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FIRST MERCHANTS CORP
Form 8-K
October 17, 2005

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): October 17, 2005

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

INDIANA	0-17071	35-1544218
(State or other jurisdiction of incorporation)	(Commission file number)	(IRS Employer Identification No.)

200 East Jackson Street
P.O. Box 792
Muncie, IN 47305-2814
(Address of principal executive offices, including zip code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On October 17, 2005, First Merchants Corporation issued a press release to report its financial results for the third quarter ended September

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30, 2005. 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 October 17, 2005, 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.

First Merchants Corporation
(Registrant)

By: /s/ Mark K. Hardwick

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

Dated: October 17, 2005

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EXHIBIT INDEX

Exhibit No.

99.1

Description

Press Release, dated October 17, 2005, issued by
First Merchants Corporation.

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First Merchants Corporation

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Exhibit No. 99.1

Press Release, dated October 17, 2005

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

October 17, 2005

FOR IMMEDIATE RELEASE

For more information, contact:

Mark K. Hardwick, Senior Vice President/Chief Financial Officer, 765-751-1857

<http://firstmerchants.com>

SOURCE: First Merchants Corporation, Muncie, Indiana

FIRST MERCHANTS CORPORATION ANNOUNCES 7.3% INCREASE IN THIRD QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported third quarter diluted earnings per share of \$.44, a 7.3 percent increase over \$.41 recorded in the third quarter of 2004. Net income during the quarter totaled \$8.2 million compared to \$7.7 million in 2004.

Year-to-date diluted earnings per share totaled \$1.22, a 3.4 percent increase over \$1.18 recorded in 2004. Net income for the nine months ended September 30, 2005 totaled \$22.7 million compared to \$21.9 million in 2004.

Year-to-date net-interest income improved by \$4.7 million, or 6.0 percent, as net-interest margin improved to 3.96 percent. Non-interest income also increased by \$705,000, or 2.7 percent. Mitigating costs include increased provisions for loan losses of \$1.9 million and increased operating expenses of \$2.8 million, or 4.0 percent. However, as reported in the Corporation's 8-K filing of February 16, 2005, a \$1.6 million charge related to the curtailment of the Corporation's defined benefit pension plan is included in the 4.0 percent increase.

As of September 30, 2005, non-performing loans totaled 75 basis points of average total loans and the allowance for loan losses as a percent of total loans equaled 1.03 percent.

Total assets equaled \$3.2 billion at quarter-end, an increase of \$57 million, or 1.8 percent from September 30, 2004. Loans, investments and bank-owned life insurance, the Corporation's three primary earning assets, totaled \$2.9 billion, an increase of \$66 million over the prior year.

Michael L. Cox, President and Chief Executive Officer, stated that, "Consecutive quarters of seven percent earnings per share increases are reflective of management's expectations of high single digit to low double digit earnings per share growth. With the cost of the first quarter curtailment expense added back to net income the Corporation would also be up 7.6 percent for the year."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. (CT)/3:30 p.m. (ET) on Wednesday, October 19, 2005. To participate dial (Toll Free) 877-407-9210 and reference First Merchants Corporation's third quarter earnings release. A replay will be available until October 26, 2005. To access, 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 # 170946.

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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, Madison Community Bank, First United Bank, United Communities National Bank, First National Bank, Decatur Bank & Trust Company, Frances Slocum Bank, Lafayette Bank & Trust Company, Commerce National Bank and Merchants Trust Company. The Corporation also operates First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare insurance agency, headquartered in Muncie, Indiana, 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>).

* * * *

CONSOLIDATED BALANCE SHEETS

(in thousands)	September 30,	
	2005	2004
Assets		
Cash and due from banks	\$ 81,310	\$ 73,367
Federal funds sold		22,700
	-----	-----
Cash and cash equivalents	81,310	96,067
Interest-bearing time deposits	10,708	12,204
Investment securities	436,794	420,645
Mortgage loans held for sale	5,026	2,715
Loans	2,443,931	2,395,306
Less: Allowance for loan losses	(25,149)	(25,243)
	-----	-----
Net Loans	2,418,782	2,370,063
Premises and equipment	38,473	38,170
Federal Reserve and Federal Home Loan Bank stock	23,165	22,750
Interest receivable	19,561	17,594
Core deposit intangibles and goodwill	139,597	140,186
Cash surrender value of life insurance	43,230	41,700
Other assets	21,792	19,268
	-----	-----
Total assets	\$ 3,238,438	\$ 3,181,362
	=====	=====
Liabilities		
Deposits		
Noninterest-bearing	\$ 346,318	\$ 373,548
Interest-bearing	2,118,975	2,083,271
	-----	-----

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Total deposits	2,465,293	2,456,819
Borrowings	423,959	379,922
Interest payable	5,643	5,706
Other liabilities	25,153	25,253
	-----	-----
Total liabilities	2,920,048	2,867,700
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 - 18,507,970 and 18,562,001	2,313	2,320
Additional paid-in capital	148,004	148,993
Retained earnings	171,419	160,004
Accumulated other comprehensive income (loss)	(3,346)	2,345
	-----	-----
Total stockholders' equity	318,390	313,662
	-----	-----
Total liabilities and stockholders' equity	\$ 3,238,438	\$ 3,181,362
	=====	=====

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
NET CHARGE OFF'S	\$ 1,736	\$ 1,647	\$ 3,808	\$ 4,722
AVERAGE BALANCES				
Total Assets	\$3,202,198	\$3,132,228	\$3,185,815	\$3,083,919
Total Loans	2,444,131	2,383,942	2,429,530	2,355,535
Total Deposits	2,419,204	2,382,347	2,420,268	2,338,694
Total Stockholders' Equity	316,615	309,744	314,856	308,035

FINANCIAL RATIOS

Return on Average Assets	1.03%	.98%	.95%	.95%
Return on Avg. Stockholders' Equity	10.38	9.88	9.62	9.50
Avg. Earning Assets to Avg. Assets	90.83	89.98	90.75	89.89
Allowance for Loan Losses as % Of Total Loans	1.03	1.05	1.03	1.05
Net Charge Off's as % Of Avg. Loans (Annualized)	.28	.28	.21	.27
Dividend Payout Ratio	52.27	56.10	56.56	58.47
Avg. Stockholders' Equity to Avg. Assets	9.89	9.89	9.88	9.99
Tax Equivalent Yield on Earning Assets	6.40	5.79	6.15	5.71
Cost of Supporting Liabilities	2.40	1.85	2.19	1.82
Net Int. Margin (FTE) on Earning Assets	4.00	3.94	3.96	3.89

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004

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Interest Income				
Loans receivable				
Taxable	\$ 40,853	\$ 35,342	\$116,506	\$103,
Tax exempt	160	143	483	
Investment securities				
Taxable	2,427	2,146	7,132	6,
Tax exempt	1,595	1,679	4,702	4,
Federal funds sold	51	18	190	
Deposits with financial institutions	185	154	493	
Federal Reserve and Federal Home Loan Bank stock	296	319	889	
	-----	-----	-----	-----
Total interest income	45,567	39,801	130,395	116,
	-----	-----	-----	-----
Interest expense				
Deposits	12,172	8,487	32,707	24,
Securities sold under repurchase agreements	523	16	965	
Federal Home Loan Bank advances	2,549	2,484	7,367	7,
Subordinated debentures, revolving credit and term loans	1,894	1,822	5,522	5,
Other borrowings	289	200	831	
	-----	-----	-----	-----
Total interest expense	17,427	13,009	47,392	37,
	-----	-----	-----	-----
Net interest income	28,140	26,792	83,003	78,
Provision for loan losses	1,794	1,380	6,409	4,
	-----	-----	-----	-----
Net interest income after provision for loan losses	26,346	25,412	76,594	73,
	-----	-----	-----	-----
Other income				
Fiduciary activities	1,794	1,923	5,719	5,
Service charges on deposit accounts	2,836	2,946	8,607	8,
Other customer fees	1,389	979	3,662	3,
Net realized gains on sales of available-for-sale securities	16	332	22	
Commission income	870	687	3,131	2,
Earnings on cash surrender value of Life insurance	441	448	1,281	1,
Net gains and fees on sales of loans	770	675	2,226	2,
Other income	664	421	1,940	1,
	-----	-----	-----	-----
Total other income	8,780	8,411	26,588	25,
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	13,384	13,087	41,463	39,
Net occupancy expenses	1,570	1,391	4,368	3,
Equipment expenses	1,901	1,853	5,610	5,
Marketing expense	446	363	1,387	1,
Deposit insurance expense				
Outside data processing fees	979	1,328	3,021	3,
Printing and office supplies	328	397	969	1,
Core deposit amortization	770	827	2,335	2,
Other expenses	3,923	3,544	11,578	10,
	-----	-----	-----	-----
Total other expenses	23,301	22,790	70,731	67,
	-----	-----	-----	-----
Income before income tax	11,825	11,033	32,451	31,
Income tax expense	3,605	3,380	9,743	9,
	-----	-----	-----	-----

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Net income	\$ 8,220	\$ 7,653	\$ 22,708	\$ 21,
	=====	=====	=====	=====
Per Share Data				
Basic Net Income	.45	.41	1.23	1
Diluted Net Income	.44	.41	1.22	1
Cash Dividends Paid	.23	.23	.69	
Average Diluted Shares Outstanding (in thousands)	18,590	18,658	18,606	18,

CONSOLIDATED BALANCE SHEETS

(in thousands)	September 30, 2005	June 30, 2005	March 31, 2005	December 200
Assets				
Cash and due from banks	\$ 81,310	\$ 71,498	\$ 67,904	\$ 69
Federal funds sold			22,075	
	-----	-----	-----	-----
Cash and cash equivalents	81,310	71,498	89,979	69
Interest-bearing time deposits	10,708	9,255	10,737	9
Investment securities	436,794	420,685	409,820	421
Mortgage loans held for sale	5,026	1,356	3,084	3
Loans	2,443,931	2,440,906	2,414,099	2,428
Less: Allowance for loan losses	(25,149)	(25,091)	(24,488)	(22
	-----	-----	-----	-----
Net loans	2,418,782	2,415,815	2,389,611	2,405
Premises and equipment	38,473	37,240	37,525	38
Federal Reserve and Federal Home Loan Bank stock	23,165	23,054	22,883	22
Interest receivable	19,561	16,950	16,606	17
Core deposit intangibles and goodwill	139,597	139,799	140,578	141
Cash surrender value of life insurance	43,230	42,827	42,426	42
Other assets	21,792	22,819	24,337	20
	-----	-----	-----	-----
Total assets	\$ 3,238,438	\$ 3,201,298	\$ 3,187,586	\$ 3,191
	=====	=====	=====	=====
Liabilities				
Deposits				
Noninterest-bearing	\$ 346,318	\$ 363,654	\$ 333,614	\$ 330
Interest-bearing	2,118,975	2,040,624	2,118,605	2,077
	-----	-----	-----	-----
Total deposits	2,465,293	2,404,278	2,452,219	2,408
Borrowings	423,959	454,400	391,193	440
Interest payable	5,643	5,068	6,562	4
Other liabilities	25,153	24,194	27,014	23
	-----	-----	-----	-----
Total liabilities	2,920,048	2,887,940	2,876,988	2,877
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	2,313	2,302	2,312	2
Additional paid-in capital	148,004	146,057	148,347	150
Retained earnings	171,419	167,452	163,761	161
Accumulated other comprehensive income (loss)	(3,346)	(2,453)	(3,822)	
	-----	-----	-----	-----

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Total stockholders' equity	318,390	313,358	310,598	314,000
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$ 3,238,438	\$ 3,201,298	\$ 3,187,586	\$ 3,191,000
	=====	=====	=====	=====

NON-PERFORMING ASSETS

(in thousands)	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004
90 days past due	\$ 3,560	\$ 3,696	\$ 1,948	\$ 1,907
Non-accrual loans	11,757	11,626	13,272	15,355
Other real estate	3,023	1,804	2,003	1,650
	-----	-----	-----	-----
Total non-performing assets	\$ 18,340	\$ 17,126	\$ 17,223	\$ 18,912
	=====	=====	=====	=====
Average total loans for the quarter	\$2,444,131	\$2,430,081	\$2,414,050	\$2,409,170
Total non-performing assets as a percent of average total loans	.75%	.70%	.71%	.79%
Restructured loans	\$ 454	\$ 531	\$ 337	\$ 2,019

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004
Interest Income				
Loans receivable				
Taxable	\$ 40,853	\$ 38,831	\$ 36,822	\$ 36,822
Tax exempt	160	189	134	134
Investment securities				
Taxable	2,427	2,376	2,329	2,329
Tax exempt	1,595	1,554	1,553	1,553
Federal funds sold	51	112	27	27
Deposits with financial institutions	185	166	142	142
Federal Reserve and Federal Home Loan Bank stock	296	285	308	308
	-----	-----	-----	-----
Total interest income	45,567	43,513	41,315	41,315
	-----	-----	-----	-----
Interest expense				
Deposits	12,172	10,729	9,806	9,806
Securities sold under repurchase agreements	523	193	249	249
Federal Home Loan Bank advances	2,549	2,443	2,375	2,375
Subordinated debentures, revolving credit and term loans	1,894	1,839	1,789	1,789
Other borrowings	289	388	154	154
	-----	-----	-----	-----
Total interest expense	17,427	15,592	14,373	14,373
	-----	-----	-----	-----
Net interest income	28,140	27,921	26,942	26,942
Provision for loan losses	1,794	1,948	2,667	2,667

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Net interest income				
after provision for loan losses	26,346	25,973	24,275	2
Other income				
Fiduciary activities	1,794	1,963	1,962	
Service charges on deposit accounts	2,836	3,048	2,723	
Other customer fees	1,389	1,188	1,085	
Net realized gains on sales of available-for-sale securities	16	6		
Commission income	870	757	1,504	
Earnings on cash surrender value of life insurance	441	439	401	
Net gains and fees on sales of loans	770	779	677	
Other income	664	582	694	
Total other income	8,780	8,762	9,046	
Other expenses				
Salaries and employee benefits	13,384	13,258	14,821	1
Net occupancy expenses	1,570	1,422	1,376	
Equipment expenses	1,901	1,852	1,857	
Marketing expense	446	526	415	
Outside data processing fees	979	1,033	1,009	
Printing and office supplies	328	304	337	
Core deposit amortization	770	778	787	
Other expenses	3,923	4,026	3,629	
Total other expenses	23,301	23,199	24,231	2
Income before income tax	11,825	11,536	9,090	1
Income tax expense	3,605	3,615	2,523	
Net income	\$ 8,220	\$ 7,921	\$ 6,567	\$
Per Share Data				
Basic Net Income	\$.45	\$.43	\$.35	\$
Diluted Net Income	.44	.43	.35	
Cash Dividends Paid	.23	.23	.23	
Average Diluted Shares Outstanding (in thousands)	18,590	18,536	18,697	1
FINANCIAL RATIOS				
Return on Average Assets	1.03%	.99%	.83%	
Return on Avg. Stockholders' Equity	10.38	10.13	8.33	
Avg. Earning Assets to Avg. Assets	90.83	90.81	90.61	
Allowance for Loan Losses as % Of Total Loans	1.03	1.03	1.01	
Net Charge Off's as % Of Avg. Loans (Annualized)	.28	.22	.12	
Dividend Payout Ratio	52.27	53.49	65.71	
Avg. Stockholders' Equity to Avg. Assets	9.89	9.80	9.97	
Tax Equivalent Yield on Earning Assets	6.40	6.14	5.90	
Cost of Supporting Liabilities	2.40	2.15	2.01	
Net Int. Margin (FTE) on Earning Assets	4.00	3.99	3.89	

LOANS

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(in thousands)	September 30, 2005	June 30, 2005	March 31, 2005	Dec
Commercial and industrial loans	\$ 476,010	\$ 463,002	\$ 447,552	\$
Agricultural production financing and other loans to farmers	94,262	93,274	83,800	
Real estate loans:				
Construction	171,667	166,367	170,498	
Commercial and farmland	719,154	723,099	726,345	
Residential	746,777	759,003	760,560	
Individuals' loans for household and other personal expenditures	186,792	182,362	187,552	
Tax exempt loans	12,439	14,135	10,592	
Lease financing receivables, net of unearned income	9,538	10,533	10,704	
Other loans	27,292	29,131	16,496	
	-----	-----	-----	-----
Allowance for loan losses	2,443,931 (25,149)	2,440,906 (25,091)	2,414,099 (24,488)	2,
	-----	-----	-----	-----
Total loans	\$2,418,782	\$2,415,815	\$2,389,611	\$2,
	=====	=====	=====	=====

DEPOSITS

(in thousands)	September 30, 2005	June 30, 2005	March 31, 2005	Decem 2
Demand deposits	\$ 697,597	\$ 720,263	\$ 686,695	\$ 70
Savings deposits	568,366	593,770	655,643	63
Certificates and other time deposits of \$100,000 or more	320,640	234,988	285,878	25
Other certificates and time deposits	878,690	855,257	824,003	81
	-----	-----	-----	-----
	\$2,465,293	\$2,404,278	\$2,452,219	\$2,40
	=====	=====	=====	=====