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FIRST MERCHANTS CORP
Form 8-K
January 23, 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): January 23, 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 January 23 2007, First Merchants Corporation issued a press release to report its financial results for the fourth quarter ended December

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31, 2006. 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 23, 2007, 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
 Executive Vice President and
 Chief Financial Officer
 (Principal Financial and
 Principal Accounting Officer)

Dated: January 23, 2007

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EXHIBIT INDEX

Exhibit No.

99.1

Description

Press Release, dated January 23, 2007, issued by
First Merchants Corporation.

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First Merchants Corporation

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Exhibit No. 99.1

Press Release, dated January 23, 2007

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

January 23, 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 INCREASE IN 2006 EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported December 31, 2006 diluted earnings per share totaling \$1.64, a \$.01 increase over 2005 earnings per share of \$1.63. Net Income for 2006 totaled \$30.2 million.

Fourth quarter diluted earnings per share totaled \$.42, a \$.01 increase from fourth quarter earnings per share of \$.41 in 2005. Net income for the quarter totaled \$7.7 million.

Total assets again reached record levels totaling \$3.55 billion at year-end, an increase of \$318 million, or 9.8 percent from December 31, 2005. Loans and investments, the Corporation's primary earning assets, totaled \$3.16 billion, an increase of \$266 million or 9.2 percent over the prior year.

Net-Interest margin declined by 26 basis points in 2006, from 3.97 percent in 2005 to 3.71 percent in 2006. As a result, net-interest income declined by \$1,034,000 despite strong improvements in earning assets as the Corporation's volume variance totaled a positive \$6,987,000 mitigated by a negative rate variance of \$8,021,000. The decline in net-interest margin represents \$.26 in earnings per share for the year.

Non-interest income declined by \$104,000 during 2006. Core non-interest income improved by \$607,000 as earnings on cash surrender value of bank owned life insurance increased by \$619,000, insurance commission increased by \$481,000 and other customer fees improved by \$423,000. Positive advances in non-interest income were mitigated by reduced gains from the sale of mortgage loans totaling \$731,000 and one time gains in 2005 of \$711,000.

Year-to-date operating expense increased by a modest 2.2 percent as management continues the process of streamlining its operating structure.

The allowance for loan losses increased during the year by \$1.35 million as the Corporation's provision for loan losses declined by \$2.1 million. As of December 31, 2006, non-performing loans totaled 87 basis points of average total loans and the allowance for loan losses as a percent of total loans equaled .99 percent.

Michael L. Cox, President and Chief Executive Officer, stated that, "Margin compression resulting from the inversion of the yield curve and competition masked much of the Corporation's success during the year. The Corporation's balance sheet is diversified, short in average life and generally very well structured. Consequently, the management team and Board of Directors of First Merchants are pleased with the overall success of the year and believe when

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evaluating 2006 that it is important to acknowledge the impact of margin compression." Cox also added, that "Balance sheet growth, credit quality, expense management, talent acquisition and infrastructure improvements represent the success of many key initiatives and that management is diligently executing a plan to produce a positive 2007."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Daylight Time on Wednesday, January 24, 2007. To participate, dial (Toll Free) 877-407-9210 and reference First Merchants Corporation's fourth quarter earnings. A replay will be available until January 31, 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 # 226600.

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., Madison Community Bank, N.A., United Communities National Bank, First National Bank, Decatur Bank & Trust Company, N.A., Frances Slocum Bank, 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>).

* * * *

CONSOLIDATED BALANCE SHEETS

(in thousands)

	December 31,	
	2006	2005
Assets		
Cash and due from banks	\$ 89,957	\$ 70,417
Interest-bearing time deposits	11,284	8,748
Investment securities	465,217	434,266
Mortgage loans held for sale	5,413	4,910
Loans	2,692,601	2,457,427
Less: Allowance for loan losses	(26,540)	(25,188)
Net loans	2,666,061	2,432,239
Premises and equipment	42,393	39,417

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Federal Reserve and Federal Home Loan Bank stock	23,691	23,200
Interest receivable	24,345	19,690
Core deposit intangibles and goodwill	138,638	138,833
Cash surrender value of life insurance	64,213	43,579
Other assets	23,658	21,780
	-----	-----
Total assets	\$ 3,554,870	\$ 3,237,079
	=====	=====
Liabilities		
Deposits		
Noninterest-bearing	\$ 362,058	\$ 314,335
Interest-bearing	2,388,480	2,068,241
	-----	-----
Total deposits	2,750,538	2,382,576
Borrowings	440,764	508,236
Interest payable	9,326	5,874
Other liabilities	26,917	26,997
	-----	-----
Total liabilities	3,227,545	2,923,683
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 -- 18,439,843 and 18,416,714 shares	2,305	2,302
Additional paid-in capital	146,460	145,682
Retained earnings	187,965	174,717
Accumulated other comprehensive loss	(9,405)	(9,305)
	-----	-----
Total stockholders' equity	327,325	313,396
	-----	-----
Total liabilities and stockholders' equity	\$ 3,554,870	\$ 3,237,079
	=====	=====

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2006	2005	2006	2005
NET CHARGE OFF'S	\$ 1,680	\$ 1,906	\$ 4,906	\$ 5,714
AVERAGE BALANCES				
Total Assets	\$3,499,774	\$3,160,619	\$3,371,386	\$3,179,464
Total Loans	2,653,700	2,447,794	2,569,847	2,434,134
Total Deposits	2,755,145	2,414,251	2,568,070	2,418,752
Total Stockholders' Equity	326,158	317,510	319,519	315,525

FINANCIAL RATIOS

Return on Average Assets	.88%	.95%	.90%	.95%
Return on Avg. Stockholders' Equity	9.39	9.49	9.45	9.58
Avg. Earning Assets to Avg. Assets	90.87	91.47	91.15	90.93
Allowance for Loan Losses as % Of Total Loans	.99	1.02	.99	1.02
Net Charge Off's as % Of Avg. Loans (Annualized)	.25	.31	.19	.23
Dividend Payout Ratio	56.10	56.10	56.10	56.44
Avg. Stockholders' Equity to Avg. Assets	9.32	10.05	9.48	9.92
Tax Equivalent Yield on Earning Assets	7.07	6.62	6.92	6.26
Cost of Supporting Liabilities	3.53	2.59	3.21	2.29

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Net Int. Margin (FTE) on Earning Assets 3.54 4.03 3.71 3.97

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Three Months Ended December 31,		Year Ended December 31,	
	2006	2005	2006	2005
Interest income				
Loans receivable				
Taxable	\$ 49,293	\$ 41,930	\$186,768	\$ 15
Tax exempt	240	160	828	
Investment securities				
Taxable	3,219	2,480	12,316	
Tax exempt	1,660	1,672	6,565	
Federal funds sold	332	74	373	
Deposits with financial institutions	110	202	500	
Federal Reserve and Federal Home Loan Bank stock	318	296	1,256	
Total interest income	55,172	46,814	208,606	17
Interest expense				
Deposits	22,690	13,414	74,314	4
Federal funds purchased	93	163	1,842	
Securities sold under repurchase agreements	488	647	3,228	
Federal Home Loan Bank advances	2,672	2,410	10,734	
Subordinated debentures, revolving credit lines and term loans	2,046	1,910	8,124	
Other borrowings	67	144	269	
Total interest expense	28,056	18,688	98,511	6
Net interest income	27,116	28,126	110,095	11
Provision for loan losses	1,245	1,945	6,258	
Net interest income after provision for loan losses	25,871	26,181	103,837	10
Other income				
Fiduciary activities	1,862	1,762	7,625	
Service charges on deposit accounts	3,010	2,691	11,262	1
Other customer fees	1,387	1,432	5,517	
Net realized gains on sales of available-for-sale securities	(4)	(24)	(4)	
Commission income	881	690	4,302	
Earnings on cash surrender value of life insurance	712	386	2,286	
Net gains and fees on sales of loans	613	676	2,171	
Other income	309	516	1,454	
Total other income	8,770	8,129	34,613	3
Other expenses				
Salaries and employee benefits	14,157	12,596	56,125	5
Net occupancy expenses	1,498	1,428	5,886	

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Equipment expenses	1,956	1,952	7,947	
Marketing expense	508	625	1,932	
Outside data processing fees	804	989	3,449	
Printing and office supplies	401	400	1,496	
Core deposit amortization	781	767	3,066	
Other expenses	4,315	4,469	16,156	1
	-----	-----	-----	-----
Total other expenses	24,420	23,226	96,057	9
	-----	-----	-----	-----
Income before income tax	10,221	11,084	42,393	4
Income tax expense	2,562	3,553	12,195	1
	-----	-----	-----	-----
Net income	\$ 7,659	\$ 7,531	\$ 30,198	\$ 3
	=====	=====	=====	=====

Per Share Data

Basic Net Income	.42	.41	1.64	
Diluted Net Income	.42	.41	1.64	
Cash Dividends Paid	.23	.23	.92	
Average Diluted Shares				
Outstanding (in thousands)	18,498	18,558	18,467	1

CONSOLIDATED BALANCE SHEETS

(in thousands)	December 31, 2006	September 30, 2006	June 30, 2006	March 2006
Assets				
Cash and due from banks	\$ 89,957	\$ 65,641	\$ 71,275	\$ 59,939
Interest-bearing time deposits	11,284	8,717	8,529	9,317
Investment securities	465,217	468,074	466,882	441,317
Mortgage loans held for sale	5,413	3,395	5,338	5,338
Loans	2,692,601	2,641,644	2,591,440	2,491,317
Less: Allowance for loan losses	(26,540)	(26,975)	(25,884)	(25,884)
	-----	-----	-----	-----
Net loans	2,666,061	2,614,669	2,565,556	2,465,433
Premises and equipment	42,393	40,511	41,122	39,317
Federal Reserve and Federal Home Loan Bank stock	23,691	23,620	23,889	23,620
Interest receivable	24,345	23,946	19,539	19,539
Core deposit intangibles and goodwill	138,638	136,666	137,429	138,638
Cash surrender value of life insurance	64,213	63,539	44,358	43,539
Other assets	23,658	23,261	24,346	25,884
	-----	-----	-----	-----
Total assets	\$ 3,554,870	\$ 3,472,039	\$ 3,408,263	\$ 3,269,317
	=====	=====	=====	=====
Liabilities				
Deposits				
Noninterest-bearing	\$ 362,058	\$ 324,601	\$ 340,046	\$ 325,000
Interest-bearing	2,388,480	2,369,690	2,195,354	2,120,000
	-----	-----	-----	-----
Total deposits	2,750,538	2,694,291	2,535,400	2,445,000
Borrowings	440,764	419,146	527,347	469,000
Interest payable	9,326	10,236	6,927	6,927
Other liabilities	26,917	26,075	25,585	31,317
	-----	-----	-----	-----

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Total liabilities	3,227,545	3,149,748	3,095,259	2,953
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	2,305	2,292	2,282	2
Additional paid-in capital	146,460	143,688	142,037	146
Retained earnings	187,965	184,555	181,042	177
Accumulated other comprehensive loss	(9,405)	(8,244)	(12,357)	(9)
	-----	-----	-----	-----
Total stockholders' equity	327,325	322,291	313,004	316
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$ 3,554,870	\$ 3,472,039	\$ 3,408,263	\$ 3,269
	=====	=====	=====	=====

NON-PERFORMING ASSETS

(in thousands)	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
90 days past due	\$ 2,870	\$ 4,253	\$ 8,818	\$ 5,188
Non-accrual loans	17,926	16,524	12,611	11,424
Other real estate	2,160	2,194	2,497	3,209
	-----	-----	-----	-----
Total non-performing assets	\$ 22,956	\$ 22,971	\$ 23,926	\$ 19,821
	=====	=====	=====	=====
Average total loans for the quarter	\$2,653,700	\$2,613,805	\$2,534,675	\$2,474,759
Total non-performing assets as a percent of average total loans	.87%	.87%	.94%	.80%
Restructured loans	\$ 84	\$ 93	\$ 111	\$ 114

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	December 31, 2006	September 30, 2006	Three Months Ended June 30, 2006
Interest Income			
Loans receivable			
Taxable	\$ 49,293	\$ 48,738	\$ 45,658
Tax exempt	240	189	231
Investment securities			
Taxable	3,219	3,289	3,082
Tax exempt	1,660	1,645	1,613
Federal funds sold	332	13	11
Deposits with financial institutions	110	144	132
Federal Reserve and Federal Home Loan Bank stock	318	307	320
	-----	-----	-----
Total interest income	55,172	54,325	51,047
	-----	-----	-----
Interest expense			
Deposits	22,690	20,291	16,914

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Federal funds purchased	93	635	625
Securities sold under repurchase agreements	488	852	1,053
Federal Home Loan Bank advances	2,672	2,796	2,610
Subordinated debentures, revolving credit lines and term loans	2,046	2,067	2,020
Other borrowings	67	60	59
	-----	-----	-----
Total interest expense	28,056	26,701	23,281
	-----	-----	-----
Net interest income	27,116	27,624	27,766
Provision for loan losses	1,245	1,558	1,729
	-----	-----	-----
Net interest income after provision for loan losses	25,871	26,066	26,037
	-----	-----	-----
Other income			
Fiduciary activities	1,862	1,863	1,949
Service charges on deposit accounts	3,010	3,055	2,771
Other customer fees	1,387	1,386	1,389
Net realized gains (losses) on sales of available-for-sale securities	(4)		(9)
Commission income	881	971	946
Earnings on cash surrender value of life insurance	712	719	432
Net gains and fees on sales of loans	613	493	511
Other income	309	348	422
	-----	-----	-----
Total other income	8,770	8,835	8,411
	-----	-----	-----
Other expenses			
Salaries and employee benefits	14,157	14,033	13,543
Net occupancy expenses	1,498	1,477	1,477
Equipment expenses	1,956	2,035	2,007
Marketing expense	508	586	438
Outside data processing fees	804	841	921
Printing and office supplies	401	367	424
Core deposit amortization	781	762	761
Other expenses	4,315	3,854	4,323
	-----	-----	-----
Total other expenses	24,420	23,955	23,894
	-----	-----	-----
Income before income tax	10,221	10,946	10,554
Income tax expense	2,562	3,207	3,263
	-----	-----	-----
Net income	\$ 7,659	\$ 7,739	\$ 7,291
	=====	=====	=====
Per Share Data			
Basic Net Income	\$.42	\$.42	\$.39
Diluted Net Income	.42	.42	.39
Cash Dividends Paid	.23	.23	.23
Average Diluted Shares Outstanding (in thousands)	18,498	18,381	18,463
FINANCIAL RATIOS			
Return on Average Assets	.88%	.90%	.88%
Return on Avg. Stockholders' Equity	9.39	9.72	9.20
Avg. Earning Assets to Avg. Assets	90.87	91.26	91.21

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Allowance for Loan Losses as %			
Of Total Loans	.99	1.02	1.00
Net Charge Off's as % Of Avg. Loans			
(Annualized)	.25	.07	.23
Dividend Payout Ratio	56.10	54.76	58.97
Avg. Stockholders' Equity to Avg. Assets	9.32	9.30	9.54
Tax Equivalent Yield on Earning Assets	7.07	7.08	6.87
Cost of Supporting Liabilities	3.53	3.42	3.07
Net Int. Margin (FTE) on Earning Assets	3.54	3.66	3.80

LOANS

(in thousands)	December 31, 2006	September 30, 2006	June 30, 2006	Ma 2
Commercial and industrial loans	\$ 537,305	\$ 497,280	\$ 501,238	\$ 4
Agricultural production financing and other loans to farmers	100,098	104,147	95,352	
Real estate loans:				
Construction	169,491	175,753	178,254	1
Commercial and farmland	861,429	835,403	813,171	7
Residential	749,921	757,116	744,552	7
Individuals' loans for household and other personal expenditures	223,504	215,237	208,768	2
Tax exempt loans	14,423	16,550	13,656	
Lease financing receivables, net of unearned income	8,010	8,543	8,589	
Other loans	28,420	31,615	27,860	
	-----	-----	-----	-----
	2,692,601	2,641,644	2,591,440	2,4
Allowance for loan losses	(26,540)	(26,975)	(25,884)	(
	-----	-----	-----	-----
Total loans	\$2,666,061	\$2,614,669	\$2,565,556	\$2,4
	=====	=====	=====	=====

DEPOSITS

(in thousands)	December 31, 2006	September 30, 2006	June 30, 2006	Ma 6
Demand deposits	\$ 883,294	\$ 743,154	\$ 758,132	\$ 6
Savings deposits	507,431	512,112	510,878	5
Certificates and other time deposits of \$100,000 or more	408,910	394,724	313,751	3
Other certificates and time deposits	950,903	1,044,301	952,639	9
	-----	-----	-----	-----
	\$2,750,538	\$2,694,291	\$2,535,400	\$2,4
	=====	=====	=====	=====