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FIRST MERCHANTS CORP
Form 8-K
January 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): January 23, 2008

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))

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On January 23, 2008, First Merchants Corporation issued a press release to report its financial results for the fourth quarter ended December 31, 2007. A

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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 January 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: January 23, 2008

EXHIBIT INDEX

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

First Merchants Corporation

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Exhibit No. 99.1

Press Release, dated January 23, 2008

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

January 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 21 PERCENT INCREASE IN FOURTH QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported fourth quarter 2007 earnings per share of \$.51, a 21.4% increase over \$.42 earned in the fourth quarter of 2006. Net income for the quarter totaled \$9,310,000 compared to \$7,659,000 in fourth quarter of 2006.

2007 earnings per share totaled \$1.73, a 5.5% increase over the \$1.64 earned in 2006. Included in the year-to-date results are two strategic non-recurring expenses.

The first non-recurring expense is 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.

Additionally, in a January 24, 2007 press release, the Corporation announced its plan to integrate the data operations of its Columbus, Ohio, bank into the corporate operations center. The company also announced its plan to re-brand four bank charters into First Merchants Bank, NA. The successful completion of these actions cost \$1.1 million during 2007.

The combination of these non-recurring expenses totaled \$2.9 million, or \$.10 per share. Excluding these non-recurring expenses, earnings per share improved by \$.19, or 11.6 percent over 2006.

Total assets equaled \$3.78 billion at year-end, an increase of \$227 million, or 6.4 percent, over December 31, 2006. Loans and investments, the Corporation's primary earning assets, totaled \$3.33 billion, an increase of \$169 million, or 5.3 percent, over the same period last year.

Year-to-date net interest margin totaled 3.55 percent, a 16 basis point decline from the prior year total of 3.71 percent. The decline is meaningful, however, the Corporation's net interest margin did increase in the fourth quarter of 2007 as the Federal Reserve lowered its benchmark fed funds rate by 1 percent.

Total other income increased by \$5.9 million, or 17.2 percent. All reported line items produced increases ranging from a low of 9.8 percent to a high of 59.7 percent reflecting the Corporation's focus on fee for service business.

Total other expenses increased by \$6.1 million, or 6.4 percent, absent the non-recurring expenses totaling \$2.9 million, non-interest expense increased by

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\$3.2 million, or 3.4 percent.

The provision for loan losses increased by \$2.2 million to \$8.5 million, or 30 basis points based on the Corporation's continued evaluation of the adequacy of the allowance for loan losses. The increased provision in 2007 is reflective of net-charge off's totaling \$6.8 million, or 24 basis points, and increased non-performing assets of \$11.6 million. The reserve for loan losses increased by \$1.7 million in 2007 to \$28.2 million and the allowance for loan losses as a percentage of total loans outstanding remained at .98 percent.

Michael C. Rechin, President and Chief Executive Officer, stated that, "The tactical execution of our strategic plan during 2007 is reflective of the commitment our employees have to First Merchants Corporation. Given the distractions of a volatile market and a slowing economy, we believe that our employees have remained focused on meeting our customers' needs and providing great service as evidenced by our loan growth and our non-interest income growth." Rechin also added, "2007 was a turbulent year in the banking sector and this management team is pleased with the momentum our company continues to build. We are committed to our culture statement whereby we expect superior results from our company and ourselves. We are very aware of the economic and credit environment that our industry faces in 2008, but are confident in our ability to show continued progress."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Standard Time on Wednesday, January 23, 2008. To participate, dial (Toll Free) 800-860-2442 and reference First Merchants Corporation's fourth quarter earnings. A replay will be available until January 31, 2008. To access replay, US/Canada participants should dial (Toll Free) 877-344-7529 or for International participants, dial 412-317-0088. The replay passcode is 414887#.

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)	December 31,	
	2007	2006
Assets		
Cash and due from banks	\$ 134,683	\$ 89,957
Interest-bearing time deposits	24,931	11,284
Investment securities	451,167	465,217
Mortgage loans held for sale	3,735	5,413
Loans	2,876,843	2,692,601
Less: Allowance for loan losses	(28,228)	(26,540)
	-----	-----
Net loans	2,848,615	2,666,061
Premises and equipment	44,445	42,393
Federal Reserve and Federal Home Loan Bank stock	25,250	23,691
Interest receivable	23,402	24,345
Core deposit intangibles and goodwill	135,856	138,638
Cash surrender value of life insurance	70,970	64,213
Other assets	19,033	23,658
	-----	-----
Total assets	\$ 3,782,087	\$ 3,554,870
	=====	=====
Liabilities		
Deposits		
Noninterest-bearing	\$ 370,397	\$ 362,058
Interest-bearing	2,473,724	2,388,480
	-----	-----
Total deposits	2,844,121	2,750,538
Borrowings	568,774	440,764
Interest payable	8,325	9,326
Other liabilities	20,931	26,917
	-----	-----
Total liabilities	3,442,151	3,227,545
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 -- 18,002,787 and 18,439,843 shares		
	2,250	2,305
Additional paid-in capital	137,801	146,460
Retained earnings	202,750	187,965
Accumulated other comprehensive loss	(2,865)	(9,405)
	-----	-----
Total stockholders' equity	339,936	327,325
	-----	-----
Total liabilities and stockholders' equity	\$ 3,782,087	\$ 3,554,870
	=====	=====

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended December 31,	Year Ended December 31,
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	2007	2006	2007	2006
NET CHARGE OFF'S	\$ 1,857	\$ 1,680	\$ 6,819	\$ 4,906
AVERAGE BALANCES				
Total Assets	\$3,735,931	\$3,499,774	\$3,639,772	\$3,371,386
Total Loans	2,873,989	2,653,700	2,794,824	2,569,847
Total Deposits	2,812,760	2,755,145	2,752,443	2,568,070
Total Stockholders' Equity	335,649	326,158	330,786	319,519
FINANCIAL RATIOS				
Return on Average Assets	1.00%	.88%	.87%	.90%
Return on Avg. Stockholders' Equity	11.10	9.39	9.56	9.45
Avg. Earning Assets to Avg. Assets	90.70	90.87	90.91	91.15
Allowance for Loan Losses as % Of Total Loans	.98	.99	.98	.99
Net Charge Off's as % Of Avg. Loans (Annualized)	.26	.25	.24	.19
Dividend Payout Ratio	45.10	56.10	53.18	56.10
Avg. Stockholders' Equity to Avg. Assets	8.98	9.32	9.09	9.48
Tax Equivalent Yield on Earning Assets	7.13	7.07	7.10	6.92
Cost of Supporting Liabilities	3.47	3.53	3.55	3.21
Net Int. Margin (FTE) on Earning Assets	3.66	3.54	3.55	3.71

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Three Months Ended December 31,		Year Ended December 31,	
	2007	2006	2007	2006
Interest income				
Loans receivable				
Taxable	\$ 53,338	\$ 49,293	\$207,268	\$186,000
Tax exempt	302	240	1,120	
Investment securities				
Taxable	3,487	3,219	13,744	12,000
Tax exempt	1,623	1,660	6,548	6,000
Federal funds sold	39	332	172	
Deposits with financial institutions	194	110	582	
Federal Reserve and Federal Home Loan Bank stock	344	318	1,299	1,000
	-----	-----	-----	-----
Total interest income	59,327	55,172	230,733	208,000
	-----	-----	-----	-----
Interest expense				
Deposits	22,398	22,690	89,921	74,000
Federal funds purchased	692	93	3,589	1,000
Securities sold under repurchase agreements	1,182	488	3,856	3,000
Federal Home Loan Bank advances	3,250	2,672	12,497	10,000
Subordinated debentures, revolving credit lines and term loans	1,910	2,046	7,750	8,000
Other borrowings	-	67	-	
	-----	-----	-----	-----
Total interest expense	29,432	28,056	117,613	98,000
	-----	-----	-----	-----

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Net interest income	29,895	27,116	113,120	110,
Provision for loan losses	2,450	1,245	8,507	6,
	-----	-----	-----	-----
Net interest income after provision for loan losses	27,445	25,871	104,613	103,
	-----	-----	-----	-----
Other income				
Fiduciary activities	2,094	1,862	8,372	7,
Service charges on deposit accounts	3,206	3,010	12,421	11,
Other customer fees	1,686	1,387	6,479	5,
Net realized gains (losses) on sales of available-for-sale securities	1	(4)	-	
Commission income	1,031	881	5,113	4,
Earnings on cash surrender value of life insurance	1,186	712	3,651	2,
Net gains and fees on sales of loans	546	613	2,438	2,
Other income	383	309	2,077	1,
	-----	-----	-----	-----
Total other income	10,133	8,770	40,551	34,
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	14,738	14,157	58,843	56,
Net occupancy expenses	1,619	1,498	6,647	5,
Equipment expenses	1,619	1,956	6,769	7,
Marketing expense	505	508	2,205	1,
Outside data processing fees	872	804	3,831	3,
Printing and office supplies	329	401	1,410	1,
Core deposit amortization	789	781	3,159	3,
Write-off of unamortized underwriting expense	-	-	1,771	
Other expenses	4,776	4,315	17,547	16,
	-----	-----	-----	-----
Total other expenses	25,247	24,420	102,182	96,
	-----	-----	-----	-----
Income before income tax	12,331	10,221	42,982	42,
Income tax expense	3,021	2,562	11,343	12,
	-----	-----	-----	-----
Net income	\$ 9,310	\$ 7,659	\$ 31,639	\$ 30,
	=====	=====	=====	=====
Per Share Data				
Basic Net Income	.51	.42	1.73	1
Diluted Net Income	.51	.42	1.73	1
Cash Dividends Paid	.23	.23	.92	
Average Diluted Shares Outstanding (in thousands)	18,144	18,498	18,307	18,

CONSOLIDATED BALANCE SHEETS

(in thousands)

December 31, September 30, June 30, March

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	2007	2007	2007	2007
Assets				
Cash and due from banks	\$ 134,683	\$ 85,645	\$ 80,921	\$ 43,616
Interest-bearing time deposits	24,931	22,295	8,898	6,176
Investment securities	451,167	474,613	479,281	476,176
Mortgage loans held for sale	3,735	4,328	2,842	2,842
Loans	2,876,843	2,869,001	2,806,068	2,731,176
Less: Allowance for loan losses	(28,228)	(27,635)	(27,608)	(26,842)
Net loans	2,848,615	2,841,366	2,778,460	2,704,334
Premises and equipment	44,445	44,255	44,126	43,842
Federal Reserve and Federal Home Loan Bank stock	25,250	25,050	23,822	23,842
Interest receivable	23,402	25,954	21,615	21,615
Core deposit intangibles and goodwill	135,856	136,266	137,056	137,056
Cash surrender value of life insurance	70,970	70,082	69,111	68,842
Other assets	19,033	24,446	23,383	26,842
Total assets	\$ 3,782,087	\$ 3,754,300	\$ 3,669,515	\$ 3,554,334
Liabilities				
Deposits				
Noninterest-bearing	\$ 370,397	\$ 355,339	\$ 362,083	\$ 325,842
Interest-bearing	2,473,724	2,403,836	2,357,518	2,361,176
Total deposits	2,844,121	2,759,175	2,719,601	2,687,018
Borrowings	568,774	620,469	587,574	497,176
Interest payable	8,325	9,170	10,417	10,417
Other liabilities	20,931	32,745	24,543	30,842
Total liabilities	3,442,151	3,421,559	3,342,135	3,226,353
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	2,250	2,269	2,286	2,286
Additional paid-in capital	137,801	140,642	143,317	143,317
Retained earnings	202,750	197,609	193,460	191,176
Accumulated other comprehensive loss	(2,865)	(7,779)	(11,683)	(8,842)
Total stockholders' equity	339,936	332,741	327,380	328,018
Total liabilities and stockholders' equity	\$ 3,782,087	\$ 3,754,300	\$ 3,669,515	\$ 3,554,334

NON PERFORMING ASSETS

(in thousands)	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Non Accrual Loans	\$ 29,031	\$ 30,165	\$30,820	\$ 22,704
Renegotiated Loans	145	58	58	59
Non Performing Loans (NPL)	29,176	30,223	30,878	22,763

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Real Estate Owned and Repossessed Assets	2,573	2,081	2,274	3,102
Non Performing Assets (NPA)	31,749	32,304	33,152	25,865
90+ Days Delinquent	3,578	3,132	5,203	4,554
NPAs & 90 Day Delinquent	35,327	35,436	38,355	30,419
Loan Loss Reserve	28,228	27,635	27,608	26,819
YTD Charge-offs	6,819	4,962	2,179	1,320
NPAs / Actual Assets %	0.84%	0.86%	0.90%	0.73%
NPAs & 90 day / Actual Assets %	0.93%	0.94%	1.05%	0.86%
NPAs / Actual Loans & REO (%)	1.10%	1.12%	1.18%	0.95%
Loan Loss Reserves / Actual Loans (%)	0.98%	0.96%	0.98%	0.98%
NCOs / YTD Average Loans (%)	0.24%	0.18%	0.08%	0.05%

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	December 31, 2007	September 30, 2007	Three Months Ended June 30, 2007	March 31, 2007
Interest Income				
Loans receivable				
Taxable	\$ 53,338	\$ 53,081	\$ 51,204	\$ 49,812
Tax exempt	302	368	249	1,000
Investment securities				
Taxable	3,487	3,581	3,394	3,394
Tax exempt	1,623	1,613	1,651	1,651
Federal funds sold	39	41	91	91
Deposits with financial institutions	194	145	120	120
Federal Reserve and Federal Home Loan Bank stock	344	328	299	299
Total interest income	59,327	59,157	57,008	55,566
Interest expense				
Deposits	22,398	23,327	22,390	21,812
Federal funds purchased	692	996	1,047	1,047
Securities sold under repurchase agreements	1,182	1,195	910	910
Federal Home Loan Bank advances	3,250	3,302	3,009	2,999
Subordinated debentures, revolving credit lines and term loans	1,910	1,802	2,037	2,037
Other borrowings	-	-	-	-
Total interest expense	29,432	30,622	29,393	28,805
Net interest income	29,895	28,535	27,615	27,000
Provision for loan losses	2,450	2,810	1,648	1,648
Net interest income after provision for loan losses	27,445	25,725	25,967	25,352
Other income				
Fiduciary activities	2,094	1,985	2,257	2,257
Service charges on deposit accounts	3,206	3,241	3,091	2,999
Other customer fees	1,686	1,767	1,535	1,535
Net realized gains (losses) on sales of				

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available-for-sale securities	1	-	-	
Commission income	1,031	1,175	1,269	1
Earnings on cash surrender value of life insurance	1,186	998	782	
Net gains and fees on sales of loans	546	749	611	
Other income	383	933	221	
	-----	-----	-----	-----
Total other income	10,133	10,848	9,766	9
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	14,738	14,583	14,796	14
Net occupancy expenses	1,619	1,818	1,612	1
Equipment expenses	1,619	1,645	1,783	1
Marketing expense	505	560	653	
Outside data processing fees	872	972	1,036	
Printing and office supplies	329	394	388	
Core deposit amortization	789	789	790	
Write-off of unamortized underwriting expense	-	-	1,771	
Other expenses	4,776	4,241	4,910	3
	-----	-----	-----	-----
Total other expenses	25,247	25,002	27,739	24
	-----	-----	-----	-----
Income before income tax	12,331	11,571	7,994	11
Income tax expense	3,021	3,221	1,786	3
	-----	-----	-----	-----
Net income	\$ 9,310	\$ 8,350	\$ 6,208	\$ 7
	=====	=====	=====	=====
Per Share Data				
Basic Net Income	\$.51	\$.46	\$.34	\$
Diluted Net Income	.51	.46	.34	
Cash Dividends Paid	.23	.23	.23	
Average Diluted Shares Outstanding (in thousands)	18,144	18,276	18,369	18
FINANCIAL RATIOS				
Return on Average Assets	1.00%	.90%	.69%	
Return on Avg. Stockholders' Equity	11.10	10.14	7.53	
Avg. Earning Assets to Avg. Assets	90.70	90.88	90.96	9
Allowance for Loan Losses as % Of Total Loans	.98	.96	.98	
Net Charge Off's as % Of Avg. Loans (Annualized)	.26	.39	.23	
Dividend Payout Ratio	45.10	50.00	67.65	5
Avg. Stockholders' Equity to Avg. Assets	8.98	8.91	9.15	
Tax Equivalent Yield on Earning Assets	7.13	7.17	7.09	
Cost of Supporting Liabilities	3.47	3.65	3.59	
Net Int. Margin (FTE) on Earning Assets	3.66	3.52	3.50	

LOANS

(in thousands)	December 31, 2007	September 30, 2007	June 30, 2007	M
Commercial and industrial loans	\$ 662,701	\$ 626,301	\$ 590,345	\$
Agricultural production financing and other loans to farmers	114,324	113,132	103,713	

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Real estate loans:				
Construction	165,425	160,624	172,247	
Commercial and farmland	947,234	912,063	895,301	
Residential	744,627	769,890	768,392	
Individuals' loans for household and other personal expenditures	187,880	194,181	206,435	
Tax exempt loans	16,423	28,726	23,181	
Lease financing receivables, net of unearned income	8,351	8,932	7,906	
Other loans	29,878	55,152	38,548	
	-----	-----	-----	-----
Allowance for loan losses	2,876,843 (28,228)	2,869,001 (27,635)	2,806,068 (27,608)	2,806,068 (27,608)
	-----	-----	-----	-----
Total loans	<u>\$2,848,615</u>	<u>\$2,841,366</u>	<u>\$2,778,460</u>	<u>\$2,778,460</u>

DEPOSITS

(in thousands)	December 31, 2007	September 30, 2007	June 30, 2007	Ma
Demand deposits	\$ 903,380	\$ 825,185	\$ 855,458	\$
Savings deposits	552,379	508,139	494,738	
Certificates and other time deposits of \$100,000 or more	470,733	472,842	443,355	
Other certificates and time deposits	917,629	953,009	926,050	
	-----	-----	-----	-----
Total deposits	<u>\$2,844,121</u>	<u>\$2,759,175</u>	<u>\$ 2,719,601</u>	<u>\$2,719,601</u>