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FIRST MERCHANTS CORP
Form 8-K
July 20, 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): July 20, 2007

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

INDIANA (State or other jurisdiction of incorporation)	0-17071 (Commission file number)	35-1544218 (IRS Employer Identification No.)
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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 July 20, 2007, First Merchants Corporation issued a press release to report its financial results for the second quarter ended June 30, 2007. A

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Exhibit No. 99.1

Press Release, dated July 20, 2007

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

July 20, 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 SECOND QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported June 30, 2007 net income of \$13,979,000, a \$821,000 decrease over the \$14,800,000 earned in the first half of 2006. Diluted earnings per share totaled \$.76, a \$.04 decrease over 2006 first half earnings per share of \$.80.

Second quarter net income totaled \$6,208,000, down from the 2006 second quarter \$7,291,000. Diluted earnings per share totaled \$.34, a \$.05 decline from the second quarter of 2006.

Included in the second quarter and first half results were special charges related to the early redemption of the Corporation's subordinated debentures payable to First Merchants Capital Trust I and subsequent redemption by First Merchants Capital Trust I of its outstanding common and preferred fixed rate securities (NASDAQ-FRMEP) as reported on Form 8-K on April 26, 2007. The early redemption of the debentures required the Corporation to accelerate the recognition of the remaining unamortized underwriting fee of approximately \$1.8 million, or \$.06 per share, during the second quarter. Going forward, the Corporation's more favorable terms provide savings of \$1.2 million, or \$.04 per share annually.

Additionally, in a January 24, 2007 press release, the Corporation announced its plan to integrate the data operations of its Columbus, Ohio, bank into its corporate operations center. The company finalized the re-branding of four bank charters into First Merchants Bank on April 1, 2007. Of the four merged charters one data consolidation is complete. The expense related to these efforts was reported to cost just over \$1 million in 2007. As of June 30, 2007, the Corporation has expensed \$601,000, or \$.02 per share.

Total assets equaled \$3.67 billion at quarter-end, an increase of \$261 million, or 7.7 percent, from June 30, 2006. Loans and investments, the Corporation's primary earning assets, totaled \$3.29 billion, an increase of \$227 million, or 7.5 percent, over the prior period.

Non-interest income increased by \$2,562,000, or 15.1 percent, through June as service charges on deposits increased by \$777,000, earnings on cash surrender value of bank-owned life insurance increased by \$612,000, and insurance commission increased by \$457,000.

Second quarter net-Interest margin, when normalized for the recognition of the previously mentioned remaining unamortized underwriting fee totaling approximately \$1.8 million, or 22 basis points, equaled the first quarter net-interest margin of 3.50 percent.

Year-to-date operating expense, absent the \$601,000 related to operational

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conversions, increased by \$1,879,000, or 3.9 percent.

The allowance for loan losses increased during the last twelve months by \$1.7 million as non-performing loans totaled 1.39 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, "The Corporation's normalized earnings per share for the quarter totaled \$.42 per share and \$.84 for the first half of 2007, representing increases of 7.7 percent and 5.0 percent, respectively." Rechin also added, "The tactical execution of our 2007 plan continues to proceed as expected. The continued growth of our balance sheet and fee income combined with the refinance of our trust preferred securities, charter consolidation and tax management should prove to accelerate our performance into the second half of 2007."

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CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Daylight Time on Friday, July 20, 2007. To participate, dial (Toll Free) 877-407-9210 and reference First Merchants Corporation's second quarter earnings. A replay will be available until July 27, 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 # 247985.

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

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(in thousands)	June 30,	
	2007	2006
Assets		
Cash and due from banks	\$ 80,921	\$ 71,275
Interest-bearing time deposits	8,898	8,529
Investment securities	479,281	466,882
Mortgage loans held for sale	2,842	5,338
Loans	2,806,068	2,591,440
Less: Allowance for loan losses	(27,608)	(25,884)
	-----	-----
Net loans	2,778,460	2,565,556
Premises and equipment	44,126	41,122
Federal Reserve and Federal Home Loan Bank stock	23,822	23,889
Interest receivable	21,615	19,539
Core deposit intangibles and goodwill	137,056	137,429
Cash surrender value of life insurance	69,111	44,358
Other assets	23,383	24,346
	-----	-----
Total assets	\$ 3,669,515	\$ 3,408,263
	=====	=====
Liabilities		
Deposits		
Noninterest-bearing	\$ 362,083	\$ 340,046
Interest-bearing	2,357,518	2,195,354
	-----	-----
Total deposits	2,719,601	2,535,400
Borrowings	587,574	527,347
Interest payable	10,417	6,927
Other liabilities	24,543	25,585
	-----	-----
Total liabilities	3,342,135	3,095,259
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 -- 18,285,359 and 18,259,256 shares		
	2,286	2,282
Additional paid-in capital	143,317	142,037
Retained earnings	193,460	181,042
Accumulated other comprehensive loss	(11,683)	(12,357)
	-----	-----
Total stockholders' equity	327,380	313,004
	-----	-----
Total liabilities and stockholders' equity	\$ 3,669,515	\$ 3,408,263
	=====	=====

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
NET CHARGE OFF'S	\$ 859	\$ 1,468	\$ 2,179	\$ 2,759
AVERAGE BALANCES				
Total Assets	\$3,601,473	\$3,321,852	\$3,562,122	\$3,279,130
Total Loans	2,764,209	2,534,675	2,733,840	2,504,886
Total Deposits	2,729,145	2,491,665	2,709,635	2,449,888

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Total Stockholders' Equity	329,613	316,871	328,981	316,751
FINANCIAL RATIOS				
Return on Average Assets	.69%	.88%	.78%	.90%
Return on Avg. Stockholders' Equity	7.53	9.20	8.50	9.35
Avg. Earning Assets to Avg. Assets	90.96	91.21	91.04	91.24
Allowance for Loan Losses as % Of Total Loans	.98	1.00	.98	1.00
Net Charge Off's as % Of Avg. Loans (Annualized)	.12	.23	.16	.22
Dividend Payout Ratio	67.65	58.97	60.53	57.50
Avg. Stockholders' Equity to Avg. Assets	9.15	9.54	9.24	9.66
Tax Equivalent Yield on Earning Assets	7.09	6.87	7.05	6.76
Cost of Supporting Liabilities	3.81	3.07	3.66	2.92
Net Int. Margin (FTE) on Earning Assets	3.28	3.80	3.39	3.83

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CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Interest income				
Loans receivable				
Taxable	\$ 51,204	\$ 45,658	\$100,849	\$ 88,243
Tax exempt	249	231	450	450
Investment securities				
Taxable	3,394	3,082	6,676	5,949
Tax exempt	1,651	1,613	3,312	3,243
Federal funds sold	91	11	92	11
Deposits with financial institutions	120	132	243	132
Federal Reserve and Federal Home Loan Bank stock	299	320	627	320
	-----	-----	-----	-----
Total interest income	57,008	51,047	112,249	99,908
	-----	-----	-----	-----
Interest expense				
Deposits	22,390	16,914	44,196	31,814
Federal funds purchased	1,047	625	1,901	1,047
Securities sold under repurchase agreements	910	1,053	1,479	1,053
Federal Home Loan Bank advances	3,009	2,610	5,945	5,945
Subordinated debentures, revolving credit lines and term loans	3,808	2,020	5,809	4,020
Other borrowings		59		
	-----	-----	-----	-----
Total interest expense	31,164	23,281	59,330	43,889
	-----	-----	-----	-----
Net interest income	25,844	27,766	52,919	55,999
Provision for loan losses	1,648	1,729	3,247	3,247
	-----	-----	-----	-----
Net interest income after provision for loan losses	24,196	26,037	49,672	51,752
	-----	-----	-----	-----
Other income				
Fiduciary activities	2,257	1,949	4,293	3,257
Service charges on deposit accounts	3,091	2,771	5,974	5,974
Other customer fees	1,535	1,389	3,026	2,913

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Net realized gains on sales of available-for-sale securities		(9)	(1)	
Commission income	1,269	946	2,907	2
Earnings on cash surrender value of life insurance	782	432	1,467	
Net gains and fees on sales of loans	611	511	1,143	1
Other income	221	422	761	
	-----	-----	-----	-----
Total other income	9,766	8,411	19,570	17
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	14,796	13,543	29,522	27
Net occupancy expenses	1,612	1,477	3,210	2
Equipment expenses	1,783	2,007	3,505	3
Marketing expense	653	438	1,140	
Outside data processing fees	1,036	921	1,987	1
Printing and office supplies	388	424	687	
Core deposit amortization	790	761	1,581	1
Other expenses	4,910	4,323	8,530	7
	-----	-----	-----	-----
Total other expenses	25,968	23,894	50,162	47
	-----	-----	-----	-----
Income before income tax	7,994	10,554	19,080	21
Income tax expense	1,786	3,263	5,101	6
	-----	-----	-----	-----
Net income	\$ 6,208	\$ 7,291	\$ 13,979	\$ 14
	=====	=====	=====	=====
Per Share Data				
Basic Net Income	.34	.39	.76	
Diluted Net Income	.34	.39	.76	
Cash Dividends Paid	.23	.23	.46	
Average Diluted Shares Outstanding (in thousands)	18,369	18,463	18,432	18

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CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30, 2007	March 31, 2007	December 31, 2006	Septemb 200
Assets				
Cash and due from banks	\$ 80,921	\$ 43,629	\$ 89,957	\$ 65
Interest-bearing time deposits	8,898	6,785	11,284	8
Investment securities	479,281	476,199	465,217	468
Mortgage loans held for sale	2,842	2,732	5,413	3
Loans	2,806,068	2,731,140	2,692,601	2,641
Less: Allowance for loan losses	(27,608)	(26,819)	(26,540)	(26
	-----	-----	-----	-----
Net loans	2,778,460	2,704,321	2,666,061	2,614
Premises and equipment	44,126	43,262	42,393	40
Federal Reserve and Federal Home Loan Bank stock	23,822	23,691	23,691	23
Interest receivable	21,615	21,941	24,345	23
Core deposit intangibles and goodwill	137,056	137,847	138,638	136
Cash surrender value of life insurance	69,111	68,360	64,213	63

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Other assets	23,383	26,047	23,658	23,383
	-----	-----	-----	-----
Total assets	\$ 3,669,515	\$ 3,554,814	\$ 3,554,870	\$ 3,472,000
	=====	=====	=====	=====
Liabilities				
Deposits				
Noninterest-bearing	\$ 362,083	\$ 325,615	\$ 362,058	\$ 324,000
Interest-bearing	2,357,518	2,361,773	2,388,480	2,369,000
	-----	-----	-----	-----
Total deposits	2,719,601	2,687,388	2,750,538	2,694,000
Borrowings	587,574	497,188	440,764	419,000
Interest payable	10,417	10,834	9,326	10,000
Other liabilities	24,543	30,756	26,917	26,000
	-----	-----	-----	-----
Total liabilities	3,342,135	3,226,166	3,227,545	3,149,000
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				
	2,286	2,289	2,305	2,286
Additional paid-in capital	143,317	143,672	146,460	143,317
Retained earnings	193,460	191,476	187,965	184,460
Accumulated other comprehensive loss	(11,683)	(8,789)	(9,405)	(8,789)
	-----	-----	-----	-----
Total stockholders' equity	327,380	328,648	327,325	322,000
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$ 3,669,515	\$ 3,554,814	\$ 3,554,870	\$ 3,472,000
	=====	=====	=====	=====

NON-PERFORMING ASSETS

(in thousands)	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	
90 days past due	\$ 5,203	\$ 4,554	\$ 2,870	\$ 4,253	\$
Non-accrual loans	30,820	22,704	17,926	16,524	
Other real estate	2,274	3,102	2,160	2,194	
	-----	-----	-----	-----	-----
Total non-performing assets	\$ 38,297	\$ 30,360	\$ 22,956	\$ 22,971	\$
	=====	=====	=====	=====	=====
Average total loans for the quarter	\$2,764,209	\$2,703,134	\$2,653,700	\$2,613,805	\$
Total non-performing assets as a percent of average total loans	1.39%	1.12%	.87%	.87%	
Restructured loans	\$ 58	\$ 59	\$ 84	\$ 93	\$

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CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006

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Interest Income				
Loans receivable				
Taxable	\$ 51,204	\$ 49,645	\$ 49,293	\$ 48,800
Tax exempt	249	201	240	240
Investment securities				
Taxable	3,394	3,282	3,219	3,219
Tax exempt	1,651	1,661	1,660	1,660
Federal funds sold	91	1	332	332
Deposits with financial institutions	120	123	110	110
Federal Reserve and Federal Home Loan Bank stock	299	328	318	318
	-----	-----	-----	-----
Total interest income	57,008	55,241	55,172	54,987
	-----	-----	-----	-----
Interest expense				
Deposits	22,390	21,806	22,690	20,800
Federal funds purchased	1,047	854	93	93
Securities sold under repurchase agreements	910	569	488	488
Federal Home Loan Bank advances	3,009	2,936	2,672	2,672
Subordinated debentures, revolving credit lines and term loans	3,808	2,001	2,046	2,046
Other borrowings			67	67
	-----	-----	-----	-----
Total interest expense	31,164	28,166	28,056	26,166
	-----	-----	-----	-----
Net interest income	25,844	27,075	27,116	27,116
Provision for loan losses	1,648	1,599	1,245	1,245
	-----	-----	-----	-----
Net interest income after provision for loan losses	24,196	25,476	25,871	26,116
	-----	-----	-----	-----
Other income				
Fiduciary activities	2,257	2,036	1,862	1,862
Service charges on deposit accounts	3,091	2,883	3,010	3,010
Other customer fees	1,535	1,491	1,387	1,387
Net realized gains (losses) on sales of available-for-sale securities		(1)	(4)	(4)
Commission income	1,269	1,638	881	881
Earnings on cash surrender value of life insurance	782	685	712	712
Net gains and fees on sales of loans	611	532	613	613
Other income	221	540	309	309
	-----	-----	-----	-----
Total other income	9,766	9,804	8,770	8,770
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	14,796	14,726	14,157	14,157
Net occupancy expenses	1,612	1,598	1,498	1,498
Equipment expenses	1,783	1,722	1,956	1,956
Marketing expense	653	487	508	508
Outside data processing fees	1,036	951	804	804
Printing and office supplies	388	299	401	401
Core deposit amortization	790	791	781	781
Other expenses	4,910	3,620	4,315	3,620
	-----	-----	-----	-----
Total other expenses	25,968	24,194	24,420	23,420
	-----	-----	-----	-----
Income before income tax	7,994	11,086	10,221	10,221
Income tax expense	1,786	3,315	2,562	3,315
	-----	-----	-----	-----
Net income	\$ 6,208	\$ 7,771	\$ 7,659	\$ 7,659
	=====	=====	=====	=====
Per Share Data				

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Basic Net Income	\$.34	\$.42	\$.42	\$
Diluted Net Income	.34	.42	.42	
Cash Dividends Paid	.23	.23	.23	
Average Diluted Shares Outstanding (in thousands)	18,369	18,497	18,498	18

FINANCIAL RATIOS

Return on Average Assets	.69%	.88%	.88%	
Return on Avg. Stockholders' Equity	7.53	9.47	9.39	
Avg. Earning Assets to Avg. Assets	90.96	91.13	90.87	9
Allowance for Loan Losses as % Of Total Loans	.98	.98	.99	
Net Charge Off's as % Of Avg. Loans (Annualized)	.23	.20	.25	
Dividend Payout Ratio	67.65	54.76	56.10	5
Avg. Stockholders' Equity to Avg. Assets	9.15	9.32	9.32	
Tax Equivalent Yield on Earning Assets	7.09	7.01	7.07	
Cost of Supporting Liabilities	3.81	3.51	3.53	
Net Int. Margin (FTE) on Earning Assets	3.28	3.50	3.54	

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LOANS

(in thousands)	June 30, 2007	March 31, 2007	December 31, 2006	Sep
Commercial and industrial loans	\$ 590,345	\$ 557,304	\$ 537,305	\$
Agricultural production financing and other loans to farmers	103,713	97,784	100,098	
Real estate loans:				
Construction	172,247	151,782	169,491	
Commercial and farmland	895,301	906,726	861,429	
Residential	768,392	756,316	749,921	
Individuals' loans for household and other personal expenditures	206,435	210,578	223,504	
Tax exempt loans	23,181	15,306	14,423	
Lease financing receivables, net of unearned income	7,906	7,648	8,010	
Other loans	38,548	27,696	28,420	
	-----	-----	-----	-----
	2,806,068	2,731,140	2,692,601	2,
Allowance for loan losses	(27,608)	(26,819)	(26,540)	
	-----	-----	-----	-----
Total loans	\$2,778,460	\$2,704,321	\$2,666,061	\$2,
	=====	=====	=====	=====

DEPOSITS

(in thousands)	June 30, 2007	March 31, 2007	December 31, 2006	Sept
Demand deposits	\$ 855,458	\$ 787,538	\$ 883,294	\$
Savings deposits	494,738	530,692	507,431	
Certificates and other time deposits of \$100,000 or more	443,355	398,061	408,910	
Other certificates and time deposits	926,050	971,097	950,903	1,
	-----	-----	-----	-----

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Total deposits	\$ 2,719,601	\$2,687,388	\$2,750,538	\$2,
	=====	=====	=====	=====