Bancorp
Ohio Valley Banc Corp.
O.A.K. Financial Corp.
Princeton National Bancorp
Team Financial Inc.
United Bancorp

(1) Financial data as of or for the twelve months ended March 31, 2008.

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The analysis compared certain financial information for Lincoln and the median financial and market trading data for the Lincoln Peer Group as of and for the twelve months ended June 30, 2008, unless otherwise noted. The table below sets forth the data for Lincoln and the median data for the Lincoln Peer Group as of and for the twelve months ended June 30, 2008, with pricing data as of August 29, 2008.

Comparable Group Analysis

	Lincoln	Comparable Group Median Result
Total Assets *(in millions)*	$ 869.9	$ 872.4
Total Equity *(in millions)*	$ 96.6	$ 69.0
Tangible Equity/Tangible Assets	8.38%	6.77%
Return on Average Assets	0.29%	0.65%
Return on Average Equity	2.55%	8.12%
Non-Performing Assets/Total Assets	1.63%	1.43%
Reserves/Non-Performing Loans	61.1%	59.6%
Price/Tangible Book Value	74.6%	113.4%
Price/Last Twelve Months Earnings per Share	19.8x	11.5x
Price/Est. FY 2008 Earnings per Share (1)	15.7x	11.2x
Core Deposit Premium	-3.5%	1.7%
Price/52-Week High	55.1%	74.6%
Market Capitalization *(in millions)*	$ 52.8	$ 64.2

(1) FY 2008 EPS is based on Lincoln s management estimates.

First Merchants Peer Group consisted of the following publicly traded commercial banks headquartered in the Midwest with total assets between $3.0 billion and $8.0 billion:

1st Source Corp.	Integra Bank Corp.
AMCORE Financial Inc.	Irwin Financial Corp.
Capitol Bancorp Ltd.	Midwest Banc Holdings Inc.
Chemical Financial Corp.	Old National Bancorp
First Busey Corp.	Park National Corp.
First Financial Bancorp.	PrivateBancorp Inc.
Heartland Financial USA Inc.	Republic Bancorp Inc.
Independent Bank Corp.	Taylor Capital Group Inc.

The analysis compared publicly available financial and market trading information for First Merchants and the median data for the First Merchants Peer Group as of and for the twelve months ended June 30, 2008, unless otherwise noted. The table below sets forth the data for First Merchants and the median data for the First Merchants Peer Group as of and for the twelve months ended June 30, 2008, with pricing data as of August 29, 2008.

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Comparable Group Analysis

	First Merchants	Comparable Group Median Result
Total Assets *(in millions)*	$ 3,822.5	$ 4,001.6
Total Equity *(in millions)*	$ 347.4	$ 350.3
Tangible Equity/Tangible Assets	5.73%	6.01%
Return on Average Assets	0.86%	0.44%
Return on Average Equity	9.50%	4.92%
Non-Performing Assets/Total Assets	1.35%	1.53%
Reserves/Non-Performing Loans	91.5%	83.6%
Price/Tangible Book Value	165.1%	153.4%
Price/Last Twelve Months Earnings per Share	10.8x	15.9x
Price/Est. FY 2008 Earnings per Share (1)	10.6x	15.7x
Core Deposit Premium	5.8%	7.4%
Price/52-Week High	64.3%	62.2%
Market Capitalization *(in millions)*	$ 349.4	$ 418.9

(1) FY 2008 EPS is based on First Merchants management estimates.

Stock Trading History. Sandler reviewed the history of the publicly reported trading prices of Lincoln s common stock for the one-year and three-year periods ended August 29, 2008. Sandler also reviewed the relationship between the movements in the price of Lincoln s common stock and the movements in the prices of the Nasdaq Bank Index, the indexed performance of the Lincoln Peer Group (detailed in the previous section) and First Merchants. The composition of the respective Lincoln Peer Group is discussed under the Comparable Group Analysis section above.

During the one-year period ended August 29, 2008, Lincoln s common stock underperformed all of the indices and First Merchants to which it was compared.

Lincoln s One-Year Stock Performance

	Beginning Index Value August 29, 2007	Ending Index Value August 29, 2008
Lincoln	100.00%	62.86%
Nasdaq Bank Index	100.00	76.84
Peer Group (1)	100.00	75.31
First Merchants	100.00	87.17

(1) Refers to the Lincoln Peer Group outlined in the Comparable Group Analysis section above.

During the three-year period ended August 29, 2008, Lincoln s common stock underperformed all of the indices and First Merchants to which it was compared.

Lincoln s Three-Year Stock Performance

	Beginning Index Value August 29, 2005	Ending Index Value August 29, 2008
Lincoln	100.00%	56.72%
Nasdaq Bank Index	100.00	75.35

Peer Group (1)	100.00	66.21
First Merchants	100.00	74.19

(1) Refers to the Lincoln Peer Group outlined in the Comparable Group Analysis section above.

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Sandler also reviewed the history of the publicly reported trading prices of First Merchants common stock for the one-year and three-year periods ended August 29, 2008. Sandler also reviewed the relationship between the movements in the price of First Merchants common stock and the movements in the prices of the Nasdaq Bank Index, the indexed performance of the First Merchants Peer Group and Lincoln Bancorp. The composition of the respective First Merchants Peer Group is discussed under the Comparable Group Analysis section above.

During the one-year period ended August 29, 2008, First Merchants common stock outperformed all of the indices to which it was compared.

First Merchants One-Year Stock Performance

	Beginning Index Value August 29, 2007	Ending Index Value August 29, 2008
First Merchants	100.00%	87.17%
Nasdaq Bank Index	100.00	76.84
Peer Group (1)	100.00	78.70
Lincoln	100.00	62.86

(1) Refers to the First Merchants Peer Group outlined in the Comparable Group Analysis section above.

During the three-year period ended August 29, 2008, First Merchants common stock underperformed the Nasdaq Bank Index. First Merchants common stock outperformed the First Merchants Peer Group and Lincoln Bancorp.

First Merchants Three-Year Stock Performance

	Beginning Index Value August 29, 2005	Ending Index Value August 29, 2008
First Merchants	100.00%	74.19%
Nasdaq Bank Index	100.00	75.35
Peer Group (1)	100.00	63.94
Lincoln	100.00	56.72

(1) Refers to the First Merchants Peer Group outlined in the Comparable Group Analysis section above.

Net Present Value Analysis. Sandler performed an analysis that estimated the net present value per share of Lincoln s common stock under various circumstances. In the analysis, Sandler assumed Lincoln performed in accordance with the financial projections for December 31, 2008 through 2012 discussed with Lincoln management. To approximate the terminal value of Lincoln s common stock at December 31, 2012, Sandler applied price to earnings multiples of 8.0x to 18.0x and multiples of tangible book value ranging from 60% to 160%. The terminal values were then discounted to present values using different discount rates ranging from 12.0% to 16.0%, chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Lincoln s common stock. In addition, the net present value of Lincoln s common stock at December 31, 2012 was calculated using the same range of price to earnings multiples (8.0x to 18.0x) applied to a range of discounts and premiums to budget projections. The range applied to the budgeted net income was 25% under budget to 25% over budget, using a discount rate of 14.08% for tabular analysis.

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As illustrated in the following tables, the analysis indicated an imputed range of values per share for Lincoln s common stock of $6.38 to $13.87 when applying the price to earnings multiples to the matched budget, $6.99 to $17.40 when applying multiples of tangible book value to the matched budget, and $5.59 to $15.56 when applying the price to earnings multiples to the 25% under budget to the 25% over budget range.

Earnings Per Share Multiples

Discount Rate	8.0x	10.0x	12.0x	14.0x	16.0x	18.0x
12.00%	$ 7.31	$ 8.62	$ 9.93	$ 11.24	$ 12.55	$ 13.87
13.00%	$ 7.06	$ 8.32	$ 9.58	$ 10.84	$ 12.10	$ 13.36
14.00%	$ 6.82	$ 8.03	$ 9.24	$ 10.45	$ 11.67	$ 12.88
15.00%	$ 6.59	$ 7.76	$ 8.92	$ 10.09	$ 11.25	$ 12.42
16.00%	$ 6.38	$ 7.50	$ 8.62	$ 9.74	$ 10.86	$ 11.98

Earnings Per Share Multiples

Budget Variance	8.0x	10.0x	12.0x	14.0x	16.0x	18.0x
(25.0%)	$ 5.59	$ 6.50	$ 7.41	$ 8.31	$ 9.22	$ 10.12
(20.0%)	$ 5.84	$ 6.80	$ 7.77	$ 8.73	$ 9.70	$ 10.67
(15.0%)	$ 6.08	$ 7.10	$ 8.13	$ 9.16	$ 10.18	$ 11.21
(10.0%)	$ 6.32	$ 7.41	$ 8.49	$ 9.58	$ 10.67	$ 11.75
(5.0%)	$ 6.56	$ 7.71	$ 8.85	$ 10.00	$ 11.15	