FIRST MERCHANTS CORP
Form 8-K
July 23, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

DATE OF REPORT (Date of earliest event reported): July 23, 2008

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))

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On July 23, 2008 First Merchants Corporation issued a press release to report its financial results for the second quarter ended June 30, 2008. A copy

of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Current Report on Form 8-K, including Exhibit No. 99.1 hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section. The information in this Current Report shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) Not applicable.

(b) Not applicable.

(c) Exhibits.

Exhibit 99.1 Press Release, dated July 23, 2008, issued by First Merchants Corporation

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

First Merchants Corporation
(Registrant)

By: /s/ Mark K. Hardwick

Mark K. Hardwick
Executive Vice President and
Chief Financial Officer
(Principal Financial and
Principal Accounting Officer)

Dated: July 23, 2008

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release, dated July 23, 2008, issued by First Merchants Corporation.

Exhibit No. 99.1

Press Release, dated July 23, 2008

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

July 23, 2008

FOR IMMEDIATE RELEASE
For more information, contact:
Mark K. Hardwick, Executive Vice President/Chief Financial Officer, 765-751-1857
http://www.firstmerchants.com

SOURCE: First Merchants Corporation, Muncie, Indiana

FIRST MERCHANTS CORPORATION ANNOUNCES 5.9 PERCENT INCREASE IN SECOND QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported second quarter 2008 diluted earnings per share of $.36, a 5.9 percent increase over 2007 second quarter earnings per share of $.34. Net Income for the quarter totaled $6.5 million, an increase of $334,000.

Year-to-date diluted earnings per share totaled $.81, a 6.6 percent increase over 2007 first half earnings per share of $.76. Net Income totaled $14.7 million, an increase of $689,000.

Total assets reached $3.8 billion at quarter-end, an increase of $153 million, or 4.2 percent, from June 30, 2007. Loans and investments, the Corporation's primary earning assets, totaled $3.43 billion, an increase of $142 million, or 4.3 percent over the prior year. Loans accounted for $213 million of the increase as investment securities declined by $71 million as spreads between investment securities and borrowings remain below historical levels.

Net-Interest margin expanded by 35 basis points from 3.50 percent in the second quarter of 2007 to 3.85 percent in 2008. As a result, net-interest income increased by $4.6 million or 16.5 percent. On March 21, 2008 the Corporation reported on form 8-K the sale of three prime-based interest rate floors. For the quarter, $561,000 of the $4.7 million gain was recognized in the Corporation's net interest margin. The remaining $3.6 million will be recognized over the 13 months of the original contracts.

Total non-interest income increased by $568,000, or 5.8 percent, during the quarter and total expenses declined by $1.3 million. In the second quarter of 2007 the Corporation expensed $1.8 million of underwriting expense related to the early redemption of the Corporation's trust preferred securities and $601,000 of expense related to integration and re-branding initiatives.

Provision expense increased by $5.4 million, during the quarter as net charge-offs totaled $4.6 million. Non-performing assets increased from 93 basis points of total assets to 135 basis points during the quarter and the allowance for loan losses as a percent of total loans increased to 1.05 percent.

Michael C. Rechin, President and Chief Executive Officer, stated that, "Despite the state of the banking industry and the continuation of negative press regarding peer institutions, First Merchants remains confident in its ability to produce net income sufficient to maintain adequate capital levels, dividend payouts and a growing balance sheet." Rechin also added that, "We continue to manage our loan portfolio rigorously recognizing that declines in client cash

flows require current valuations of collateral and guarantee positions of our secondary sources of repayment. As we identify deficiencies in primary and secondary sources of repayment the loans are placed on non-accrual and specific reserves are applied to match the shortfall. First Merchants continues to maintain its earnings momentum while at the same time very prudently addressing any required credit costs as reflected in our year-to-date results."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Daylight Time on Wednesday, July 23, 2008. To participate, dial (Toll Free) 800-860-2442 and reference First Merchants Corporation's second quarter earnings. A replay will be available until July 30, 2008. To access replay, US/Canada participants should dial (Toll Free) 877-344-7529 or for International participants, dial 412-317-0088. The replay will require the passcode is 420850.

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

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

Detailed financial results are reported on the attached pages:

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. Subsidiaries of the Corporation include First Merchants Bank, N.A., 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)	June 30, 2008	2007
Assets		
Cash and due from banks	$ 80,996	$ 80,264
Federal funds sold		657
Cash and cash equivalents	80,996	80,921
Interest-bearing time deposits	7,267	8,898
Investment securities	408,324	479,281
Mortgage loans held for sale	3,234	2,842
Loans	3,018,596	2,806,068

Less: Allowance for loan losses	(31,597)	(27,608)
Net loans	2,986,999	2,778,460
Premises and equipment	44,232	44,126
Federal Reserve and Federal Home Loan Bank stock	25,455	23,822
Interest receivable	19,680	21,615
Core deposit intangibles and goodwill	136,230	137,056
Cash surrender value of life insurance	72,948	69,111
Other real estate owned	17,243	2,274
Other assets	19,852	21,109
Total assets	$ 3,822,460	$ 3,669,515
Liabilities		
Deposits		
Noninterest-bearing	$ 403,152	$ 362,083
Interest-bearing	2,460,483	2,357,518
Total deposits	2,863,635	2,719,601
Borrowings		
Fed funds purchased	151,356	125,650
Securities sold under repurchase agreements	90,872	91,038
Federal Home Loan Bank advances	228,196	268,680
Subordinated debentures, revolving credit lines and term loans	115,826	102,206
Total borrowings	586,250	587,574
Interest payable	6,658	10,417
Other liabilities	18,525	24,543
Total liabilities	3,475,068	3,342,135
Stockholders' equity		
Preferred stock, no-par value		
Authorized and unissued -- 500,000 shares		
Cumulative Preferred Stock, $1,000 par value:		
Authorized -- 600 shares		
Issued and outstanding -- 125 shares	125	
Common stock, $.125 stated value		
Authorized -- 50,000,000 shares		
Issued and outstanding -- 18,062,701 and 18,285,359 shares	2,258	2,286
Additional paid-in capital	140,258	143,317
Retained earnings	209,059	193,460
Accumulated other comprehensive loss	(4,308)	(11,683)
Total stockholders' equity	347,392	327,380
Total liabilities and stockholders' equity	$ 3,822,460	$ 3,669,515

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007

NET CHARGE OFF'S	$ 4,567	$ 859	$ 7,524	$ 2,17
AVERAGE BALANCES				
Total Assets	$ 3,770,260	$ 3,601,473	$ 3,764,296	$ 3,562,12
Total Loans	2,973,270	2,764,209	2,940,716	2,733,84
Total Deposits	2,835,076	2,729,145	2,835,625	2,709,63
Total Stockholders' Equity	350,800	329,613	347,761	328,98
FINANCIAL RATIOS				
Return on Average Assets	.69%	.69%	.78%	.7
Return on Avg. Stockholders' Equity	7.46	7.53	8.44	8.5
Avg. Earning Assets to Avg. Assets	90.94	90.96	90.66	91.0
Allowance for Loan Losses as % Of Total Loans	1.05	.98	1.05	.9
Net Charge Off's as % Of Avg. Loans (Annualized)	.61	.12	.51	.1
Dividend Payout Ratio	63.85	67.65	56.79	60.5
Avg. Stockholders' Equity to Avg. Assets	9.30	9.15	9.24	9.2
Tax Equivalent Yield on Earning Assets	6.41	7.09	6.60	7.0
Cost of Supporting Liabilities	2.56	3.59	2.80	3.5
Net Int. Margin (FTE) on Earning Assets	3.85	3.50	3.80	3.5

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	Three Months Ended June 30,		Six Months Ende June 30,	
	2008	2007	2008	20
Interest income				
Loans receivable				
Taxable	$ 49,023	$ 51,204	$ 100,124	$ 10
Tax exempt	178	249	343	
Investment securities				
Taxable	2,947	3,394	6,196	
Tax exempt	1,452	1,651	2,965	
Federal funds sold	3	91	11	
Deposits with financial institutions	133	120	415	
Federal Reserve and Federal Home Loan Bank stock	370	299	705	
Total interest income	54,106	57,008	110,759	11
Interest expense				
Deposits	16,297	22,390	35,730	4
Federal funds purchased	577	1,047	1,246	
Securities sold under repurchase agreements	632	910	1,448	
Federal Home Loan Bank advances	2,825	3,009	5,861	
Subordinated debentures, revolving credit lines and term loans	1,602	2,037	3,492	
Total interest expense	21,933	29,393	47,777	5
Net interest income	32,173	27,615	62,982	5
Provision for loan losses	7,070	1,648	10,893	
Net interest income				

after provision for loan losses	25,103	25,967	52,089	5
Other income				
Service charges on deposit accounts	3,157	3,091	6,088	
Fiduciary activities	2,126	2,257	4,268	
Other customer fees	1,767	1,535	3,446	
Commission income	1,427	1,269	3,096	
Earnings on cash surrender value of life insurance	606	782	1,344	
Net gains and fees on sales of loans	668	611	1,311	
Net realized gains (losses) on sale of available-for-sale securities	13		86	
Other income	570	221	1,222	
Total other income	10,334	9,766	20,861	1
Other expenses				
Salaries and employee benefits	15,698	14,796	31,796	2
Net occupancy	1,750	1,612	3,555	
Equipment	1,643	1,783	3,297	
Marketing	612	653	1,096	
Outside data processing fees	1,009	1,036	1,891	
Printing and office supplies	291	388	572	
Core deposit amortization	808	790	1,598	
Write-off of unamortized underwriting expense		1,771		
Other expenses	4,593	4,910	8,872	
Total other expenses	26,404	27,739	52,677	5
Income before income tax	9,033	7,994	20,273	1
Income tax expense	2,491	1,786	5,605	
Net income	$ 6,542	$ 6,208	$ 14,668	$ 1
Per Share Data				
Basic Net Income	$ .37	$ .34	$ .82	$
Diluted Net Income	.36	.34	.81	
Cash Dividends Paid	.23	.23	.46	
Average Diluted Shares Outstanding (in thousands)	18,159	18,369	18,108	

CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30, 2008	March 31, 2008	December 31, 2007	S
Assets				
Cash and due from banks	$ 80,996	$ 89,961	$ 134,188	$
Federal funds sold			495	
Cash and cash equivalents	80,996	89,961	134,683	
Interest-bearing time deposits	7,267	21,280	24,931	
Investment securities	408,324	426,055	451,167	
Mortgage loans held for sale	3,234	3,494	3,735	

Loans	3,018,596	2,937,710	2,876,843	2
Less: Allowance for loan losses	(31,597)	(29,094)	(28,228)	
Net loans	2,986,999	2,908,616	2,848,615	2
Premises and equipment	44,232	44,526	44,445	
Federal Reserve and Federal Home Loan Bank stock	25,455	25,345	25,250	
Interest receivable	19,680	21,212	23,402	
Core deposit intangibles and goodwill	136,230	135,056	135,856	
Cash surrender value of life insurance	72,948	71,663	70,970	
Other real estate owned	17,243	7,372	2,573	
Other assets	19,852	12,578	16,460	
Total assets	$ 3,822,460	$3,767,158	$ 3,782,087	$ 3
Liabilities				
Deposits				
Noninterest-bearing	$403,152	$ 380,364	$ 370,397	$
Interest-bearing	2,460,483	2,432,763	2,473,724	2
Total deposits	2,863,635	2,813,127	2,844,121	2
Borrowings				
Fed funds purchased	151,356	111,144	52,350	
Securities sold under repurchase agreements	90,872	103,024	106,497	
Federal Home Loan Bank advances	228,196	244,468	294,101	
Subordinated debentures, revolving credit lines and term loans	115,826	115,826	115,826	
Total borrowings	586,250	574,462	568,774	
Interest payable	6,658	7,621	8,325	
Other liabilities	18,525	23,107	20,931	
Total liabilities	3,475,068	3,418,317	3,442,151	3
Stockholders' equity				
Preferred stock, no-par value				
Authorized and unissued -- 500,000 shares				
Cumulative Preferred Stock, $1,000 par value:				
Authorized -- 600 shares				
Issued and outstanding	125	125		
Common stock, $.125 stated value				
Authorized -- 50,000,000 shares				
Issued and outstanding	2,258	2,247	2,250	
Additional paid-in capital	140,258	137,633	137,801	
Retained earnings	209,059	206,710	202,750	
Accumulated other comprehensive loss	(4,308)	2,126	(2,865)	
Total stockholders' equity	347,392	348,841	339,936	
Total liabilities and stockholders' equity	$ 3,822,460	$ 3,767,158	$ 3,782,087	$ 3,

NON PERFORMING ASSETS

	June 30, 2008	March 31, 2008	December 31, 2007	
Non Accrual Loans	$ 34,410	$ 27,465	$ 29,031	
Renegotiated Loans	136	142	145	
Non Performing Loans (NPL)	34,546	27,607	29,176	
Real Estate Owned and Repossessed Assets	17,243	7,372	2,573	
Non Performing Assets (NPA)	51,789	34,979	31,749	

90+ Days Delinquent	3,538	4,996	3,578
NPAs & 90 Day Delinquent	55,327	39,975	35,327
Loan Loss Reserve	31,597	29,094	28,228
YTD Charge-offs	7,524	2,957	6,819
NPAs / Actual Assets %	1.35%	0.93%	0.84%
NPAs & 90 day / Actual Assets %	1.45%	1.06%	0.93%
NPAs / Actual Loans & REO (%)	1.70%	1.19%	1.10%
Loan Loss Reserves / Actual Loans (%)	1.05%	0.99%	0.98%
NCOs / YTD Average Loans (%)	0.26%	0.10%	0.24%

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		
(in thousands, except share data)	June 30, 2008	March 31, 2008	December 31, 2007
Loans receivable			
Taxable	$49,023	$51,101	$ 53,338
Tax exempt	178	165	302
Investment securities			
Taxable	2,947	3,249	3,487
Tax exempt	1,452	1,513	1,623
Federal funds sold	3	8	39
Deposits with financial institutions	133	282	194
Federal Reserve and Federal Home Loan Bank stock	370	335	344
Total interest income	54,106	56,653	59,327
Interest expense			
Deposits	16,297	19,433	22,398
Federal funds purchased	577	669	692
Securities sold under repurchase agreements	632	816	1,182
Federal Home Loan Bank advances	2,825	3,036	3,250
Subordinated debentures, revolving credit lines and term loans	1,602	1,890	1,910
Total interest expense	21,933	25,844	29,432
Net interest income	32,173	30,809	29,895
Provision for loan losses	7,070	3,823	2,450
Net interest income after provision for loan losses	25,103	26,986	27,445
Other income			
Service charges on deposit accounts	3,157	2,931	3,206
Fiduciary activities	2,126	2,142	2,094
Other customer fees	1,767	1,679	1,686
Commission income	1,427	1,669	1,031
Earnings on cash surrender value of life insurance	606	738	1,186
Net gains and fees on sales of loans	668	643	546
Net realized gains (losses) on sales of available-for-sale securities	13	73	1
Other income	570	652	383
Total other income	10,334	10,527	10,133

Other expenses			
Salaries and employee benefits	15,698	16,098	14,738
Net occupancy	1,750	1,805	1,619
Equipment	1,643	1,654	1,619
Marketing	612	484	505
Outside data processing fees	1,009	882	872
Printing and office supplies	291	281	329
Core deposit amortization	808	790	789
Write-off of unamortized underwriting expense			
Other expenses	4,593	4,279	4,776
Total other expenses	26,404	26,273	25,247
Income before income tax	9,033	11,240	12,331
Income tax expense	2,491	3,114	3,021
Net income	$ 6,542	$8,126	$9,310
Per Share Data			
Basic Net Income	.37	$ .45	$ .51
Diluted Net Income	.36	.45	.51
Cash Dividends Paid	.23	.23	.23
Average Diluted Shares Outstanding (in thousands)	18,159	18,055	18,138
FINANCIAL RATIOS			
Return on Average Assets	.69%	.86%	1.00%
Return on Avg. Stockholders' Equity	7.46	9.43	11.10
Avg. Earning Assets to Avg. Assets	90.94	90.38	90.70
Allowance for Loan Losses as % Of Total Loans	1.05	.99	.98
Net Charge Off's as % Of Avg. Loans (Annualized)	.61	.41	.26
Dividend Payout Ratio	63.85	51.10	45.10
Avg. Stockholders' Equity to Avg. Assets	9.30	9.17	8.98
Tax Equivalent Yield on Earning Assets	6.41	6.78	7.13
Cost of Supporting Liabilities	2.56	3.04	3.47
Net Int. Margin (FTE) on Earning Assets	3.85	3.74	3.66

LOANS

(in thousands)	June 30, 2008	March 31, 2008	December 31, 2007	Septe
Commercial and industrial loans	$ 815,137	$ 724,643	$ 662,701	$6
Agricultural production financing and other loans to farmers	125,125	123,314	114,324	1
Real estate loans:				
Construction	181,598	178,171	165,425	1
Commercial and farmland	954,672	961,431	947,234	9
Residential	718,065	728,956	744,627	7
Individuals' loans for household and other personal expenditures	161,387	174,857	187,880	1
Tax exempt loans	22,553	11,646	16,423	
Lease financing receivables, net of unearned income	9,158	8,438	8,351	

Other loans	30,901	26,254	29,878	
	3,018,596	2,937,710	2,876,843	2,8
Allowance for loan losses	(28,228)	(27,635)	(27,608)	(
Total loans	$ 2,986,999	$ 2,908,616	$ 2,848,615	$ 2,8

DEPOSITS

(in thousands)	June 30, 2008	March 31, 2008	December 31, 2007	Septemb 20
Demand deposits	$932,017	$ 881,498	$ 903,380	$ 8
Savings deposits	546,951	562,942	552,379	5
Certificates and other time deposits of $100,000 or more	444,967	459,038	470,733	4
Other certificates and time deposits	939,700	909,649	917,629	9
Total deposits	$2,863,635	$2,813,127	$2,844,121	$2,7