

FIRST MERCHANTS CORP  
Form 10-Q  
May 11, 2009  
**FORM 10-Q**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

OR

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

SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 0-17071**

**FIRST MERCHANTS CORPORATION**

(Exact name of registrant as specified in its charter)

**Indiana 35-1544218**

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

**200 East Jackson Street, Muncie, IN 47305-2814**

(Address of principal executive offices) (Zip code)

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

**Not Applicable**

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

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

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

Yes  No

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

(Do not check if smaller reporting company)

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

As of April 28, 2009, there were 21,056,558 outstanding common shares, of the registrant.



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## FIRST MERCHANTS CORPORATION

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## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## CONSOLIDATED CONDENSED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	March 31, 2009 (Unaudited)	December 31, 2008
<b>ASSETS:</b>		
Cash and due from banks	\$ 96,606	\$ 84,249
Federal funds sold	89,282	66,237
Cash and cash equivalents	185,888	150,486
Interest-bearing time deposits	158,295	38,823
Investment securities available for sale	426,589	459,636
Investment securities held to maturity	19,727	22,348
Mortgage loans held for sale	8,659	4,295
Loans, net of allowance for loan losses of \$58,502 and \$49,543	3,595,572	3,672,409
Premises and equipment	58,948	59,641
Federal Reserve and Federal Home Loan Bank stock	34,420	34,319
Interest receivable	20,783	23,976
Core deposit intangibles	21,214	22,492
Goodwill	141,357	143,482
Cash surrender value of life insurance	93,544	93,222
Other real estate owned	22,077	18,458
Other assets	99,824	40,568
Total assets	\$ 4,886,897	\$ 4,784,155
<b>LIABILITIES:</b>		
Deposits:		
Non-interest-bearing	\$ 462,167	\$ 460,519
Interest-bearing	3,222,797	3,258,292
Total deposits	3,684,964	3,718,811
Borrowings:		
Securities sold under repurchase agreements	113,106	122,311
Federal Home Loan Bank advances	278,583	360,217
Subordinated debentures, revolving credit lines and term loans	204,779	135,826
Total borrowings	596,468	618,354
Interest payable	8,278	8,844
Other liabilities	89,082	42,243
Total liabilities	4,378,792	4,388,252

STOCKHOLDERS' EQUITY:

Preferred stock, no-par value:

Authorized – 500,000 shares

Series A, Issued and outstanding – 116,000 shares 111,831

Cumulative preferred stock, \$1,000 par value, \$1,000 liquidation value:

Authorized – 600 shares

Issued and outstanding – 125 shares 125 125

Common stock, \$.125 stated value:

Authorized – 50,000,000 shares

Issued and outstanding – 21,055,881 and 21,178,123 shares 2,632 2,647

Additional paid-in capital 203,889 202,299

Retained earnings 205,616 206,496

Accumulated other comprehensive loss (15,988 (15,664 )

Total stockholders' equity 508,105 395,903

Total liabilities and stockholders' equity \$ 4,886,897 \$ 4,784,155

See notes to consolidated condensed financial statements.

## FIRST MERCHANTS CORPORATION

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## CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
Interest Income		
Loans receivable		
Taxable	\$ 53,793	\$ 51,101
Tax exempt	215	165
Investment securities		
Taxable	3,763	3,249
Tax exempt	1,769	1,513
Federal funds sold	12	8
Deposits with financial institutions	102	282
Federal Reserve and Federal Home Loan Bank stock	473	335
Total interest income	60,127	56,653
Interest Expense		
Deposits	16,711	19,433
Federal funds purchased	22	669
Securities sold under repurchase agreements	467	816
Federal Home Loan Bank advances	2,949	3,036
Subordinated debentures, revolving credit lines and term loans	1,479	1,890
Total interest expense	21,628	25,844
Net Interest Income	38,499	30,809
Provision for Loan Losses	12,921	3,823
Net Interest Income After Provision for Loan Losses	25,578	26,986
Other Income:		
Service charges on deposit accounts	3,542	2,931
Fiduciary activities	2,059	2,142
Other customer fees	2,003	1,679
Commission income	2,059	1,669
Earnings on cash surrender value of life insurance	323	738
Net gains and fees on sales of loans	1,430	643
Net realized and unrealized gains/(losses) on sales of available-for-sale securities	2,314	73
Other income	741	652
Total Other Income	14,471	10,527
Other Expenses		

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Salaries and benefits	20,015	16,098
Net occupancy	2,569	1,805
Equipment	1,876	1,654
Marketing	549	484
Outside data processing fees	1,933	882
Printing and office supplies	363	281
Core deposit amortization	1,277	790
Other expenses	6,132	4,279
Total Other Expenses	34,714	26,273
Income Before Income Tax	5,335	11,240
Income Tax Expense	1,218	3,114
Net Income	4,117	8,126
Preferred stock dividends and discount accretion	628	
Net Income Available to Common Stockholders	\$3,489	\$ 8,126
Per share:		
Basic net income per common share	\$.17	\$.45
Diluted net income per common share	\$.17	\$.45
Cash dividends paid	\$.23	\$.23
Average diluted shares outstanding (in thousands)	21,093	18,055

See notes to consolidated condensed financial statements.



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## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
Net Income	\$4,117	\$ 8,126
Other comprehensive income/(loss) net of tax:		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period, net of income tax of \$(874) and \$(1,824), respectively	1,622	3,388
Unrealized gains/(losses) on cash flow hedges:		
Unrealized gains/(losses) arising during the period, net of income tax of \$926, and \$(1,183), respectively	(1,388 )	1,774
Amortization of items previously recorded in accumulated other comprehensive losses, net of income tax expense, of \$469 and \$85, respectively	(704 )	(127 )
Reclassification adjustment for gains/(losses) included in net income, net of income tax expense of \$(98) and \$29, respectively	147	(44 )
Comprehensive income	\$ 3,794	\$ 13,117

See notes to consolidated condensed financial statements

## FIRST MERCHANTS CORPORATION

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## CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)

(Unaudited)

	<b>March 31,</b>		
	<b>2009</b>		<b>2008</b>
Balances, January 1	\$ 395,903		\$ 339,936
Net income	4,117		8,126
Cash dividends on common stock	(4,921)	)	(4,166)
Other comprehensive income (loss), net of tax	(323)	)	4,991
Stock issued under dividend reinvestment and stock purchase plan	228		272
Stock options exercised, net of tax			1,160
Tax benefit from stock compensation	198		96
Stock redeemed	(190)	)	(2,137)
Adjustment to Issuance of stock related to acquisition	(3,451)	)	
Warrants issued under Capital Purchase Program	4,169		
Cumulative preferred stock issued			125
Cumulative preferred stock issued under Capital Purchase Program	111,831		
Share-based compensation	544		438
Balances, March 31	\$ 508,105		\$ 348,841

See notes to consolidated condensed financial statements

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## FIRST MERCHANTS CORPORATION

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## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	March 31,	
	2009	2008
Cash Flow From Operating Activities		
Net income	\$4,117	\$8,126
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	12,921	3,823
Depreciation and amortization	1,464	1,126
Share-based compensation	544	438
Tax benefits from stock compensation	(198)	(96)
Mortgage loans originated for sale	(59,335)	(28,904)
Proceeds from sales of mortgage loans	54,971	29,145
Gains on sales of securities available for sale	2,791	
Recognized loss on other-than-temporary-impairment	(477)	
Change in interest receivable	3,193	2,190
Change in interest payable	(566)	(704)
Other adjustments (used by)	(24,211)	6,175
Net cash provided by operating activities	(4,786)	21,319
Cash Flows from Investing Activities		
Net change in interest-bearing deposits	(119,472)	3,651
Purchases of		
Securities available for sale	(32,190)	(550)
Securities held to maturity	(5,397)	(500)
Proceeds from sales of securities available for sale	47,480	
Proceeds from maturities of		
Securities available for sale	26,894	30,890
Securities held to maturity	8,019	413
Purchase of Federal Reserve and Federal Home Loan Bank stock	(101)	(95)
Net change in loans	59,347	(69,277)
Other adjustments	(771)	(1,207)
Net cash used by investing activities	(16,191)	(36,675)
Cash Flows from Financing Activities:		
Net change in		
Demand and savings deposits	52,362	(11,318)
Certificates of deposit and other time deposits	(86,208)	(19,674)
Proceeds from the sale of other real estate owned	796	588
Borrowings	78,953	62,794
Repayment of borrowings	(100,839)	(57,106)
Cash dividends on common stock	(4,921)	(4,166)

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Stock issued under dividend reinvestment and stock purchase plans	228	272
Stock options exercised		1,160
Cumulative preferred stock issued	116,000	