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FIRST MERCHANTS CORP
Form 8-K
October 20, 2004

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 20, 2004

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 20, 2004, First Merchants Corporation issued a press release to report its financial results for the third quarter ended September

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30, 2004. The press release, attached hereto as Exhibit 99.1, is being furnished by the Registrant and is not being filed.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

Exhibit 99.1 Press Release, dated October 20, 2004, 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 20, 2004

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EXHIBIT INDEX

Exhibit No.

99.1

Description

Press Release, dated October 20, 2004, issued by
First Merchants Corporation.

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First Merchants Corporation

Exhibit No. 99.1

Press Release, dated October 20, 2004

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

October 20, 2004

FOR IMMEDIATE RELEASE

For more information, contact:

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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 5 PERCENT INCREASE IN THIRD QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported third quarter diluted earnings per share totaled \$.41, a 5.1 percent increase over \$.39 recorded in 2003. Net income during the period totaled \$7.7 million compared to \$7.3 million in 2003.

September 30, 2004, year-to-date, diluted earnings per share equaled \$1.18 versus \$1.19 recorded in 2003. Year-to-date net income totaled \$21.9 million compared to \$21.8 million in 2003.

Quarterly net interest income after the provision for loan losses improved by \$1.2 million, or 5.1 percent. Total non-interest income declined by \$466,000 as gains from the sale of mortgage loans declined by \$658,000. Non-interest expenses for the quarter were reduced by \$170,000.

Year-to-date net interest income after the provision for loan losses improved by \$4.4 million, or 6.3 percent. However, gains from the sale of mortgage loans declined during the same period by 50 percent or \$2.8 million. Non-interest expense increased by 1 percent or \$641,000.

Total assets equaled \$3.2 billion as of September 30, 2004, an increase of \$170 million from September 30, 2003. Loans, investments and bank owned life insurance, the Corporation's three primary earning assets, totaled \$2.9 billion, an increase of \$151 million over the September 30, 2003 amount of \$2.7 billion. The improvement in earning assets was funded by increased deposits and capital of \$159 million.

Michael L. Cox, President and Chief Executive Officer, stated that, "First Merchants Corporation's third quarter 2004 results represent a continuation of positive trends. Increases in the Federal Open Market Committee's target Fed Funds rate of an additional 50 basis points during the quarter improved our net interest income by \$945,000 over the second quarter of 2004. We are seeing continued modest improvement in middle-market lending activity in our metropolitan markets. Overall, economic activity is showing increased stimulus accompanied by slight upward pressure on deposit rates."

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CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Standard Time/3:30 p.m. Eastern Daylight Time on Wednesday, October 20, 2004. To participate dial 888-710-8192 and reference First Merchants Corporation's third quarter earnings release. A digital recording will be available two hours after the completion of the conference from October 20, 2004, to October 22, 2004. To access, US/Canada participants should call 800-642-1687 or for International/Local participants, call 706-645-9291 and enter the Conference I.D. 1347220.

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.

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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, NA, Madison Community Bank, First United Bank, Union County National Bank, The Randolph County 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>).

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CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30,	
	2004	2003
Assets		
Cash and due from banks	\$ 73,367	\$ 87,619
Federal funds sold	22,700	0
	-----	-----
Cash and cash equivalents	96,067	87,619
Interest-bearing time deposits	12,204	3,789
Investment securities	420,645	316,852
Mortgage loans held for sale	2,715	12,042
Loans	2,395,306	2,351,405
Less: Allowance for loan losses	(25,243)	(29,842)
	-----	-----
Net Loans	2,370,063	2,321,563
Premises and equipment	38,170	39,475
Federal Reserve and Federal Home Loan Bank stock	22,750	14,057
Interest receivable	17,594	17,139
Core deposit intangibles and goodwill	140,186	143,648
Cash surrender value of life insurance	41,700	37,536
Other assets	19,268	18,000
	-----	-----
Total assets	\$ 3,181,362	\$ 3,011,720
	=====	=====
Liabilities		
Deposits		
Noninterest-bearing	\$ 373,548	\$ 316,058
Interest-bearing	2,083,271	1,994,146
	-----	-----
Total deposits	2,456,819	2,310,204

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Borrowings	379,922	374,051
Interest payable	5,706	5,200
Other liabilities	25,253	21,064
	-----	-----
Total liabilities	2,867,700	2,710,519
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 - 18,562,001 and 18,487,974	2,320	2,311
Additional paid-in capital	148,993	149,810
Retained earnings	160,004	147,559
Accumulated other comprehensive income (loss)	2,345	1,521
	-----	-----
Total stockholders' equity	313,662	301,201
	-----	-----
Total liabilities and stockholders' equity	\$ 3,181,362	\$ 3,011,720
	=====	=====

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
NET CHARGE OFF'S	\$ 2,053	\$ 2,503	\$ 4,722	\$ 4,732
AVERAGE BALANCES				
Total Assets	\$3,132,228	\$3,030,935	\$3,083,919	\$2,923,015
Total Loans	2,383,942	2,348,817	2,355,535	2,258,725
Total Deposits	2,382,347	2,305,589	2,338,694	2,221,870
Total Stockholders' Equity	309,744	301,048	308,035	290,503

FINANCIAL RATIOS

Return on Average Assets	.98%	.97%	.95%	.99%
Return on Avg. Stockholders' Equity	9.88	9.76	9.50	9.98
Avg. Earning Assets to Avg. Assets	89.98	89.48	89.89	89.92
Allowance for Loan Losses as %				
Of Total Loans	1.05	1.26	1.05	1.26
Net Charge Off's as % Of Avg. Loans				
(Annualized)	.34	.43	.27	.28
Dividend Payout Ratio	56.10	58.97	58.47	56.30
Avg. Stockholders' Equity to Avg. Assets	9.89	9.93	9.99	9.94
Tax Equivalent Yield on Earning Assets	5.79	5.89	5.71	6.11
Cost of Supporting Liabilities	1.85	1.93	1.82	2.01
Net Int. Margin (FTE) on Earning Assets	3.94	3.96	3.89	4.10

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CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data) Three Months Ended Nine Months En

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	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Interest Income				
Loans receivable				
Taxable	\$ 35,342	\$ 35,607	\$103,590	\$106,590
Tax exempt	143	185	443	443
Investment securities				
Taxable	2,146	1,342	6,147	4,147
Tax exempt	1,679	1,562	4,529	4,529
Federal funds sold	18	49	73	73
Deposits with financial institutions	154	13	388	388
Federal Reserve and Federal Home Loan Bank stock	319	201	954	954
Total interest income	39,801	38,959	116,124	117,978
Interest expense				
Deposits	8,487	8,623	24,556	26,556
Securities sold under repurchase agreements	16	370	334	1,370
Federal Home Loan Bank advances	2,484	2,409	7,359	7,359
Subordinated debentures, revolving credit and term loans	1,822	1,575	5,067	4,575
Other borrowings	200	108	537	537
Total interest expense	13,009	13,085	37,853	39,396
Net interest income	26,792	25,874	78,271	77,582
Provision for loan losses	1,380	1,706	4,472	8,811
Net interest income after provision for loan losses	25,412	24,168	73,799	68,771
Other income				
Fiduciary activities	1,923	1,547	5,735	5,735
Service charges on deposit accounts	2,946	2,861	8,714	8,714
Other customer fees	979	961	3,015	3,015
Net realized gains on sales of available-for-sale securities	332	512	732	732
Commission income	687	638	2,417	2,417
Earnings on cash surrender value of life insurance	448	498	1,359	1,359
Net gains and fees on sales of loans	675	1,332	2,828	5,164
Other income	421	527	1,083	2,083
Total other income	8,411	8,876	25,883	28,240
Other expenses				
Salaries and employee benefits	13,087	13,206	39,170	37,170
Net occupancy expenses	1,391	1,189	3,980	3,980
Equipment expenses	1,853	1,996	5,786	5,786
Marketing expense	363	414	1,188	1,188
Deposit insurance expense				
Outside data processing fees	1,328	1,025	3,762	3,762
Printing and office supplies	397	401	1,183	1,183
Goodwill and core deposit amortization	827	958	2,571	2,571
Other expenses	3,544	3,771	10,336	11,336
Total other expenses	22,790	22,960	67,976	67,976

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Income before income tax	11,033	10,084	31,706	30,
Income tax expense	3,380	2,735	9,763	8,
	-----	-----	-----	-----
Net income	\$ 7,653	\$ 7,349	\$ 21,943	\$ 21,
	=====	=====	=====	=====

Per Share Data

Basic Net Income	.41	.40	1.18	1
Diluted Net Income	.41	.39	1.18	1
Cash Dividends Paid	.23	.23	.69	

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CONSOLIDATED BALANCE SHEETS

(in thousands)	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003
Assets				
Cash and due from banks	\$ 73,367	\$ 72,432	\$ 60,366	\$ 77,111
Federal funds sold	22,700	0	0	32,411
	-----	-----	-----	-----
Cash and cash equivalents	96,067	72,432	60,366	109,522
Interest-bearing time deposits	12,204	20,424	10,674	8,141
Investment securities	420,645	411,140	376,974	356,791
Mortgage loans held for sale	2,715	4,001	3,883	3,041
Loans	2,395,306	2,365,380	2,320,103	2,353,501
Less: Allowance for loan losses	(25,243)	(25,510)	(26,459)	(25,491)
	-----	-----	-----	-----
Net loans	2,370,063	2,339,870	2,293,644	2,328,010
Premises and equipment	38,170	38,437	38,972	39,631
Federal Reserve and Federal Home Loan Bank stock	22,750	22,494	21,956	15,501
Interest receivable	17,594	14,943	15,061	16,841
Core deposit intangibles and goodwill	140,186	141,014	141,867	142,721
Cash surrender value of life insurance	41,700	41,288	40,843	37,921
Other assets	19,268	22,247	20,901	18,661
	-----	-----	-----	-----
Total assets	\$ 3,181,362	\$ 3,128,290	\$ 3,025,041	\$ 3,076,811
	=====	=====	=====	=====
Liabilities				
Deposits				
Noninterest-bearing	\$ 373,548	\$ 334,018	\$ 303,694	\$ 338,201
Interest-bearing	2,083,271	2,038,092	2,009,726	2,023,901
	-----	-----	-----	-----
Total deposits	2,456,819	2,372,110	2,313,420	2,362,101
Borrowings	379,922	422,885	372,356	383,171
Interest payable	5,706	4,216	4,542	4,681
Other liabilities	25,253	24,811	25,676	22,891
	-----	-----	-----	-----
Total liabilities	2,867,700	2,824,022	2,715,994	2,772,841
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	2,320	2,310	2,317	2,311

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Additional paid-in capital	148,993	149,194	150,679	150,311
Retained earnings	160,004	154,876	151,771	149,091
Accumulated other comprehensive income (loss)	2,345	(2,112)	4,380	2,241
Total stockholders' equity	313,662	304,268	309,147	303,961
Total liabilities and stockholders' equity	\$ 3,181,362	\$ 3,128,290	\$ 3,025,141	\$ 3,076,811

NON-PERFORMING ASSETS

(In thousands)	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003	September 2003
90 days past due	\$ 6,664	\$ 2,488	\$ 4,770	\$ 6,530	\$ 4,791
Non-accrual loans	16,852	17,702	19,914	19,453	20,091
Other real estate	1,546	1,653	1,571	1,399	1,541
Total non-performing assets	\$ 25,062	\$ 21,843	\$ 26,255	\$ 27,382	\$ 26,431
Average total loans for the quarter	\$2,383,942	\$2,343,270	\$2,339,080	\$ 2,349,536	\$ 2,348,811
Total non-performing assets as a percent of average total loans	1.05%	.93%	1.12%	1.17%	1.13%
Restructured loans	\$ 2,169	\$ 926	\$ 957	\$ 641	\$ 647

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CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	Three Months Ended			
	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003
Interest Income				
Loans receivable				
Taxable	\$ 35,342	\$ 34,021	\$ 34,227	\$ 34,697
Tax exempt	143	137	163	195
Investment securities				
Taxable	2,146	2,052	1,949	1,484
Tax exempt	1,679	1,420	1,430	1,451
Federal funds sold	18	37	18	148
Deposits with financial institutions	154	125	109	22
Federal Reserve and Federal Home Loan Bank stock	319	307	328	39
Total interest income	39,801	38,099	38,224	38,036
Interest expense				
Deposits	8,487	7,879	8,190	8,303
Securities sold under repurchase agreements	16	98	220	248
Federal Home Loan Bank advances	2,484	2,433	2,442	2,362

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Subordinated debentures, revolving credit and term loans	1,822	1,635	1,610	1,587
Other borrowings	200	207	130	233
	-----	-----	-----	-----
Total interest expense	13,009	12,252	12,592	12,733
	-----	-----	-----	-----
Net interest income	26,792	25,847	25,632	25,303
Provision for loan losses	1,380	1,720	1,372	1,047
	-----	-----	-----	-----
Net interest income after provision for loan losses	25,412	24,127	24,260	24,256
	-----	-----	-----	-----
Other income				
Fiduciary activities	1,923	2,002	1,810	1,603
Service charges on deposit accounts	2,946	2,996	2,772	2,717
Other customer fees	979	966	1,070	1,039
Net realized gains on sales of available-for-sale securities	332	363	37	0
Commission income	687	777	953	569
Earnings on cash surrender value of life insurance	448	482	429	446
Net gains and fees on sales of loans	675	1,352	801	770
Other income	421	318	344	443
	-----	-----	-----	-----
Total other income	8,411	9,256	8,216	7,587
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	13,087	13,059	13,024	12,599
Net occupancy expenses	1,391	1,335	1,254	1,414
Equipment expenses	1,853	1,954	1,979	2,217
Marketing expense	363	385	440	538
Outside data processing fees	1,328	1,211	1,223	1,063
Printing and office supplies	397	388	398	466
Goodwill and core deposit amortization	827	852	892	923
Other expenses	3,544	3,438	3,354	4,623
	-----	-----	-----	-----
Total other expenses	22,790	22,622	22,564	23,843
	-----	-----	-----	-----
Income before income tax	11,033	10,761	9,912	8,000
Income tax expense	3,380	3,406	2,977	2,181
	-----	-----	-----	-----
Net income	\$ 7,653	\$ 7,355	\$ 6,935	\$ 5,819
	=====	=====	=====	=====
Per Share Data				
Basic Net Income	\$.41	\$.40	\$.37	\$.31
Diluted Net Income	.41	.40	.37	.31
Cash Dividends Paid	.23	.23	.23	.23
Average Diluted Shares Outstanding (in thousands)	18,658	18,633	18,646	18,666
FINANCIAL RATIOS				
Return on Average Assets	.98%	.96%	.91%	.76%
Return on Avg. Stockholders' Equity	9.88	9.56	9.05	7.69
Avg. Earning Assets to Avg. Assets	89.98	89.64	90.05	90.19
Allowance for Loan Losses as % Of Total Loans	1.05	1.08	1.14	1.08
Net Charge Off's as % Of Avg. Loans				

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(Annualized)	.34	.46	.07	.92
Dividend Payout Ratio	56.10	57.50	62.16	74.19
Avg. Stockholders' Equity to Avg. Assets	9.89	10.00	10.08	9.86
Tax Equivalent Yield on Earning Assets	5.79	5.65	5.71	5.62
Cost of Supporting Liabilities	1.85	1.78	1.84	1.84
Net Int. Margin (FTE) on Earning Assets	3.94	3.87	3.87	3.78

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