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FIRST MERCHANTS CORP
Form 8-K
May 01, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

DATE OF REPORT (Date of earliest event reported): May 1, 2007

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

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

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

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

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

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

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

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ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On May 1, 2007, First Merchants Corporation issued a press release to report its financial results for the first quarter ended March 31, 2007. A copy

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Exhibit No. 99.1

Press Release, dated May 1, 2007

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

May 1, 2007

FOR IMMEDIATE RELEASE

For more information, contact:

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

SOURCE: First Merchants Corporation, Muncie, Indiana

FIRST MERCHANTS CORPORATION ANNOUNCES INCREASE IN FIRST QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported March 31, 2007 net income of \$7.77 million, a \$262,000 or 3.49 percent increase over the \$7.51 million earned in the first quarter of 2006. Diluted earnings per share totaled \$.42, a \$.01 increase over 2006 first quarter earnings per share of \$.41.

Total assets equaled \$3.55 billion at year-end, an increase of \$285 million, or 8.7 percent from March 31, 2006. Loans and investments, the Corporation's primary earning assets, totaled \$3.21 billion, an increase of \$272 million or 9.2 percent over the prior year.

Non-interest income increased by \$1,207,000 during the quarter as service charges on deposits increased by \$457,000, earnings on cash surrender value of bank owned life insurance increased by \$262,000 and insurance commission increased by \$134,000.

Net-Interest margin declined by 37 basis points from 3.87 percent in the first quarter of 2006 to 3.50 percent in 2007. As a result, net-interest income declined by \$514,000 despite strong improvements in earning assets as the Corporation's volume variance totaled a positive \$2.7 million mitigated by a negative rate variance of \$3.2 million. The decline in net-interest margin represents \$.02 in earnings per share for the quarter.

Year-to-date operating expense increased by \$406,000, a modest 1.7 percent as management continues the process of streamlining its operating structure.

The allowance for loan losses increased during the last twelve months by \$1.2 million as non-performing loans totaled 1.12 basis points of average total loans and the allowance for loan losses as a percent of total loans equaled .98 percent.

Michael C. Rechin, President and Chief Executive Officer, stated that, "Growth in non-interest income of 14 percent reflects managements commitment to customer acquisition and retention and is reflective of our bankers fulfilling the service needs of our customers." Rechin also added, "As the Corporation's non-interest income, balance sheet and talent profile grows in conjunction with the completion of our strategic structural enhancements, First Merchants will position itself to meet or exceed stakeholder expectations."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern

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Daylight Time on Tuesday, May 1, 2007. To participate, dial (Toll Free) 877-407-9210 and reference First Merchants Corporation's first quarter earnings. A replay will be available until May 8, 2007. To access replay, US/Canada participants should dial (Toll Free) 877-660-6853 or for International participants, dial 201-612-7415. The replay will require the Account # 286 and Conference ID # 238591.

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

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

Detailed financial results are reported on the attached pages:

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

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

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CONSOLIDATED BALANCE SHEETS

(in thousands)

	March 31,	
	2007	2006
Assets		
Cash and due from banks	\$ 43,629	\$ 59,176
Interest-bearing time deposits	6,785	9,104
Investment securities	476,199	441,651
Mortgage loans held for sale	2,732	5,170
Loans	2,731,140	2,491,488
Less: Allowance for loan losses	(26,819)	(25,623)
	2,704,321	2,465,865
Net loans		
Premises and equipment	43,262	39,029
Federal Reserve and Federal Home Loan Bank stock	23,691	23,421
Interest receivable	21,941	19,035
Core deposit intangibles and goodwill	137,847	138,174
Cash surrender value of life insurance	68,360	43,964
Other assets	26,047	25,346
	\$ 3,554,814	\$ 3,269,935
Liabilities		
Deposits		

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Noninterest-bearing	\$ 325,615	\$ 325,548
Interest-bearing	2,361,773	2,120,524
	-----	-----
Total deposits	2,687,388	2,446,072
Borrowings	497,188	469,002
Interest payable	10,834	6,412
Other liabilities	30,756	31,711
	-----	-----
Total liabilities	3,226,166	2,953,197
Stockholders' equity		
Preferred stock, no-par value		
Authorized and unissued -- 500,000 shares		
Common stock, \$.125 stated value		
Authorized -- 50,000,000 shares		
Issued and outstanding -- 18,315,624 and 18,440,316 shares	2,289	2,305
Additional paid-in capital	143,672	146,374
Retained earnings	191,476	177,975
Accumulated other comprehensive loss	(8,789)	(9,916)
	-----	-----
Total stockholders' equity	328,648	316,738
	-----	-----
Total liabilities and stockholders' equity	\$ 3,554,814	\$ 3,269,935
	=====	=====

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended March 31,	
	2007	2006
NET CHARGE OFF'S	\$ 1,320	\$ 1,291
AVERAGE BALANCES		
Total Assets	\$3,522,334	\$3,235,933
Total Loans	2,703,134	2,474,759
Total Deposits	2,689,908	2,407,646
Total Stockholders' Equity	328,342	316,629

FINANCIAL RATIOS

Return on Average Assets	.88%	.93
Return on Avg. Stockholders' Equity	9.47	9.49
Avg. Earning Assets to Avg. Assets	91.13	91.27
Allowance for Loan Losses as % Of Total Loans	.98	1.03
Net Charge Off's as % Of Avg. Loans (Annualized)	.20	.21
Dividend Payout Ratio	54.76	56.10
Avg. Stockholders' Equity to Avg. Assets	9.32	9.78
Tax Equivalent Yield on Earning Assets	7.01	6.64
Cost of Supporting Liabilities	3.51	2.77
Net Int. Margin (FTE) on Earning Assets	3.50	3.87

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

Three Months Ended
March 31,
2007 2006

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Interest income		
Loans receivable		
Taxable	\$ 49,645	\$ 43,079
Tax exempt	201	168
Investment securities		
Taxable	3,282	2,726
Tax exempt	1,661	1,647
Federal funds sold	1	17
Deposits with financial institutions	123	114
Federal Reserve and Federal Home Loan Bank stock	328	311
	-----	-----
Total interest income	55,241	48,062
	-----	-----
Interest expense		
Deposits	21,806	14,419
Federal funds purchased	854	489
Securities sold under repurchase agreements	569	835
Federal Home Loan Bank advances	2,936	2,656
Subordinated debentures, revolving credit lines and term loans	2,001	1,991
Other borrowings		83
	-----	-----
Total interest expense	28,166	20,473
	-----	-----
Net interest income	27,075	27,589
Provision for loan losses	1,599	1,726
	-----	-----
Net interest income after provision for loan losses	25,476	25,863
	-----	-----
Other income		
Fiduciary activities	2,036	1,951
Service charges on deposit accounts	2,883	2,426
Other customer fees	1,491	1,355
Net realized gains on sales of available-for-sale securities	(1)	9
Commission income	1,638	1,504
Earnings on cash surrender value of life insurance	685	423
Net gains and fees on sales of loans	532	554
Other income	540	375
	-----	-----
Total other income	9,804	8,597
	-----	-----
Other expenses		
Salaries and employee benefits	14,726	14,392
Net occupancy expenses	1,598	1,434
Equipment expenses	1,722	1,949
Marketing expense	487	400
Outside data processing fees	951	883
Printing and office supplies	299	304
Core deposit amortization	791	762
Other expenses	3,620	3,664
	-----	-----
Total other expenses	24,194	23,788
	-----	-----
Income before income tax	11,086	10,672
Income tax expense	3,315	3,163

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Net income	\$ 7,771	\$ 7,509
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Per Share Data

Basic Net Income	.42	.41
Diluted Net Income	.42	.41
Cash Dividends Paid	.23	.23
Average Diluted Shares Outstanding (in thousands)	18,497	18,526

CONSOLIDATED BALANCE SHEETS

(in thousands)

	March 31, 2007	December 31, 2006	September 30, 2006	June 2006
Assets				
Cash and due from banks	\$ 43,629	\$ 89,957	\$ 65,641	\$ 71,817
Interest-bearing time deposits	6,785	11,284	8,717	8,717
Investment securities	476,199	465,217	468,074	466,074
Mortgage loans held for sale	2,732	5,413	3,395	5,413
Loans	2,731,140	2,692,601	2,641,644	2,591,140
Less: Allowance for loan losses	(26,819)	(26,540)	(26,975)	(26,975)
Net loans	2,704,321	2,666,061	2,614,669	2,565,165
Premises and equipment	43,262	42,393	40,511	41,262
Federal Reserve and Federal Home Loan Bank stock	23,691	23,691	23,620	23,620
Interest receivable	21,941	24,345	23,946	19,941
Core deposit intangibles and goodwill	137,847	138,638	136,666	137,847
Cash surrender value of life insurance	68,360	64,213	63,539	44,213
Other assets	26,047	23,658	23,261	24,213
Total assets	\$ 3,554,814	\$ 3,554,870	\$ 3,472,039	\$ 3,408,817
Liabilities				
Deposits				
Noninterest-bearing	\$ 325,615	\$ 362,058	\$ 324,601	\$ 340,615
Interest-bearing	2,361,773	2,388,480	2,369,690	2,195,615
Total deposits	2,687,388	2,750,538	2,694,291	2,535,615
Borrowings	497,188	440,764	419,146	527,188
Interest payable	10,834	9,326	10,236	6,834
Other liabilities	30,756	26,917	26,075	25,756
Total liabilities	3,226,166	3,227,545	3,149,748	3,095,615
Stockholders' equity				
Preferred stock, no-par value				
Authorized and unissued -- 500,000 shares				
Common stock, \$.125 stated value				
Authorized -- 50,000,000 shares				
Issued and outstanding	2,289	2,305	2,292	2,289
Additional paid-in capital	143,672	146,460	143,688	142,672
Retained earnings	191,476	187,965	184,555	181,476
Accumulated other comprehensive loss	(8,789)	(9,405)	(8,244)	(12,789)
Total stockholders' equity	328,648	327,325	322,291	313,672
Total liabilities and stockholders' equity	\$ 3,554,814	\$ 3,554,870	\$ 3,472,039	\$ 3,408,817

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NON-PERFORMING ASSETS

(in thousands)	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006
90 days past due	\$ 4,554	\$ 2,870	\$ 4,253	\$ 8,818
Non-accrual loans	22,704	17,926	16,524	12,611
Other real estate	3,102	2,160	2,194	2,497
	-----	-----	-----	-----
Total non-performing assets	\$ 30,360	\$ 22,956	\$ 22,971	\$ 23,926
	=====	=====	=====	=====
Average total loans for the quarter	\$2,703,134	\$2,653,700	\$2,613,805	\$2,534,675
Total non-performing assets as a percent of average total loans	1.12%	.87%	.87%	.94%
Restructured loans	\$ 59	\$ 84	\$ 93	\$ 111

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	March 31, 2007	December 31, 2006	September 30, 2006	Three Months Ended June 30, 2006
Interest Income				
Loans receivable				
Taxable	\$ 49,645	\$ 49,293	\$ 48,738	\$
Tax exempt	201	240	189	
Investment securities				
Taxable	3,282	3,219	3,289	
Tax exempt	1,661	1,660	1,645	
Federal funds sold	1	332	13	
Deposits with financial institutions	123	110	144	
Federal Reserve and Federal Home Loan Bank stock	328	318	307	
	-----	-----	-----	-----
Total interest income	55,241	55,172	54,325	
Interest expense				
Deposits	21,806	22,690	20,291	
Federal funds purchased	854	93	635	
Securities sold under repurchase agreements	569	488	852	
Federal Home Loan Bank advances	2,936	2,672	2,796	
Subordinated debentures, revolving credit lines and term loans	2,001	2,046	2,067	
Other borrowings		67	60	
	-----	-----	-----	-----
Total interest expense	28,166	28,056	26,701	
Net interest income	27,075	27,116	27,624	
Provision for loan losses	1,599	1,245	1,558	
	-----	-----	-----	-----
Net interest income				

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after provision for loan losses	25,476	25,871	26,066	
	-----	-----	-----	
Other income				
Fiduciary activities	2,036	1,862	1,863	
Service charges on deposit accounts	2,883	3,010	3,055	
Other customer fees	1,491	1,387	1,386	
Net realized gains (losses) on sales of available-for-sale securities	(1)	(4)		
Commission income	1,638	881	971	
Earnings on cash surrender value of life insurance	685	712	719	
Net gains and fees on sales of loans	532	613	493	
Other income	540	309	348	
	-----	-----	-----	
Total other income	9,804	8,770	8,835	
	-----	-----	-----	
Other expenses				
Salaries and employee benefits	14,726	14,157	14,033	
Net occupancy expenses	1,598	1,498	1,477	
Equipment expenses	1,722	1,956	2,035	
Marketing expense	487	508	586	
Outside data processing fees	951	804	841	
Printing and office supplies	299	401	367	
Core deposit amortization	791	781	762	
Other expenses	3,620	4,315	3,854	
	-----	-----	-----	
Total other expenses	24,194	24,420	23,955	
	-----	-----	-----	
Income before income tax	11,086	10,221	10,946	
Income tax expense	3,315	2,562	3,207	
	-----	-----	-----	
Net income	\$ 7,771	\$ 7,659	\$ 7,739	\$
	=====	=====	=====	=====
Per Share Data				
Basic Net Income	\$.42	\$.42	\$.42	\$
Diluted Net Income	.42	.42	.42	
Cash Dividends Paid	.23	.23	.23	
Average Diluted Shares Outstanding (in thousands)	18,497	18,498	18,381	
FINANCIAL RATIOS				
Return on Average Assets	.88%	.88%	.90%	
Return on Avg. Stockholders' Equity	9.47	9.39	9.72	
Avg. Earning Assets to Avg. Assets	91.13	90.87	91.26	
Allowance for Loan Losses as % Of Total Loans	.98	.99	1.02	
Net Charge Off's as % Of Avg. Loans (Annualized)	.20	.25	.07	
Dividend Payout Ratio	54.76	56.10	54.76	
Avg. Stockholders' Equity to Avg. Assets	9.32	9.32	9.30	
Tax Equivalent Yield on Earning Assets	7.01	7.07	7.08	
Cost of Supporting Liabilities	3.51	3.53	3.42	
Net Int. Margin (FTE) on Earning Assets	3.50	3.54	3.66	

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LOANS

(in thousands)	March 31, 2007	December 31, 2006	September 30, 2006	
Commercial and industrial loans	\$ 557,304	\$ 537,305	\$ 497,280	\$
Agricultural production financing and other loans to farmers	97,784	100,098	104,147	
Real estate loans:				
Construction	151,782	169,491	175,753	
Commercial and farmland	906,726	861,429	835,403	
Residential	756,316	749,921	757,116	
Individuals' loans for household and other personal expenditures	210,578	223,504	215,237	
Tax exempt loans	15,306	14,423	16,550	
Lease financing receivables, net of unearned income	7,648	8,010	8,543	
Other loans	27,696	28,420	31,615	
	-----	-----	-----	-----
Allowance for loan losses	2,731,140 (26,819)	2,692,601 (26,540)	2,641,644 (26,975)	2,
	-----	-----	-----	-----
Total loans	\$2,704,321	\$2,666,061	\$2,614,669	\$2,
	=====	=====	=====	=====

DEPOSITS

(in thousands)	March 31, 2007	December 31, 2006	September 30, 2006	
Demand deposits	\$ 787,538	\$ 883,294	\$ 743,154	\$
Savings deposits	530,692	507,431	512,112	
Certificates and other time deposits of \$100,000 or more	398,061	408,910	394,724	
Other certificates and time deposits	971,097	950,903	1,044,301	
	-----	-----	-----	-----
	\$2,687,388	\$2,750,538	\$2,694,291	\$2,
	=====	=====	=====	=====