

FIRST MERCHANTS CORP  
Form 8-K  
August 03, 2009  
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

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DATE OF REPORT (Date of earliest event reported): August 3, 2009

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## **FIRST MERCHANTS CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

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INDIANA

(State or other jurisdiction)

0-17071

(Commission File Number)

35-1544218

(IRS Employer Identification No.)

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of incorporation)

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)

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))
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O 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 August 3, 2009, First Merchants Corporation issued a press release to report its financial results for the second quarter ended June 30, 2009. 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 August 3, 2009, issued by  
First Merchants Corporation

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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.

DATE: August 3, 2009

FIRST MERCHANTS CORPORATION

By: /s/Mark K. Hardwick  
Mark K. Hardwick,  
Executive Vice President and  
Chief Financial Officer

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Exhibit Index

| <u>Exhibit No.</u> | <u>Description</u>   |
|--------------------|--|
| 99.1               | Press Release, dated August 3, 2009 issued by<br>First Merchants Corporation |

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First Merchants Corporation

Exhibit No. 99.1

Press Release, dated August 3, 2009

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

August 3, 2009

**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 2<sup>nd</sup> QUARTER EARNINGS PER SHARE**

First Merchants Corporation (NASDAQ – FRME) has reported a June 30, 2009, net loss of \$31.2 million, or \$1.48 per fully diluted common share. The Corporation’s second quarter contributed to year-to-date fully diluted common share loss of \$1.31, down from the prior year income of \$.81.

The decline in net income for the quarter was due to a higher-than-normal provision for loan losses of \$59 million. The year-to-date provision was \$72 million compared to \$11 million during the first half of 2008. The Corporation’s allowance for loan losses, as a percent of total loans, increased to 2.16 percent as of quarter-end from 1.05 percent, as of June 30, 2008, a \$45.5 million increase. The increase in the reserve is a result of the provision for loan losses exceeding charge-offs by \$34.8 million in the last four quarters coupled with the \$10.7 million allowance from the Lincoln acquisition.

Loan charge-offs were \$40.4 million for the quarter. Commercial real estate charge-offs totaled \$6.6 million, land and lot development loans totaled \$5.1 million, 1-4 family residential properties totaled \$3.1 million, commercial and industrial loans totaled \$24.4 million and consumer loans totaled \$1.2 million. The single largest charge-off, totaling \$10.2 million, was taken as a result of fraudulent financial statements provided

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by a large commercial and industrial borrower. The Corporation is pursuing all legal actions to recover our exposure. Other losses for the quarter are primarily policy compliant loans resulting from economic pressures in our franchise.

Non-performing loans were \$116 million, or 2.46 percent of total assets at quarter-end. Of these non-performing loans, commercial real estate loans totaled \$42 million, land and lot development loans totaled \$26 million, 1-4 family residential properties totaled \$17 million, commercial and industrial loans totaled \$24 million and other loans totaled \$7 million. Other real estate owned ("OREO") declined at quarter-end by \$1.8 million to \$20 million. In addition, loans past due 90 days or more fell by more than half from the prior quarter to \$3.6 million.

As of June 30, 2009, the Corporation's total risk-based capital totaled 12.56 percent, Tier 1 risk-based capital totaled 10.01 percent, Tier 1 leverage ratio totaled 8.31 percent, and tangible common equity ratio totaled 4.42 percent. All regulatory capital ratios exceed the regulatory definitions of "well capitalized", in a range of 26 to 38 percent.

Net-Interest margin declined slightly by 4 basis points from 3.68 percent in the first quarter of 2009 to 3.64 percent in the second quarter of 2009 as net interest income remained stable at just over \$38 million, reflecting the strength of ongoing operations.

Total non-interest income, linked quarter-over-quarter, increased by \$224,000 when normalized for bond sales activities. Unrealized losses for the quarter included an other-than-temporary impairment charge of \$2 million related to pooled trust preferred holdings. The original exposure of \$14.9 million now totals \$11.1 million.

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Total non-interest expense, linked quarter-over-quarter, increased by \$3.5 million as FDIC assessments increased by \$2.9 million, expenses related to OREO write-downs increased by \$1.1 million and professional services related to credit losses increased by just over \$750,000. Absent credit-related costs and FDIC insurance costs, operating expenses decreased by nearly \$1.3 million, reflecting the operational savings related to the Lincoln integration from mid-April. The largest reduction was in base salary expense totaling \$950,000.

Michael C. Rechin, President and Chief Executive Officer, stated that, "First Merchants Corporation's management team is disappointed to report a loss quarter and yet keenly focused on our plan of capital and liquidity management, asset quality improvement and operating efficiencies."

Rechin continued, "Asset quality improvement efforts include policy and adjudication modifications, staffing changes, non-performing asset reductions and non-strategic asset reductions. During the quarter, we reduced our overall exposure to construction and development by \$46 million to a balance of \$162 million. We accomplished the reduction while earning assets grew reflecting our continued activity in our markets. Management will continue to ensure that all our stakeholder groups are well represented by First Merchants' priority setting during this turbulent time."

### CONFERENCE CALL

First Merchants Corporation will conduct a second quarter earnings conference call and web cast at 2:30 p.m. (ET) on Tuesday, August 4, 2009. To participate, dial (Toll Free) 800-860-2442 and reference First Merchants Corporation's second quarter earnings release. International callers please call +1 412-858-4600. In order to view the web cast and presentation slides, please go to <http://www.sn1.com/irweblinkx/corporateprofile.aspx?iid=100283> during the time of the call. A replay of both the call and the web cast will be available until August 12, 2009 at 9:00 a.m. (ET). To access replay, US/Canada participants should dial (Toll Free) 877-344-7529 or for International participants, dial +1 412-317-0088. The replay pass code is 431665.

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:

### About First Merchants Corporation

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, Inc., a full-service property casualty, personal lines, and healthcare insurance agency.



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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**

(Dollars in thousands)

|  | <b>June 30,</b>     |                     |
|--|---------------------|---------------------|
|  | <b>2009</b>         | <b>2008</b>         |
| <b>ASSETS</b>  |                     |                     |
| Cash and due from banks  | \$ 73,668           | \$ 80,996           |
| Federal funds sold   |                     |                     |
| Cash and cash equivalents                                      | 73,668              | 80,996              |
| Interest-bearing time deposits                                 | 44,595              | 7,267               |
| Investment securities  | 630,958             | 408,324             |
| Mortgage loans held for sale                                   | 23,070              | 3,234               |
| Loans  | 3,554,229           | 3,018,596           |
| Less: Allowance for loan losses                                | (77,119 )           | (31,597 )           |
| Net loans  | 3,477,110           | 2,986,999           |
| Premises and equipment   | 58,692              | 44,232              |
| Federal Reserve and Federal Home Loan Bank stock               | 34,441              | 25,455              |
| Interest receivable  | 20,778              | 19,680              |
| Core deposit intangibles and goodwill                          | 161,294             | 136,230             |
| Cash surrender value of life insurance                         | 93,876              | 72,948              |
| Other real estate owned  | 20,227              | 17,243              |
| Other assets   | 78,336              | 19,852              |
| <b>TOTAL ASSETS</b>  | <b>\$ 4,717,045</b> | <b>\$ 3,822,460</b> |
| <b>LIABILITIES</b>   |                     |                     |
| Deposits:  |                     |                     |
| Noninterest-bearing  | \$ 512,368          | \$ 403,152          |
| Interest-bearing   | 3,078,555           | 2,460,483           |
| <b>Total Deposits</b>  | <b>3,590,923</b>    | <b>2,863,635</b>    |
| Borrowings:  |                     |                     |
| Federal funds purchased  | 15,042              | 151,356             |
| Securities sold under repurchase agreements                    | 115,011             | 90,872              |
| Federal Home Loan Bank advances                                | 268,938             | 228,196             |
| Subordinated debentures, revolving credit lines and term loans | 194,783             | 115,826             |
| <b>Total Borrowings</b>  | <b>593,774</b>      | <b>586,250</b>      |
| Interest payable   | 7,351               | 6,658               |
| Other liabilities  | 51,619              | 18,525              |
| <b>Total Liabilities</b>                                       | <b>4,243,667</b>    | <b>3,475,068</b>    |
| <b>STOCKHOLDERS' EQUITY</b>                                    |                     |                     |
| Preferred Stock, no-par value:                                 |                     |                     |
| Authorized -- 500,000 shares                                   |                     |                     |
| Series A, Issued and outstanding - 116,000 shares              | 112,009             |                     |
| Cumulative Preferred Stock, \$1,000 par value:                 |                     |                     |
| Authorized -- 600 shares                                       |                     |                     |
| Issued and outstanding - 125 shares                            | 125                 | 125                 |
| Common Stock, \$.125 stated value:                             |                     |                     |
| Authorized -- 50,000,000 shares                                |                     |                     |
| Issued and outstanding - 21,067,477 and 18,062,701 shares      | 2,633               | 2,258               |
| Additional paid-in capital                                     | 204,403             | 140,258             |
| Retained earnings  | 172,688             | 209,059             |
| Accumulated other comprehensive loss                           | (18,480 )           | (4,308 )            |
| <b>Total Stockholders' Equity</b>                              | <b>473,378</b>      | <b>347,392</b>      |

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|   |             |             |
|---|-------------|-------------|
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | \$4,717,045 | \$3,822,460 |
|---|-------------|-------------|

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| CONSOLIDATED STATEMENTS OF OPERATIONS<br>(Dollars in thousands, except per share amounts) | Three Months Ended |          | Six Months Ended |            |
|---|--------------------|----------|------------------|------------|
|   |                    |          |                  |            |
|   | June 30,<br>2009   | 2008     | June 30,<br>2009 | 2008       |
| <b>INTEREST INCOME</b>  |                    |          |                  |            |
| Loans receivable:   |                    |          |                  |            |
| Taxable   | \$ 52,843          | \$49,023 | \$ 106,636       | \$ 100,124 |
| Tax exempt  | 247                | 178      | 462              | 343        |
| Investment securities:  |                    |          |                  |            |
| Taxable   | 3,261              | 2,947    | 7,024            | 6,196      |
| Tax exempt  | 2,362              | 1,452    | 4,131            | 2,965      |
| Federal funds sold  | 42                 | 3        | 54               | 11         |
| Deposits with financial institutions  | 116                | 133      | 218              | 415        |
| Federal Reserve and Federal Home Loan Bank stock  | 199                | 370      | 672              | 705        |
| <b>Total Interest Income</b>  | 59,070             | 54,106   | 119,197          | 110,759    |
| <b>INTEREST EXPENSE</b>   |                    |          |                  |            |
| Deposits  | 15,569             | 16,297   | 32,280           | 35,730     |
| Federal funds purchased   |                    | 577      | 22               | 1,246      |
| Securities sold under repurchase agreements   | 507                | 632      | 974              | 1,448      |
| Federal Home Loan Bank advances   | 2,447              | 2,825    | 5,396            | 5,861      |
| Subordinated debentures, revolving credit lines and term loans                            | 2,113              | 1,602    | 3,592            | 3,492      |
| <b>Total Interest Expense</b>   | 20,636             | 21,933   | 42,264           | 47,777     |
| <b>NET INTEREST INCOME</b>  | 38,434             | 32,173   | 76,933           | 62,982     |
| Provision for loan losses   | 58,995             | 7,070    | 71,916           | 10,893     |
| <b>NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES</b>                         | (20,561 )          | 25,103   | 5,017            | 52,089     |
| <b>OTHER INCOME</b>   |                    |          |                  |            |
| Service charges on deposit accounts   | 3,888              | 3,157    | 7,430            | 6,088      |
| Fiduciary activities  | 1,680              | 2,126    | 3,739            | 4,268      |
| Other customer fees   | 1,946              | 1,767    | 3,949            | 3,446      |
| Commission income   | 1,698              | 1,427    | 3,757            | 3,096      |
| Earnings on cash surrender value of life insurance  | 331                | 606      | 654              | 1,344      |
| Net gains and fees on sales of loans  | 1,678              | 668      | 3,108            | 1,311      |
| Net realized and unrealized gains/(losses) on sales of available for sale securities      | (891 )             | 13       | 1,423            | 86         |
| Other income  | 1,160              | 570      | 1,901            | 1,222      |
| <b>Total Other Income</b>   | 11,490             | 10,334   | 25,961           | 20,861     |
| <b>OTHER EXPENSES</b>   |                    |          |                  |            |
| Salaries and employee benefits  | 19,685             | 15,698   | 39,700           | 31,796     |
| Net occupancy   | 2,443              | 1,750    | 5,012            | 3,555      |
| Equipment   | 1,909              | 1,643    | 3,785            | 3,297      |
| Marketing   | 564                | 612      | 1,113            | 1,096      |
| Outside data processing fees  | 1,405              | 1,009    | 3,338            | 1,891      |
| Printing and office supplies  | 397                | 291      | 760              | 572        |
| Core deposit amortization   | 1,278              | 808      | 2,555            | 1,598      |
| Other expenses  | 10,511             | 4,593    | 16,643           | 8,872      |
| <b>Total Other Expenses</b>   | 38,192             | 26,404   | 72,906           | 52,677     |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>  | (47,263 )          | 9,033    | (41,928 )        | 20,273     |
| Income tax expense (benefit)  | (17,534 )          | 2,491    | (16,316 )        | 5,605      |
| <b>NET INCOME (LOSS)</b>  | (29,729 )          | 6,542    | (25,612 )        | 14,668     |
| Preferred stock dividends and discount accretion  | 1,450              |          | 2,078            |            |
|   | \$ (31,179 )       | \$ 6,542 | \$ (27,690 )     | \$ 14,668  |

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**NET INCOME (LOSS) AVAILABLE TO COMMON**

**STOCKHOLDERS**

**Per Share Data:**

|  |          |          |          |           |
|--|----------|----------|----------|-----------|
| Basic Net Income (Loss) Available to Common Stockholders | \$ (1.49 | ) \$0.37 | \$ (1.32 | ) \$ 0.82 |
| Diluted Net Income (Loss) Available to Common            |          |          |          |           |
| Stockholders   | \$ (1.48 | ) \$0.36 | \$ (1.31 | ) \$ 0.81 |
| Cash Dividends Paid                                      | \$ 0.08  | \$0.23   | \$ 0.31  | \$ 0.46   |
| Average Diluted Shares Outstanding (in thousands)        | 21,120   | 18,159   | 21,108   | 18,108    |

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**FINANCIAL HIGHLIGHTS**

| (Dollars in thousands)     | Three Months Ended |             | Six Months Ended |             |
|----------------------------|--------------------|-------------|------------------|-------------|
|                            | June 30,<br>2009   | 2008        | June 30,<br>2009 | 2008        |
| NET CHARGE OFF'S           | \$40,378           | \$4,567     | \$46,380         | \$7,524     |
| AVERAGE BALANCES:          |                    |             |                  |             |
| Total Assets               | \$4,813,639        | \$3,770,260 | \$4,767,145      | \$3,764,296 |
| Total Loans                | 3,636,233          | 2,973,270   | 3,665,989        | 2,940,716   |
| Total Deposits             | 3,669,103          | 2,835,076   | 3,653,466        | 2,835,625   |
| Total Stockholders' Equity | 507,484            | 350,800     | 479,554          | 347,761     |

## FINANCIAL RATIOS:

|   |        |    |       |   |        |    |       |   |
|---|--------|----|-------|---|--------|----|-------|---|
| Return on Average Assets                            | (2.59  | )% | 0.69  | % | (1.16  | )% | 0.78  | % |
| Return on Average Stockholders' Equity              | (24.58 | )  | 7.46  |   | (11.56 | )  | 8.44  |   |
| Average Earning Assets to Average Assets            | 91.07  |    | 90.94 |   | 91.07  |    | 90.66 |   |
| Allowance for Loan Losses as % of Total Loans       | 2.16   |    | 1.05  |   | 2.16   |    | 1.05  |   |
| Net Charge Off's as % of Average Loans (Annualized) | 4.44   |    | 0.61  |   | 2.53   |    | 0.51  |   |
| Dividend Payout Ratio                               | (5.41  | )  | 63.85 |   | (23.66 | )  | 56.79 |   |
| Average Stockholders' Equity to Average Assets      | 10.54  |    | 9.30  |   | 10.05  |    | 9.24  |   |
| Tax Equivalent Yield on Earning Assets              | 5.52   |    | 6.41  |   | 5.61   |    | 6.60  |   |
| Cost of Supporting Liabilities                      | 1.88   |    | 2.56  |   | 1.95   |    | 2.80  |   |
| Net Interest Margin (FTE) on Earning Assets         | 3.64   |    | 3.85  |   | 3.66   |    | 3.80  |   |

**NON-PERFORMING ASSETS**

| (Dollars in thousands)                   | June 30,<br>2009 | March 31,<br>2009 | December 31,<br>2008 | September 31,<br>2008 | June 30,<br>2008 |   |      |   |      |   |
|--|------------------|-------------------|----------------------|-----------------------|------------------|---|------|---|------|---|
| Non-Accrual Loans                        | \$ 112,220       | \$ 108,546        | \$ 87,546            | \$ 37,879             | \$ 34,410        |   |      |   |      |   |
| Renegotiated Loans                       | 4,216            |                   | 130                  | 135                   | 136              |   |      |   |      |   |
| Non-Performing Loans (NPL)               | 116,436          | 108,546           | 87,676               | 38,014                | 34,546           |   |      |   |      |   |
| Real Estate Owned and Repossessed Assets | 20,227           | 22,077            | 18,458               | 16,916                | 17,243           |   |      |   |      |   |
| Non-Performing Assets (NPA)              | 136,663          | 130,623           | 106,134              | 54,930                | 51,789           |   |      |   |      |   |
| 90+ Days Delinquent                      | 3,596            | 7,732             | 5,982                | 8,056                 | 3,538            |   |      |   |      |   |
| NPAS & 90 Day Delinquent                 | \$ 140,259       | \$ 138,355        | \$ 112,116           | \$ 62,986             | \$ 55,327        |   |      |   |      |   |
| Loan Loss Reserve                        | \$ 77,119        | \$ 58,502         | \$ 49,543            | \$ 34,985             | \$ 31,597        |   |      |   |      |   |
| YTD Charge-offs                          | 46,380           | 6,002             | 15,602               | 11,230                | 7,524            |   |      |   |      |   |
| NPAs / Actual Assets %                   | 2.90             | %                 | 2.67                 | %                     | 2.22             | % | 1.42 | % | 1.35 | % |
| NPAs & 90 Day / Actual Assets %          | 2.97             | %                 | 2.83                 | %                     | 2.34             | % | 1.63 | % | 1.45 | % |
| NPAs / Actual Loans and REO %            | 3.80             | %                 | 3.54                 | %                     | 2.83             | % | 1.77 | % | 1.70 | % |
| Loan Loss Reserves / Actual Loans %      | 2.16             | %                 | 1.60                 | %                     | 1.33             | % | 1.14 | % | 1.05 | % |
| NCOs / YTD Average Loans %               | 1.27             | %                 | 0.16                 | %                     | 0.52             | % | 0.38 | % | 0.26 | % |



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**CONSOLIDATED BALANCE SHEETS**

| (Dollars in thousands)   | June 30,<br>2009    | March 31,<br>2009   | December 31,<br>2008 | September 30,<br>2008 | June 30,<br>2008    |
|--|---------------------|---------------------|----------------------|-----------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |                      |                       |                     |
| Cash and due from banks  | \$ 73,668           | \$ 96,606           | \$ 84,249            | \$ 69,846             | \$ 80,996           |
| Federal funds sold   |                     | 89,282              | 66,237               | 7,818                 |                     |
| Cash and cash equivalents                                      | 73,668              | 185,888             | 150,486              | 77,664                | 80,996              |
| Interest-bearing time deposits                                 | 44,595              | 158,295             | 38,823               | 15,623                | 7,267               |
| Investment securities  | 630,958             | 446,316             | 481,984              | 388,808               | 408,324             |
| Mortgage loans held for sale                                   | 23,070              | 8,659               | 4,295                | 2,062                 | 3,234               |
| Loans  | 3,554,229           | 3,654,074           | 3,721,952            | 3,078,768             | 3,018,596           |
| Less: Allowance for loan losses                                | (77,119 )           | (58,502 )           | (49,543 )            | (34,985 )             | (31,597 )           |
| Net loans  | 3,477,110           | 3,595,572           | 3,672,409            | 3,043,783             | 2,986,999           |
| Premises and equipment   | 58,692              | 58,948              | 59,641               | 44,402                | 44,232              |
| Federal Reserve and Federal Home Loan Bank stock               | 34,441              | 34,420              | 34,319               | 25,494                | 25,455              |
| Interest receivable  | 20,778              | 20,783              | 23,976               | 21,569                | 19,680              |
| Core deposit intangibles and goodwill                          | 161,294             | 162,571             | 165,974              | 135,701               | 136,230             |
| Cash surrender value of life insurance                         | 93,876              | 93,544              | 93,222               | 73,448                | 72,948              |
| Other real estate owned  | 20,227              | 22,077              | 18,458               | 16,916                | 17,243              |
| Other assets   | 78,336              | 99,824              | 40,568               | 18,604                | 19,852              |
| <b>TOTAL ASSETS</b>  | <b>\$ 4,717,045</b> | <b>\$ 4,886,897</b> | <b>\$ 4,784,155</b>  | <b>\$ 3,864,074</b>   | <b>\$ 3,822,460</b> |
| <b>LIABILITIES</b>   |                     |                     |                      |                       |                     |
| Deposits:  |                     |                     |                      |                       |                     |
| Noninterest-bearing  | \$ 512,368          | \$ 462,167          | \$ 460,519           | \$ 384,928            | \$ 403,152          |
| Interest-bearing   | 3,078,555           | 3,222,797           | 3,258,292            | 2,529,355             | 2,460,483           |
| <b>Total Deposits</b>  | <b>3,590,923</b>    | <b>3,684,964</b>    | <b>3,718,811</b>     | <b>2,914,283</b>      | <b>2,863,635</b>    |
| Borrowings:  |                     |                     |                      |                       |                     |
| Federal funds purchased  | 15,042              |                     |                      | 57,600                | 151,356             |
| Securities sold under repurchase agreements                    | 115,011             | 113,106             | 122,311              | 100,227               | 90,872              |
| Federal Home Loan Bank advances                                | 268,938             | 278,583             | 360,217              | 237,225               | 228,196             |
| Subordinated debentures, revolving credit lines and term loans | 194,783             | 204,779             | 135,826              | 176,256               | 115,826             |
| <b>Total Borrowings</b>  | <b>593,774</b>      | <b>596,468</b>      | <b>618,354</b>       | <b>571,308</b>        | <b>586,250</b>      |
| Interest payable   | 7,351               | 8,278               | 8,844                | 6,529                 | 6,658               |
| Other liabilities  | 51,619              | 89,082              | 42,243               | 19,861                | 18,525              |
| <b>Total Liabilities</b>                                       | <b>4,243,667</b>    | <b>4,378,792</b>    | <b>4,388,252</b>     | <b>3,511,981</b>      | <b>3,475,068</b>    |
| <b>STOCKHOLDERS' EQUITY</b>                                    |                     |                     |                      |                       |                     |
| Preferred Stock, no-par value:                                 |                     |                     |                      |                       |                     |
| Authorized -- 500,000 shares                                   |                     |                     |                      |                       |                     |
| Series A, Issued and outstanding - 116,000 shares              | 112,009             | 111,831             |                      |                       |                     |
| Cumulative Preferred Stock, \$1,000 par value:                 |                     |                     |                      |                       |                     |
| Authorized -- 600 shares                                       |                     |                     |                      |                       |                     |
| Issued and outstanding - 125 shares                            | 125                 | 125                 | 125                  | 125                   | 125                 |
| Common Stock, \$.125 stated value:                             |                     |                     |                      |                       |                     |
| Authorized -- 50,000,000 shares                                |                     |                     |                      |                       |                     |
| Issued and outstanding - 21,067,477 and 18,062,701 shares      | 2,633               | 2,632               | 2,647                | 2,266                 | 2,258               |
| Additional paid-in capital                                     | 204,403             | 203,889             | 202,299              | 141,777               | 140,258             |
| Retained earnings  | 172,688             | 205,616             | 206,496              | 210,605               | 209,059             |
| Accumulated other comprehensive loss                           | (18,480 )           | (15,988 )           | (15,664 )            | (2,680 )              | (4,308 )            |



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|   |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Total Stockholders' Equity</b>                 | 473,378      | 508,105      | 395,903      | 352,093      | 347,392      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | \$ 4,717,045 | \$ 4,886,897 | \$ 4,784,155 | \$ 3,864,074 | \$ 3,822,460 |

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**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in thousands, except per share amounts)

|  | June 30,<br>2009 | March 31,<br>2009 | December 31,<br>2008 | September 30,<br>2008 | June 30,<br>2008 |
|--|------------------|-------------------|----------------------|-----------------------|------------------|
| <b>INTEREST INCOME</b>   |                  |                   |                      |                       |                  |
| Loans receivable:  |                  |                   |                      |                       |                  |
| Taxable  | \$ 52,843        | \$ 53,793         | \$ 48,433            | \$ 49,828             | \$ 49,023        |
| Tax exempt   | 247              | 215               | 349                  | 321                   | 178              |
| Investment securities:   |                  |                   |                      |                       |                  |
| Taxable  | 3,261            | 3,763             | 2,907                | 2,943                 | 2,947            |
| Tax exempt   | 2,362            | 1,769             | 1,511                | 1,379                 | 1,452            |
| Federal funds sold   | 42               | 12                | 7                    | 10                    | 3                |
| Deposits with financial institutions   | 116              | 102               | 194                  | 146                   | 133              |
| Federal Reserve and Federal Home Loan Bank stock                                     | 199              | 473               | 335                  | 351                   | 370              |
| <b>Total Interest Income</b>   | 59,070           | 60,127            | 53,736               | 54,978                | 54,106           |
| <b>INTEREST EXPENSE</b>  |                  |                   |                      |                       |                  |
| Deposits   | 15,569           | 16,711            | 15,638               | 16,213                | 16,297           |
| Federal funds purchased  |                  | 22                | 108                  | 502                   | 577              |
| Securities sold under repurchase agreements  | 507              | 467               | 502                  | 650                   | 632              |
| Federal Home Loan Bank advances  | 2,447            | 2,949             | 2,583                | 2,724                 | 2,825            |
| Subordinated debentures, revolving credit lines and term loans                       | 2,113            | 1,479             | 1,757                | 1,635                 | 1,602            |
| <b>Total Interest Expense</b>  | 20,636           | 21,628            | 20,588               | 21,724                | 21,933           |
| <b>NET INTEREST INCOME</b>   | 38,434           | 38,499            | 33,148               | 33,254                | 32,173           |
| Provision for loan losses  | 58,995           | 12,921            | 10,251               | 7,094                 | 7,070            |
| <b>NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES</b>                    | (20,561 )        | 25,578            | 22,897               | 26,160                | 25,103           |
| <b>OTHER INCOME</b>  |                  |                   |                      |                       |                  |
| Service charges on deposit accounts  | 3,888            | 3,542             | 3,346                | 3,568                 | 3,157            |
| Fiduciary activities   | 1,680            | 2,059             | 1,831                | 1,932                 | 2,126            |
| Other customer fees  | 1,946            | 2,003             | 1,634                | 1,696                 | 1,767            |
| Commission income  | 1,698            | 2,059             | 1,271                | 1,457                 | 1,427            |
| Earnings on cash surrender value of life insurance                                   | 331              | 323               | (2,130 )             | 519                   | 606              |
| Net gains and fees on sales of loans   | 1,678            | 1,430             | 531                  | 648                   | 668              |
| Net realized and unrealized gains/(losses) on sales of available for sale securities | (891 )           | 2,314             | (914 )               | (1,255 )              | 13               |
| Other income   | 1,160            | 741               | 717                  | 655                   | 570              |
| <b>Total Other Income</b>  | 11,490           | 14,471            | 6,286                | 9,220                 | 10,334           |
| <b>OTHER EXPENSES</b>  |                  |                   |                      |                       |                  |
| Salaries and employee benefits   | 19,685           | 20,015            | 15,880               | 15,330                | 15,698           |
| Net occupancy  | 2,443            | 2,569             | 2,299                | 1,857                 | 1,750            |
| Equipment  | 1,909            | 1,876             | 1,713                | 1,649                 | 1,643            |
| Marketing  | 564              | 549               | 610                  | 605                   | 612              |
| Outside data processing fees   | 1,405            | 1,933             | 1,128                | 1,068                 | 1,009            |
| Printing and office supplies   | 397              | 363               | 361                  | 281                   | 291              |
| Core deposit amortization  | 1,278            | 1,277             | 809                  | 809                   | 808              |
| Other expenses   | 10,511           | 6,132             | 6,200                | 5,516                 | 4,593            |
| <b>Total Other Expenses</b>  | 38,192           | 34,714            | 29,000               | 27,115                | 26,404           |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>   | (47,263 )        | 5,335             | 183                  | 8,265                 | 9,033            |
| Income tax expense (benefit)   | (17,534 )        | 1,218             | (38 )                | 2,516                 | 2,491            |
| <b>NET INCOME (LOSS)</b>   | (29,729 )        | 4,117             | 221                  | 5,749                 | 6,542            |
| Preferred stock dividends and discount accretion                                     | 1,450            | 628               |                      |                       |                  |

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|  |             |          |          |          |    |        |  |  |  |
|--|-------------|----------|----------|----------|----|--------|--|--|--|
| <b>NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS PER SHARE:</b> |             |          |          |          |    |        |  |  |  |
|  | \$(31,179 ) | \$ 3,489 | \$ 221   | \$ 5,749 | \$ | 6,542  |  |  |  |
| Basic Net Income (Loss) Available to Common Stockholders             | \$(1.49 )   | \$ 0.17  | \$ 0.01  | \$ 0.32  | \$ | 0.37   |  |  |  |
| Diluted Net Income (Loss) Available to Common Stockholders           | \$(1.48 )   | \$ 0.17  | \$ 0.01  | \$ 0.32  | \$ | 0.36   |  |  |  |
| Cash Dividends Paid  | \$ 0.08     | \$ 0.23  | \$ 0.23  | \$ 0.23  | \$ | 0.23   |  |  |  |
| Average Diluted Shares Outstanding (in thousands)                    | 21,120      | 21,093   | 18,257   | 18,196   |    | 18,159 |  |  |  |
| <b>FINANCIAL RATIOS:</b>   |             |          |          |          |    |        |  |  |  |
| Return on Average Assets   | (2.59 )%    | 0.30 %   | 0.02 %   | 0.60 %   |    | 0.69 % |  |  |  |
| Return on Average Stockholders' Equity                               | (24.58 )    | 3.10     | 0.25     | 6.58     |    | 7.46   |  |  |  |
| Average Earning Assets to Average Assets                             | 91.07       | 91.07    | 91.15    | 91.02    |    | 90.94  |  |  |  |
| Allowance for Loan Losses as % of Total Loans                        | 2.16        | 1.60     | 1.33     | 1.14     |    | 1.05   |  |  |  |
| Net Charge Off's as % of Average Loans (Annualized)                  | 4.44        | 0.65     | 0.57     | 0.49     |    | 0.61   |  |  |  |
| Dividend Payout Ratio  | (5.41 )     | 135.29   | 2,300.00 | 71.88    |    | 63.85  |  |  |  |
| Average Stockholders' Equity to Average Assets                       | 10.54       | 9.55     | 9.13     | 9.09     |    | 9.30   |  |  |  |
| Tax Equivalent Yield on Earning Assets                               | 5.52        | 5.69     | 6.21     | 6.39     |    | 6.41   |  |  |  |
| Cost of Supporting Liabilities                                       | 1.88        | 2.01     | 2.33     | 2.48     |    | 2.56   |  |  |  |
| Net Interest Margin (FTE) on Earning Assets                          | 3.64        | 3.68     | 3.88     | 3.91     |    | 3.85   |  |  |  |

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**LOANS**

(Dollars in thousands)

|  | <b>June 30,<br/>2009</b> | <b>March 31,<br/>2009</b> | <b>December 31,<br/>2008</b> | <b>September 30,<br/>2008</b> | <b>June 30,<br/>2008</b> |
|--|--------------------------|---------------------------|------------------------------|-------------------------------|--------------------------|
| Commercial and industrial loans                                  | \$ 874,671               | \$ 891,393                | \$ 904,646                   | \$ 851,233                    | \$ 815,137               |
| Agricultural production financing and other loans to farmers     | 121,361                  | 120,462                   | 135,099                      | 136,176                       | 125,125                  |
| Real estate loans:   |                          |                           |                              |                               |                          |
| Construction   | 162,765                  | 208,145                   | 252,487                      | 167,512                       | 181,598                  |
| Commercial and farmland  | 1,231,986                | 1,246,450                 | 1,202,372                    | 966,259                       | 954,672                  |
| Residential  | 930,714                  | 949,259                   | 956,245                      | 731,065                       | 718,065                  |
| Individuals' loans for household and other personal expenditures | 174,363                  | 193,109                   | 201,632                      | 145,345                       | 161,387                  |
| Tax exempt loans   | 23,596                   | 18,121                    | 28,070                       | 34,010                        | 22,553                   |
| Lease financing receivables, net of unearned income              | 8,095                    | 8,178                     | 8,996                        | 9,262                         | 9,158                    |
| Other loans  | 26,678                   | 18,957                    | 32,405                       | 37,906                        | 30,901                   |
|  | 3,554,229                | 3,654,074                 | 3,721,952                    | 3,078,768                     | 3,018,596                |
| Allowance for loan losses  | (77,119 )                | (58,502 )                 | (49,543 )                    | (34,985 )                     | (31,597 )                |
| <b>TOTAL LOANS</b>   | <b>\$ 3,477,110</b>      | <b>\$ 3,595,572</b>       | <b>\$ 3,672,409</b>          | <b>\$ 3,043,783</b>           | <b>\$ 2,986,999</b>      |

**DEPOSITS**

(Dollars in thousands)

|   | <b>June 30,<br/>2009</b> | <b>March 31,<br/>2009</b> | <b>December 31,<br/>2008</b> | <b>September 30,<br/>2008</b> | <b>June 30,<br/>2008</b> |
|---|--------------------------|---------------------------|------------------------------|-------------------------------|--------------------------|
| Demand deposits   | \$ 1,197,646             | \$ 1,166,205              | \$ 1,136,267                 | \$ 921,034                    | \$ 932,017               |
| Savings deposits  | 740,340                  | 743,812                   | 721,387                      | 540,596                       | 546,951                  |
| Certificates and other time deposits of \$100,000 or more | 503,971                  | 511,873                   | 509,730                      | 469,426                       | 444,967                  |
| Other certificates and time deposits                      | 835,889                  | 853,149                   | 874,144                      | 636,495                       | 632,047                  |
| Brokered deposits   | 313,067                  | 409,925                   | 477,283                      | 346,732                       | 307,653                  |
| <b>TOTAL DEPOSITS</b>                                     | <b>\$ 3,590,913</b>      | <b>\$ 3,684,964</b>       | <b>\$ 3,718,811</b>          | <b>\$ 2,914,283</b>           | <b>\$ 2,863,635</b>      |