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FIRST MERCHANTS CORP
Form 8-K
January 27, 2006

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 27, 2006

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

INDIANA 0-17071 35-1544218
(State or other jurisdiction (Commission file number) (IRS Employer
of incorporation) 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))

Page 1 of 12

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On January 27, 2006, First Merchants Corporation issued a press release to report its financial results for the fourth quarter ended December

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31, 2005 and year to date results for the period ending December 31, 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 January 27, 2006, issued by First Merchants Corporation
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Page 2 of 12

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: January 27, 2006

Page 3 of 12

EXHIBIT INDEX

Exhibit No.

99.1

Description

Press Release, dated January 27, 2006, issued by First Merchants Corporation.

Page 4 of 12

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First Merchants Corporation

Exhibit No. 99.1

Press Release, dated January 27, 2006

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

January 27, 2006

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 INCREASE IN 2005 EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported fourth-quarter diluted earnings per share of \$.41, a 2.5 percent increase over \$.40 recorded in the fourth quarter of 2004. Net income during the quarter totaled \$8.2 million compared to \$7.7 million in 2004.

Full-year 2005 diluted earnings per share totaled \$1.63, a 3.2 percent increase over \$1.58 recorded in 2004. Net income totaled \$30.2 million compared to \$29.4 million in 2004.

2005 net-interest income improved by \$5.7 million, or 5.4 percent, as net-interest margin improved to 3.97 percent, a 9-basis point increase over 2004. Core non-interest income also increased by \$1,353,000, or 4.1 percent, after discounting nonrecurring gains from the sale of securities of \$1.2 million taken in 2004.

The allowance for loan losses improved to 1.02 percent of total loans on December 31, 2005, a 9-basis point improvement over 2004. The improvement in the allowance is reflective of increased provisions of \$2.6 million during 2005. Additionally, non-performing assets declined from 79-basis points in 2004 to 69 basis points in 2005, a \$2 million dollar improvement.

Operating expenses increased by \$2.3 million, or 2.5 percent in 2005. 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 increase. Absent the curtailment charge, operating expenses increased by just .7 percent.

Total assets equaled \$3.2 billion at year-end, an increase of \$45 million, or 1.4 percent from December 31, 2004. Loans, investments and bank-owned life insurance, the Corporation's three primary earning assets, totaled \$2.9 billion, an increase of \$44 million over the prior year.

Michael L. Cox, President and Chief Executive Officer, stated that, "Given the many extraordinary events of the year, including our voluntary increase in the allowance for loan losses, the absence of non-recurring gains from the sale of securities and the pension curtailment expense, 2005 represents a good improvement in the overall run rate and financial condition of the Corporation. First Merchants' earnings have now increased in 29 of the past 30 years."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. (ET) today, Friday, January 27, 2006. To participate dial (Toll Free) 877-407-9210

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and reference First Merchants Corporation's fourth quarter earnings release. A replay will be available until February 3, 2006. 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 # 186821.

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, 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)

	December 31,	
	2005	2004
Assets		
Cash and due from banks	\$ 70,417	\$ 69,960
Interest-bearing time deposits	8,748	9,343
Investment securities	434,266	421,535
Mortgage loans held for sale	4,910	3,367
Loans	2,457,427	2,428,051
Less: Allowance for loan losses	(25,188)	(22,548)
	-----	-----
Net Loans	2,432,239	2,405,503
Premises and equipment	39,417	38,254
Federal Reserve and Federal Home Loan Bank stock	23,200	22,858
Interest receivable	19,690	17,318
Core deposit intangibles and goodwill	138,833	141,284
Cash surrender value of life insurance	43,579	42,061
Other assets	21,780	20,185
	-----	-----
Total assets	\$ 3,237,079	\$ 3,191,668
	=====	=====

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Liabilities			
Deposits			
Noninterest-bearing	\$	314,335	\$ 330,685
Interest-bearing		2,068,241	2,077,465
		-----	-----
Total deposits		2,382,576	2,408,150
Borrowings		508,236	440,891
Interest payable		5,874	4,411
Other liabilities		26,997	23,613
		-----	-----
Total liabilities		2,923,683	2,877,065
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 - 18,416,714 and 18,573,997		2,302	2,322
Additional paid-in capital		145,682	150,862
Retained earnings		174,717	161,459
Accumulated other comprehensive loss		(9,305)	(40)
		-----	-----
Total stockholders' equity		313,396	314,603
		-----	-----
Total liabilities and stockholders' equity	\$	3,237,079	\$ 3,191,668
		=====	=====

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2005	2004	2005	2004
NET CHARGE OFF'S	\$ 1,906	\$ 3,929	\$ 5,714	\$ 8,65
AVERAGE BALANCES				
Total Assets	\$3,160,619	\$3,184,109	\$3,179,464	\$3,109,10
Total Loans	2,447,794	2,409,170	2,434,134	2,369,01
Total Deposits	2,414,251	2,444,563	2,418,752	2,365,30
Total Stockholders' Equity	317,510	315,869	315,525	310,00

FINANCIAL RATIOS

Return on Average Assets	.95%	.94%	.95%	.9
Return on Avg. Stockholders' Equity	9.49	9.46	9.58	9.4
Avg. Earning Assets to Avg. Assets	91.47	91.38	90.93	90.2
Allowance for Loan Losses as %				
Of Total Loans	1.02	.93	1.02	.9
Net Charge Off's as % Of Avg. Loans				
(Annualized)	.31	.65	.23	.3
Dividend Payout Ratio	56.10	57.50	56.44	58.2
Avg. Stockholders' Equity to Avg. Assets	10.05	9.92	9.92	9.9
Tax Equivalent Yield on Earning Assets	6.62	5.74	6.26	5.7
Cost of Supporting Liabilities	2.59	1.89	2.29	1.8
Net Int. Margin (FTE) on Earning Assets	4.03	3.85	3.97	3.8

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CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Three Months Ended December 31,		Year Ended December 31,	
	2005	2004	2005	2004
Interest income				
Loans receivable				
Taxable	\$ 41,930	\$ 36,363	\$ 158,436	\$ 138,436
Tax exempt	160	138	643	643
Investment securities				
Taxable	2,480	2,224	9,612	9,612
Tax exempt	1,672	1,569	6,374	6,374
Federal funds sold	74	92	264	264
Deposits with financial institutions	202	167	695	695
Federal Reserve and Federal Home Loan Bank stock	296	297	1,185	1,185
	-----	-----	-----	-----
Total interest income	46,814	40,850	177,209	158,436
	-----	-----	-----	-----
Interest expense				
Deposits	13,414	9,288	46,121	38,414
Securities sold under repurchase agreements	647	183	1,612	1,612
Federal Home Loan Bank advances	2,410	2,418	9,777	9,777
Subordinated debentures, revolving credit lines and term loans	1,910	1,717	7,432	7,432
Other borrowings	307	126	1,138	1,138
	-----	-----	-----	-----
Total interest expense	18,688	13,732	66,080	58,373
	-----	-----	-----	-----
Net interest income	28,126	27,118	111,129	100,063
Provision for loan losses	1,945	1,233	8,354	8,354
	-----	-----	-----	-----
Net interest income after provision for loan losses	26,181	25,885	102,775	91,709
	-----	-----	-----	-----
Other income				
Fiduciary activities	1,762	1,897	7,481	7,481
Service charges on deposit accounts	2,691	2,924	11,298	11,298
Other customer fees	1,432	1,068	5,094	5,094
Net realized gains (losses) on sales of available-for-sale securities	(24)	456	(2)	(2)
Commission income	690	671	3,821	3,821
Earnings on cash surrender value of life insurance	386	439	1,667	1,667
Net gains and fees on sales of loans	676	801	2,902	2,902
Other income	516	415	2,456	2,456
	-----	-----	-----	-----
Total other income	8,129	8,671	34,717	34,717
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	12,596	13,309	54,059	54,059
Net occupancy expenses	1,428	1,328	5,796	5,796
Equipment expenses	1,952	1,879	7,562	7,562
Marketing expense	625	521	2,012	2,012
Outside data processing fees	989	1,158	4,010	4,010
Printing and office supplies	400	397	1,369	1,369
Core deposit amortization	767	802	3,102	3,102

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Other expenses	4,469	4,272	16,047	1
	-----	-----	-----	-----
Total other expenses	23,226	23,666	93,957	9
	-----	-----	-----	-----
Income before income tax	11,084	10,890	43,535	4
Income tax expense	3,553	3,422	13,296	1
	-----	-----	-----	-----
Net income	\$ 7,531	\$ 7,468	\$ 30,239	\$ 2
	=====	=====	=====	=====

Per Share Data

Basic Net Income	.41	.41	1.64	
Diluted Net Income	.41	.40	1.63	
Cash Dividends Paid	.23	.23	.92	
Average Diluted Shares Outstanding (in thousands)	18,558	18,721	18,596	1

CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Assets				
Cash and due from banks	\$ 70,417	\$ 81,310	\$ 71,498	\$ 60,000
Federal funds sold				2
	-----	-----	-----	-----
Cash and cash equivalents	70,417	81,310	71,498	8
Interest-bearing time deposits	8,748	10,708	9,255	1
Investment securities	434,266	436,794	420,685	40
Mortgage loans held for sale	4,910	5,026	1,356	
Loans	2,457,427	2,443,931	2,440,906	2,41
Less: Allowance for loan losses	(25,188)	(25,149)	(25,091)	(2
	-----	-----	-----	-----
Net loans	2,432,239	2,418,782	2,415,815	2,38
Premises and equipment	39,417	38,473	37,240	3
Federal Reserve and Federal Home Loan Bank stock	23,200	23,165	23,054	2
Interest receivable	19,690	19,561	16,950	1
Core deposit intangibles and goodwill	138,833	139,597	139,799	14
Cash surrender value of life insurance	43,579	43,230	42,827	4
Other assets	21,780	21,792	22,819	2
	-----	-----	-----	-----
Total assets	\$ 3,237,079	\$ 3,238,438	\$ 3,201,298	\$ 3,18
	=====	=====	=====	=====
Liabilities				
Deposits				
Noninterest-bearing	\$ 314,335	\$ 346,318	\$ 363,654	\$ 33
Interest-bearing	2,068,241	2,118,975	2,040,624	2,11
	-----	-----	-----	-----
Total deposits	2,382,576	2,465,293	2,404,278	2,45
Borrowings	508,236	423,959	454,400	39
Interest payable	5,874	5,643	5,068	
Other liabilities	26,997	25,153	24,194	2
	-----	-----	-----	-----
Total liabilities	2,923,683	2,920,048	2,887,940	2,87
Stockholders' equity				

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Preferred stock, no-par value				
Authorized and unissued -- 500,000 shares				
Common stock, \$.125 stated value				
Authorized -- 50,000,000 shares				
Issued and outstanding	2,302	2,313	2,302	
Additional paid-in capital	145,682	148,004	146,057	14
Retained earnings	174,717	171,419	167,452	16
Accumulated other comprehensive loss	(9,305)	(3,346)	(2,453)	(
	-----	-----	-----	-----
Total stockholders' equity	313,396	318,390	313,358	31
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$ 3,237,079	\$ 3,238,438	\$ 3,201,298	\$ 3,18
	=====	=====	=====	=====

NON-PERFORMING ASSETS

(in thousands)	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
90 days past due	\$ 3,965	\$ 3,560	\$ 3,696	\$ 1,948
Non-accrual loans	10,030	11,757	11,626	13,272
Other real estate	2,835	3,023	1,804	2,003
	-----	-----	-----	-----
Total non-performing assets	\$ 16,830	\$ 18,340	\$ 17,126	\$ 17,223
	=====	=====	=====	=====
Average total loans for the quarter	\$2,447,794	\$2,444,131	\$2,430,081	\$2,414,050
Total non-performing assets as a percent of average total loans	.69%	.75%	.70%	.71%
Restructured loans	\$ 310	\$ 454	\$ 531	\$ 337

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Interest Income				
Loans receivable				
Taxable	\$ 41,930	\$ 40,853	\$ 38,831	\$
Tax exempt	160	160	189	
Investment securities				
Taxable	2,480	2,427	2,376	
Tax exempt	1,672	1,595	1,554	
Federal funds sold	74	51	112	
Deposits with financial institutions	202	185	166	
Federal Reserve and Federal Home Loan Bank stock	296	296	285	
	-----	-----	-----	-----
Total interest income	46,814	45,567	43,513	
	-----	-----	-----	-----
Interest expense				

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Deposits	13,414	12,172	10,729	
Securities sold under repurchase agreements	647	523	193	
Federal Home Loan Bank advances	2,410	2,549	2,443	
Subordinated debentures, revolving credit				
Lines and term loans	1,910	1,894	1,839	
Other borrowings	307	289	388	
	-----	-----	-----	
Total interest expense	18,688	17,427	15,592	
	-----	-----	-----	
Net interest income	28,126	28,140	27,921	
Provision for loan losses	1,945	1,794	1,948	
	-----	-----	-----	
Net interest income				
after provision for loan losses	26,181	26,346	25,973	
	-----	-----	-----	
Other income				
Fiduciary activities	1,762	1,794	1,963	
Service charges on deposit accounts	2,691	2,836	3,048	
Other customer fees	1,432	1,389	1,188	
Net realized gains (losses) on sales of				
available-for-sale securities	(24)	16	6	
Commission income	690	870	757	
Earnings on cash surrender value				
of life insurance	386	441	439	
Net gains and fees on sales of loans	676	770	779	
Other income	516	664	582	
	-----	-----	-----	
Total other income	8,129	8,780	8,762	
	-----	-----	-----	
Other expenses				
Salaries and employee benefits	12,596	13,384	13,258	
Net occupancy expenses	1,428	1,570	1,422	
Equipment expenses	1,952	1,901	1,852	
Marketing expense	625	446	526	
Outside data processing fees	989	979	1,033	
Printing and office supplies	400	328	304	
Core deposit amortization	767	770	778	
Other expenses	4,469	3,923	4,026	
	-----	-----	-----	
Total other expenses	23,226	23,301	23,199	
	-----	-----	-----	
Income before income tax	11,084	11,825	11,536	
Income tax expense	3,553	3,605	3,615	
	-----	-----	-----	
Net income	\$ 7,531	\$ 8,220	\$ 7,921	\$
	=====	=====	=====	=====
Per Share Data				
Basic Net Income	\$.41	\$.45	\$.43	\$
Diluted Net Income	.41	.44	.43	
Cash Dividends Paid	.23	.23	.23	
Average Diluted Shares				
Outstanding (in thousands)	18,558	18,590	18,536	
FINANCIAL RATIOS				
Return on Average Assets	.95%	1.03%	.99%	
Return on Avg. Stockholders' Equity	9.49	10.38	10.13	
Avg. Earning Assets to Avg. Assets	91.47	90.83	90.81	

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Allowance for Loan Losses as %			
Of Total Loans	1.02	1.03	1.03
Net Charge Off's as % Of Avg. Loans			
(Annualized)	.31	.28	.22
Dividend Payout Ratio	56.10	52.27	53.49
Avg. Stockholders' Equity to Avg. Assets	10.05	9.89	9.80
Tax Equivalent Yield on Earning Assets	6.62	6.40	6.14
Cost of Supporting Liabilities	2.59	2.40	2.15
Net Int. Margin (FTE) on Earning Assets	4.03	4.00	3.99

LOANS

(in thousands)	December 31, 2005	September 30, 2005	June 30, 2005	
Commercial and industrial loans	\$ 461,102	\$ 476,010	\$ 463,002	\$
Agricultural production financing and other loans to farmers	95,130	94,262	93,274	
Real estate loans:				
Construction	174,783	171,667	166,367	
Commercial and farmland	734,865	719,154	723,099	
Residential	751,217	746,777	759,003	
Individuals' loans for household and other personal expenditures	200,139	186,792	182,362	
Tax exempt loans	8,263	12,439	14,135	
Lease financing receivables, net of unearned income	8,713	9,538	10,533	
Other loans	23,215	27,292	29,131	
	-----	-----	-----	-----
	2,457,427	2,443,931	2,440,906	2,
Allowance for loan losses	(25,188)	(25,149)	(25,091)	
	-----	-----	-----	-----
Total loans	\$2,432,239	\$2,418,782	\$2,415,815	\$2,
	=====	=====	=====	=====

DEPOSITS

(in thousands)	December 31, 2005	September 30, 2005	June 30, 2005	
Demand deposits	\$ 690,923	\$ 697,597	\$ 720,263	\$ 6
Savings deposits	566,212	568,366	593,770	6
Certificates and other time deposits of \$100,000 or more	264,665	320,640	234,988	2
Other certificates and time deposits	860,776	878,690	855,257	8
	-----	-----	-----	-----
	\$2,382,576	\$2,465,293	\$2,404,278	\$2,4
	=====	=====	=====	=====