

FIRST MERCHANTS CORP  
Form S-4  
September 24, 2008  
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As filed with the Securities and Exchange Commission on September 24, 2008

Registration Statement No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM S-4**  
**REGISTRATION STATEMENT**  
*UNDER*  
*THE SECURITIES ACT OF 1933*

**FIRST MERCHANTS CORPORATION**

(Exact name of registrant as specified in its charter)

**INDIANA**  
(State or other jurisdiction of incorporation or organization)

**35-1544218**  
(I.R.S. Employer Identification No.)

**6021**

(Primary Standard Industrial Classification Code Number)

**200 East Jackson Street**

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Muncie, Indiana 47305

(765) 747-1500

(Address, including ZIP Code, and telephone number, including area code, of registrant's principal executive offices)

*With copies to:*

Mark K. Hardwick  
Executive Vice President and  
Chief Financial Officer  
First Merchants Corporation  
200 East Jackson Street  
Muncie, Indiana 47305  
(765) 747-1500

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(317) 684-5000

(Name, address, including ZIP Code, and telephone number, including area code, of agent for service)

**Approximate date of commencement of the proposed sale of the securities to the public:** As soon as practicable after the effective date of this Registration Statement and upon the effective time of the merger described in the accompanying Proxy Statement-Prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

**CALCULATION OF REGISTRATION FEE**

Title of each class of securities to be registered	Amount	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price (2)	Amount of
	to be registered (1)			registration
Common Stock, no par value	Up to 3,576,417 shares	\$20.57	\$73,558,839	fee (3) \$2,891

(1) This represents the maximum number of shares to be offered to Lincoln Bancorp shareholders.

(2)

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The maximum offering price is based on an estimate solely for the purpose of calculating the registration fee and has been calculated in accordance with Rule 457(f)(1) under the Securities Act of 1933, as amended, using the average of the high and low prices of the Lincoln Bancorp common shares as reported on the NASDAQ Global Market System on September 22, 2008 (\$14.46) for all 5,319,731 Lincoln Bancorp common shares to be exchanged in the merger. This amount less the minimum amount of cash to be paid by First Merchants Corporation in connection with the merger (\$3,364,471.74) is the maximum offering price. The proposed maximum offering price per share has been determined by dividing the proposed maximum offering price by the number of shares being registered.

- (3) The registration fee of \$2,891 for the securities registered hereby has been calculated pursuant to Rule 457(f) under the Securities Act of 1933, as amended, as \$73,558,839 multiplied by 0.0000393.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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**LINCOLN BANCORP**

**YOUR VOTE IS VERY IMPORTANT**

**PROSPECTUS OF FIRST MERCHANTS CORPORATION FOR UP TO**

**3,576,417 SHARES OF COMMON STOCK**

**AND**

**PROXY STATEMENT OF LINCOLN BANCORP**

Dear Shareholders of Lincoln Bancorp:

The Board of Directors of Lincoln Bancorp (**Lincoln**) and the Board of Directors of First Merchants Corporation (**First Merchants**) have agreed to merge Lincoln into First Merchants. This proposed strategic business combination will create a company with approximately 82 banking branches and combined assets of \$4.7 billion, \$3.6 billion in loans, \$3.5 billion in deposits and total shareholders' equity of \$405 million.

In the merger, each Lincoln common share that you own will be converted into the right to receive, at your election, either 0.7004 shares of First Merchants common stock, subject to possible upward or downward adjustment as provided in the Merger Agreement and described in this document, or \$15.76 in cash. The number of shares of First Merchants common stock and the amount of cash payable in connection with the merger is subject to various limitations and prorations. Under certain circumstances, an election to receive cash or First Merchants common stock may be converted, in whole or in part, into an election to receive the other type of consideration. First Merchants will also pay cash for any fractional share interests resulting from an exchange of your shares.

We cannot complete the merger unless the shareholders of Lincoln approve it. Lincoln will hold a special meeting of its shareholders to vote on adoption of the Merger Agreement. **Your vote is very important.** Whether or not you plan to attend the special shareholders meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote in favor of the merger. Not returning your card or not instructing your broker how to vote any shares held for you in street name will have the same effect as a vote against the merger.

The date, time and place of the special shareholders meeting is as follows:

, 2008, : .m., local time

Guilford Township Community Center, Hummel Park,

1500 S. Center Street, Plainfield, Indiana

This document provides you with detailed information about this meeting and the proposed merger. You can also obtain information about Lincoln and First Merchants from publicly available documents that our companies have filed with the Securities and Exchange Commission. First Merchants common stock is quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. Lincoln common stock is quoted and traded on the NASDAQ Global Market System under the symbol LNCB.

**We strongly support the merger of our companies. The Lincoln Board of Directors unanimously recommends that you vote in favor of the merger.**

Jerry R. Engle  
President and Chief Executive Officer  
LINCOLN BANCORP

Michael C. Rechin  
President and Chief Executive Officer  
FIRST MERCHANTS CORPORATION

**For a discussion of certain risk factors which you should consider in evaluating the merger, see Risk Factors**

**beginning on page 21. We encourage you to read this entire document carefully.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued pursuant to this proxy statement-prospectus or determined if this proxy statement-prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**These securities are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either of our companies, and they are not insured by the Federal Deposit Insurance Corporation, the bank insurance fund or any other federal or state governmental agency.**

**Proxy Statement-Prospectus dated , 2008,**

**and first mailed to shareholders on , 2008.**

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**LINCOLN BANCORP**

**905 Southfield Drive**

**Plainfield, Indiana 46168**

**NOTICE OF SPECIAL MEETING OF**

**SHAREHOLDERS TO BE HELD ON**

**, 2008**

To Our Shareholders:

We will hold a special meeting of the shareholders of Lincoln Bancorp on \_\_\_\_\_, \_\_\_\_\_, 2008, at \_\_\_\_\_ : \_\_\_\_\_ .m. local time, at the Guilford Township Community Center, Hummel Park, 1500 S. Center Street, Plainfield, Indiana.

The purposes of the special meeting are the following:

1. To consider and vote upon a proposal to adopt the Agreement of Reorganization and Merger dated September 2, 2008, between First Merchants Corporation and Lincoln Bancorp, and to approve the transactions contemplated thereby. Pursuant to the Merger Agreement, Lincoln Bancorp will merge into First Merchants Corporation. The merger is more fully described in this proxy statement-prospectus and the Merger Agreement is attached as Appendix A to this proxy statement-prospectus;
2. To adjourn or postpone the special meeting to permit further solicitation of proxies in the event that an insufficient number of shares is present in person or by proxy to approve the Merger Agreement; and
3. To transact such other business which may properly be presented at the special meeting or any adjournment or postponement of the special meeting.

We have fixed the close of business on \_\_\_\_\_, 2008, as the record date for determining those shareholders who are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special meeting. Adoption of the Merger Agreement requires the affirmative vote of at least a majority of the outstanding Lincoln Bancorp common shares. **Your vote is very important.**

**The Lincoln Board of Directors unanimously recommends that you vote in favor of the merger.**

**Whether or not you plan to attend the special meeting in person, please complete, date, sign and return the enclosed proxy card in the enclosed envelope, which requires no postage if mailed in the United States. If you attend the special meeting, you may vote in person if you wish, even if you have previously returned your proxy card. Not returning your card or not instructing your broker how to vote any shares held for you in \_\_\_\_\_ street name \_\_\_\_\_ will have the same effect as a vote against the merger.**

By Order of the Board of Directors

Jerry R. Engle, Chairman of the Board  
President and Chief Executive Officer  
\_\_\_\_\_, 2008  
Plainfield, Indiana

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**ADDITIONAL INFORMATION**

This document incorporates important business and financial information about First Merchants Corporation (**First Merchants**) from other documents filed with the Securities and Exchange Commission that are not delivered with or included in this document. This information (including documents incorporated by reference) is available to you without charge upon your written or oral request. You may request these documents in writing or by telephone from First Merchants at the following address and telephone number:

First Merchants Corporation

200 East Jackson Street

Muncie, Indiana 47305

Attention: Cynthia G. Holaday,

Secretary

Telephone: (765) 747-1500

**To ensure timely delivery, shareholders must request the documents containing the information described above no later than five business days before the date they must make their investment decision. Accordingly, if you would like to make such a request, please do so by \_\_\_\_\_, 2008, in order to receive the requested information before the meeting.**

See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 138.

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**FORWARD-LOOKING STATEMENTS**

This document contains certain forward-looking statements with respect to the financial condition, results of operations, and business of First Merchants and Lincoln and of First Merchants following completion of the merger. These statements are based on the beliefs and assumptions of each company's management, and on information currently available to management. Forward-looking statements are generally preceded by, followed by, or include the words "will," "believes," "expects," "anticipates," "intends," "plans," "estimates," or similar expressions.

In particular, we have made statements in this document relating to the cost savings and revenue enhancements that are expected to be realized from the merger and the expected effect of the merger on First Merchants' financial performance. These forward-looking statements describe certain risks and uncertainties. Actual results may differ materially from those contemplated by such forward-looking statements due to, among others, the following factors:

expected cost savings from the merger that may not be fully realized;

deposit attrition, customer loss, or revenue loss following the merger may be greater than expected;

competitive pressure in the banking industry may increase significantly;

costs or difficulties related to the integration of the businesses of First Merchants and Lincoln may be greater than expected;

changes in the interest rate environment may reduce margins;

a lack of liquidity in the financial markets may impede the ability to make loans and sell them in the secondary market;

general economic conditions may decline, either nationally or regionally, resulting in, among other things, a deterioration in credit quality or a reduced demand for credit; and

changes may occur in the regulatory environment, business conditions, inflation rate and the securities market.

Management of First Merchants and Lincoln believe these forward-looking statements are reasonable. However, you should not place undue reliance on such forward-looking statements, which are based on current expectations. Further information on other factors that could affect the financial results of First Merchants after the merger is included in the Securities and Exchange Commission filings incorporated by reference in this document. See "WHERE YOU CAN FIND ADDITIONAL INFORMATION" on page 138.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions. The future results and shareholder values of First Merchants following completion of the merger may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond First Merchants' and Lincoln's ability to control or predict. For those statements, First Merchants and Lincoln claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.



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**QUESTIONS AND ANSWERS**

**ABOUT THE MERGER AND THE SHAREHOLDERS MEETING**

**Q: Why are Lincoln and First Merchants proposing to merge?**

**A:** We believe the merger is in the best interests of Lincoln and our shareholders. Lincoln and First Merchants believe that the merger will bring together two complementary institutions that share similar, community-oriented philosophies to create a strategically, operationally and financially strong company that is positioned for further growth. The merger will give the combined company greater scale, not only for serving existing customers more efficiently but also for future expansion. The combined institution is expected to be the sixth largest depository institution operating in the State of Indiana and the third largest based in the state. We believe the merger will enhance our capabilities to provide banking and financial services to our customers and strengthen the competitive position of the combined organization.

You should review the background and reasons for the merger described in greater detail at pages 30 and 32.

**Q: What will Lincoln shareholders receive in the merger?**

**A:** For each Lincoln common share you own before the merger, you will have the right to elect, on a share-by-share basis, to receive either:

0.7004 shares of First Merchants common stock (subject to adjustment as provided in the Merger Agreement), or

\$15.76 in cash.

Lincoln shareholders may elect to receive First Merchants common stock for some or all of their shares and/or cash for some or all of their shares. First Merchants will also pay cash in lieu of issuing fractional shares. The Merger Agreement provides that First Merchants is not required to issue more than 3,576,417 shares of its common stock or pay more than \$16,800,000 in cash to Lincoln shareholders. These limitations are designed to permit First Merchants to maximize and maintain its capital structure. If Lincoln shareholder elections require more than 3,576,417 shares of First Merchants common stock to be issued or cash payments of \$16,800,000 or more, your elections may be subject to proration as described under THE MERGER Exchange of Lincoln Common Shares on page 44. As a result of the proration, you may receive a lesser amount of cash and a greater amount of First Merchants common stock, or a lesser amount of First Merchants common stock and a greater amount of cash, than you elected.

Because the exchange ratio for the stock consideration is fixed, the value of the stock consideration will fluctuate with the market price of First Merchants common stock. Accordingly, at the time of the merger, the per share value of the stock consideration may be greater or less than the per share value of the cash consideration. As of September 2, 2008, the closing price for a share of First Merchants common stock was \$19.89 and for a Lincoln common share was \$10.35. As of \_\_\_\_\_, 2008, the closing price for a share of First Merchants common stock was \$ \_\_\_\_\_ and for a Lincoln common share was \$ \_\_\_\_\_. You should obtain current market prices for shares of First Merchants common stock and Lincoln common shares. First Merchants common stock is quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. Lincoln common shares are quoted and traded on the NASDAQ Global Market System under the symbol LNCB.

**Q: What risks should I consider before I vote on the merger?**

**A:** You should review RISK FACTORS beginning on page 21.

**Q: When is the merger expected to be completed?**

**A:** We are working to complete the merger as quickly as possible. We must first obtain the necessary regulatory approvals and the approval of Lincoln shareholders at the special shareholders meeting. We currently expect to complete the merger during the fourth quarter of 2008.

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**Q: What are the tax consequences of the merger to me?**

**A:** We have structured the merger so that First Merchants, Lincoln and Lincoln shareholders will not recognize any gain or loss for federal income tax purposes on the exchange of Lincoln shares for First Merchants shares in the merger. However, to the extent a Lincoln shareholder receives cash instead of First Merchants common stock, any gain such Lincoln shareholder realizes on the exchange will be taxed, but generally not in an amount in excess of the cash received. At the closing, each of Lincoln and First Merchants are to receive an opinion confirming these tax consequences. See MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES beginning on page 59. Your tax consequences will depend on your personal situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you.

**Q: Will I have dissenters rights?**

**A:** No. Lincoln shareholders are not entitled to dissenters rights under Indiana Code § 23-1-44, as amended, because the Lincoln common shares are traded on the NASDAQ Global Market System.

**Q: What do I need to do now?**

**A:** You should carefully read and consider the information contained in this document and any information incorporated by reference. Then, please fill out, sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares can be voted at the special shareholders meeting. If a returned proxy card is signed but does not specify a choice, your proxy will be voted **FOR** the merger proposal considered at the meeting and **FOR** adjournment or postponement of the special meeting to permit further solicitation of proxies in the event that an insufficient number of shares is present to approve the Merger Agreement. You should also complete your Election Form which will be forwarded to you in a separate mailing to specify the type of merger consideration you prefer (or provide instructions to your broker if you hold your shares in street name or to the trustee if you hold your shares through Lincoln's employee stock ownership plan).

**Q: What if I don't vote or I abstain from voting?**

**A:** If you do not vote or you abstain from voting, it will count as a **NO** vote on the merger.

**Q: If my shares are held by my broker in street name, will my broker vote my shares for me?**

**A:** You should follow the directions provided by your broker to vote your shares. Your broker will vote your shares only if you instruct your broker on how to vote. If you do not provide your broker with instructions on how to vote your shares held in street name, your broker will not be permitted to vote your shares, which will have the effect of a **NO** vote on the merger.

**Q: May I change my vote after I have mailed my signed proxy card?**

**A:** Yes. You may change your vote at any time before your proxy is voted at the meeting. You can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. If you choose either of these two methods, you must submit your notice of revocation or your new proxy card to Lincoln at or before the special meeting. You should submit your notice of revocation or new proxy card to Lincoln Bancorp, 905 Southfield Drive, Plainfield, Indiana 46168, Attention: John M. Baer. Third, you may attend the meeting and vote in person. Simply attending the meeting, however, will not

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revoke your proxy. You must request a ballot and vote the ballot at the meeting. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

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**Q: How do I elect the form of payment that I prefer?**

**A:** An Election Form will be forwarded to you through a separate mailing. You should complete the Election Form and send it in the envelope provided to the election agent, American Stock Transfer & Trust Company, LLC (**American Stock Transfer**). For you to make an effective election, your properly executed Election Form must be received by American Stock Transfer before 5:00 p.m. local time on \_\_\_\_\_, 2008, the election deadline. Please read the instructions on the Election Form prior to completing the form. If you hold your shares in street name with a broker, you should ask your broker for instructions on making your election and on tendering your Lincoln shares. Please read the instructions to the Election Form for information on completing the form. These instructions will also inform you what to do if your share certificates have been lost, stolen or destroyed. Please note that your proxy card and your Election Form must be returned to different addresses and must be mailed separately.

**If you do not return a completed, properly executed Election Form by the election deadline, then you will be considered to have elected to receive First Merchants common stock for all of your Lincoln common shares, except that if the proration described herein is required, your Lincoln shares may be converted to cash before those shareholders who completed, signed and returned an Election Form by the deadline.**

**Q: Which form of payment should I choose? Why?**

**A:** The form of payment you should elect will depend upon your personal financial and tax circumstances. We urge you to consult your financial or tax advisor if you have any questions about the form of payment you should elect.

**Q: Can I change my election?**

**A:** Yes. You can change your election by submitting a new Election Form to American Stock Transfer as provided in the Election Form. It must be received prior to the election deadline set forth on the Election Form. After the election deadline, no changes may be made.

**Q: Are shareholders guaranteed they will receive the form of merger consideration cash, common stock or a combination thereof they request on their Election Forms?**

**A:** No. There is a limit on the number of shares First Merchants is required to issue and a limit on the aggregate amount of cash First Merchants is required to pay in exchange for Lincoln's outstanding shares. Because First Merchants is not required to issue more than 3,576,417 shares of its common stock (a number which correlates to approximately 96% of Lincoln's outstanding common shares) or pay more than \$16,800,000 in cash to Lincoln shareholders (a value which correlates to approximately 20% of Lincoln's outstanding shares), it is possible that some shareholders may receive a form of consideration they did not elect. For example, if you elect to receive all or a portion of the consideration in cash and the holders of more than approximately 20% of the outstanding Lincoln common shares elect to receive cash, you may receive a portion of First Merchants common stock instead of the cash you elected. Please read a more complete description of the proration procedures under THE MERGER Exchange of Lincoln Common Shares on page 44.

**Q: Should I send in my stock certificate(s) now?**

**A:** No. After the merger is completed, Lincoln shareholders will receive written instructions from First Merchants for exchanging their stock certificates for the consideration to be received by them in the merger.

**Q: Whom should I contact if I have other questions about the Merger Agreement or the Merger?**



**A:** If you are a Lincoln shareholder and you have more questions about the Merger Agreement or the merger, you should contact Georgeson Shareholder Communications, Inc., the Information Agent for the merger, at (800) - . Banks and brokerage firms should also call Georgeson Shareholder Communications, Inc. at (800) - .

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Lincoln shareholders may also contact:

Lincoln Bancorp

905 Southfield Drive

Plainfield, Indiana 46168

Attention: John M. Baer,

Secretary and Treasurer

Telephone: (317) 839-6539

or

First Merchants Corporation

200 East Jackson Street

Muncie, Indiana 47305

Attention: Cynthia G. Holaday,

Secretary

Telephone: (765) 747-1500

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**SUMMARY**

*This summary highlights selected information from this proxy statement-prospectus. Because this is a summary, it does not contain all of the information that is important to you. You should carefully read this entire document, its appendices and the documents we have referred you to before you decide how to vote. See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 138 for a description of documents that we incorporate by reference into this document. Each item in this summary includes a page reference that directs you to a more complete description in this document of the topic discussed.*

***The Companies (pages 73 and 75)***

**First Merchants Corporation**

200 East Jackson Street

Muncie, Indiana 47305

(765) 747-1500

First Merchants is a multi-bank holding company and a financial holding company, incorporated under Indiana law and headquartered in Muncie, Indiana. First Merchants has four banking subsidiaries: First Merchants Bank, National Association; First Merchants Bank of Central Indiana, National Association; Lafayette Bank & Trust Company, National Association; and Commerce National Bank. Through these subsidiaries, First Merchants operates a general banking business. First Merchants also owns various non-bank subsidiaries that engage in the trust and asset management service business, title insurance and settlement services business, the reinsurance business and the full-service property casualty, personal and healthcare insurance business.

At June 30, 2008, on a consolidated basis, First Merchants had assets of approximately \$3.8 billion, deposits of approximately \$2.9 billion, and stockholders' equity of approximately \$347 million. First Merchants common stock is quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. See DESCRIPTION OF FIRST MERCHANTS on page 73.

**Lincoln Bancorp**

905 Southfield Drive

Plainfield, Indiana 46168

(317) 839-6539

Lincoln is a single bank holding company incorporated under Indiana law and headquartered in Plainfield, Indiana. Lincoln is the sole owner of Lincoln Bank, an Indiana state bank currently conducting its general banking business from 17 full-service offices located in Hendricks, Johnson, Morgan, Clinton, Montgomery, and Brown Counties, Indiana, with its main office located in Plainfield, Indiana.

At June 30, 2008, on a consolidated basis, Lincoln had assets of approximately \$870 million, deposits of approximately \$632 million, and shareholders' equity of approximately \$97 million. Lincoln common stock is quoted and traded on the NASDAQ Global Market System under the symbol LNCB. See DESCRIPTION OF LINCOLN on page 75.

***The Merger (page 30)***

*We have attached the Agreement of Reorganization and Merger (**Merger Agreement**) to this document as Appendix A. Please read the Merger Agreement. It is the legal document that governs the merger.*

Lincoln will merge with First Merchants and, thereafter, Lincoln will cease to exist. We hope to complete the merger during the fourth quarter of 2008. Subsequent to the merger and subject to prior regulatory approvals, Lincoln Bank will merge with and into First Merchants Bank of Central Indiana, National Association.



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***Reasons for the Merger (page 32)***

**First Merchants.** First Merchants' Board of Directors considered a number of financial and nonfinancial factors in making its decision to merge with Lincoln, including its respect for the ability and integrity of the Lincoln Board of Directors, management and staff. The Board believes that expanding First Merchants' operations in the markets in which Lincoln operates offers long-term strategic benefits to First Merchants. First Merchants also believes that several synergies exist between the banking businesses of the parties, making the transaction even more attractive.

**Lincoln.** In considering the merger with First Merchants, Lincoln's Board of Directors collected and evaluated a variety of economic, financial and market information regarding First Merchants and its subsidiaries, their respective businesses and First Merchants' reputation and future prospects. In the opinion of Lincoln's Board of Directors, favorable factors included:

the fact that the value of the merger consideration represented a premium over the \$10.35 closing price of Lincoln's common stock on September 2, 2008 (the last trading day before the merger was announced);

the increased level of competition within the banking sector generally and within the market areas served by Lincoln from other, larger financial institutions and non-bank competitors;

the current and prospective economic climate for smaller financial institutions generally and Lincoln specifically, including declining net interest margins for many financial institutions, slower deposit growth and the increasing cost of regulatory burdens;

the effect of the merger on Lincoln Bank's employees, including the prospect of continued employment and enhanced employment opportunities with a much larger and more diversified financial organization;

the effect of the merger on Lincoln Bank's customers and community, including First Merchants' community banking orientation and its compatibility with Lincoln;

more diverse financial products and services for Lincoln customers and an enhanced competitive position in the markets in which Lincoln operates;

the desire to provide shareholders with the prospects for greater future appreciation on their investments in Lincoln common stock than Lincoln could likely achieve independently;

the greater liquidity of First Merchants common stock, which is traded on the NASDAQ Global Select Market System;

the higher level of dividends paid by First Merchants on its common stock than Lincoln would be likely to achieve in the near future;

the potential tax advantage to Lincoln shareholders of accepting stock or stock and cash; and

the opinion delivered by Sandler O'Neill & Partners, L.P. (**Sandler**) that the merger consideration is fair, from a financial point of view, to the shareholders of Lincoln.

***Opinion of Lincoln's Financial Advisor (page 34)***

## Edgar Filing: FIRST MERCHANTS CORP - Form S-4

The Board of Directors of Lincoln received the written opinion of Sandler dated September 2, 2008, stating that the merger consideration to be received by Lincoln shareholders is fair from a financial point of view. We have attached a copy of the fairness opinion to this document as Appendix B. Lincoln shareholders should read the fairness opinion in its entirety.

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***What Lincoln Shareholders Will Receive (page 44)***

As a Lincoln shareholder, each of your Lincoln common shares will be converted into the right to receive, at your election, either (i) 0.7004 shares of First Merchants common stock, subject to possible upward or downward adjustment of the conversion ratio as provided in the Merger Agreement, or (ii) \$15.76 in cash. You may elect to receive a combination of First Merchants common stock for some of your Lincoln shares and cash for some of your Lincoln shares. The number of shares of First Merchants common stock and the amount of cash payable in connection with the merger is subject to various limitations and proration. Under certain circumstances, an election to receive stock or cash may be converted into an election to receive the other type of consideration. If you fail to make an election, you will be considered to have elected to receive First Merchants common stock for your Lincoln shares, but if it is necessary to convert some stock elections to cash elections under the proration provisions of the Merger Agreement, Lincoln shares for which no election was made will be the first to be changed from receiving stock to receiving cash. Cash will be paid in lieu of issuing any fractional shares of First Merchants common stock.

Because the conversion ratio is fixed within certain parameters and because the market price of common stock of First Merchants will fluctuate, the market value of the stock of First Merchants you will receive in the merger is not fixed. See SUMMARY Comparative Market Price Information on page 13.

***Conversion Ratio Adjustment (page 46)***

As mentioned above, the 0.7004 conversion ratio is subject to possible upward or downward adjustment, if a chain of certain events occurs. The first of those events is that the average of the closing price of First Merchants common stock as reported in Bloomberg, L.P. for the 20 NASDAQ trading days preceding the 5<sup>th</sup> calendar day prior to the effective date of the merger must be either less than \$16.50 or greater than \$30.00. This calculation is defined in the Merger Agreement as the First Merchants Average Price. Since this calculation will be made just prior to the effective date of the merger, it is not possible to determine the First Merchants Average Price as of the date of this proxy statement-prospectus. The Merger Agreement may be terminated by Lincoln if the First Merchants Average Price falls below \$16.50 or by First Merchants if the First Merchants Average Price increases above \$30.00. The second event that must occur in order for the conversion ratio to be adjusted is either Lincoln or First Merchants must exercise its right to terminate the Merger Agreement based on the First Merchants Average Price. Finally, if either party exercises its right to terminate the Merger Agreement based on the First Merchants Average Price, then the other party has the right to adjust the conversion ratio according to a formula to avoid termination of the Merger Agreement. For a more detailed discussion of how the conversion ratio can be adjusted, see THE MERGER Conversion Ratio Adjustment.

***Recommendation to Shareholders (page 33)***

The Board of Directors of Lincoln believes that the merger is in your best interests and unanimously recommends that you vote **FOR** the proposal to adopt the Merger Agreement. In reaching its decision, the Lincoln Board of Directors considered a number of factors, which are described in the section titled The Merger Lincoln's Reasons for the Merger. Because of the wide variety of factors considered, the Lincoln Board of Directors did not believe it practicable, nor did it attempt, to quantify or otherwise assign relative weight to the specific factors it considered in reaching its decision.

***The Shareholders Meeting (page 25)***

The special meeting of Lincoln shareholders will be held on \_\_\_\_\_, \_\_\_\_\_, 2008, at \_\_\_\_\_: \_\_\_\_\_ .m. local time, at Guilford Township Community Center, Hummel Park, 1500 S. Center Street, Plainfield, Indiana. You will be asked at the special meeting to consider and vote upon the adoption of the

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Merger Agreement and to act upon any other items of business that may be properly submitted to vote at the special meeting. In the event that an insufficient number of shares is present in person or by proxy at the special meeting to approve the merger, you may also be asked to vote to approve a proposal to adjourn or postpone the meeting to allow time for the solicitation of additional proxies.

***Record Date; Votes Required (page 25)***

You may vote at the Lincoln special meeting of shareholders if you owned common shares of Lincoln at the close of business on \_\_\_\_\_, 2008. You are entitled to cast one vote for each common share you owned on that date. The holders of at least a majority of the outstanding Lincoln common shares must vote in favor of adoption of the Merger Agreement. No approval by First Merchants shareholders is required to complete the merger. Approval of the proposal to adjourn or postpone the special meeting, if necessary, requires only that more votes be cast in favor of the proposal than are cast against it. Broker non-votes and abstentions from voting will not be treated as NO votes on this proposal (as they are with the approval of the Merger Agreement) and, therefore, will have no effect on the outcome. You can vote your shares by attending the special meeting or you can mark the enclosed proxy card with your vote, sign it and mail it in the enclosed return envelope.

As of September 18, 2008, Lincoln's executive officers, directors and their affiliates owned 319,718 shares or approximately 6.01% of the Lincoln common shares outstanding. Each member of the Board of Directors of Lincoln and certain executive officers of Lincoln and Lincoln Bank signed a voting agreement as of September 2, 2008, the date the Merger Agreement was executed, in which they agreed to cause all Lincoln common shares owned by them of record or beneficially to be voted in favor of the merger. As of \_\_\_\_\_, 2008, Lincoln's executive officers, directors and their affiliates owned \_\_\_\_\_ shares or approximately \_\_\_\_\_% of the Lincoln common shares outstanding.

***No Dissenters' Rights (page 47)***

Under Indiana Code § 23-1-44, dissenters' rights are not available to holders of shares quoted and traded on the NASDAQ Global Market System or a similar market. Because Lincoln's common shares are presently quoted and traded on the NASDAQ Global Market System, shareholders of Lincoln presently have no dissenters' rights in respect of their shares. See THE MERGER Rights of Dissenting Shareholders on page 47.

***What We Need to Do to Complete the Merger (page 48)***

Completion of the merger depends on a number of conditions being met. In addition to our compliance with the Merger Agreement, these conditions include among others:

adoption of the Merger Agreement by the shareholders of Lincoln;

approval of the merger by the Board of Governors of the Federal Reserve System and the expiration of any regulatory waiting period;

approval of the merger by the Indiana Department of Financial Institutions;

the receipt by Lincoln of an opinion of Bose McKinney & Evans LLP that the merger will be treated, for U.S. federal income tax purposes, as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and that no gain or loss will be recognized by Lincoln shareholders in the merger to the extent they receive shares of First Merchants common stock as consideration for their Lincoln common shares;

the receipt by First Merchants of an opinion of Bingham McHale LLP that the merger will be treated, for U.S. federal income tax purposes, as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended;



other customary conditions and obligations of the parties set forth in the Merger Agreement.

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***Regulatory Approvals (page 52)***

The merger must be approved by the Board of Governors of the Federal Reserve System (**Federal Reserve**) and the Indiana Department of Financial Institutions (**DFI**). We have filed the required applications with the Federal Reserve and the DFI. We cannot assure you as to when or whether the approvals will be received.

***Conduct of Business Pending Merger (page 51)***

Under the Merger Agreement, Lincoln must carry on its business in the ordinary course and may not take certain extraordinary actions without first obtaining First Merchants' approval.

We have agreed that Lincoln will continue to pay quarterly dividends at no more than the current rate of \$0.14 per share until the merger closes. We will each cooperate to insure that Lincoln shareholders will receive only one quarterly dividend for the quarter in which the merger closes, and not one from both First Merchants and Lincoln.

***Agreements of First Merchants (pages 52, 53, 54 and 55)***

In the Merger Agreement, First Merchants has agreed to:

Proceed and use its best efforts to obtain any consents and approvals and use its best efforts to raise any additional capital that may be required in order to obtain regulatory approvals of the merger. See **THE MERGER Regulatory Approvals** on page 52.

Cover Lincoln and subsidiaries' employees, no later than the effective date of the Merger, under any tax-qualified retirement plan that First Merchants maintains for its employees, so long as such employees meet any applicable participation requirements, and provide for waiver of all restrictions and limitations for pre-existing conditions under First Merchants health plans. See **THE MERGER Employee Benefit Plans** on page 55.

Take the action necessary to cause Jerry R. Engle and another current Director of Lincoln as chosen by First Merchants to be nominated for a position on the First Merchants Board of Directors for a three-year term and allow current members of the Lincoln Bank Board of Directors to remain as directors of the merged bank. See **THE MERGER Management After the Merger** on page 53.

Provide, or allow for, director and officer liability insurance and indemnification. See **THE MERGER Indemnification and Insurance** on page 54.

***Management and Operations After the Merger (page 53)***

Lincoln's corporate existence will cease after the merger. Accordingly, directors and officers of Lincoln will not serve in such capacities after the effective date of the merger. Upon completion of the merger, the current officers and directors of First Merchants will continue to serve in such capacities. In addition, Jerry R. Engle, who currently serves as Chairman of the Board and President and Chief Executive Officer of Lincoln, and another director of Lincoln chosen by First Merchants will be nominated for election to the Board of Directors of First Merchants to each serve for a three-year term following the merger. A condition of the completion of the merger is the effectiveness of new employment agreements between First Merchants and Jerry R. Engle and John B. Ditmars. In addition, First Merchants has agreed to allow current members of the Lincoln Bank Board of Directors to remain as directors of the merged bank if they choose to do so.

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***Interests of Directors and Officers in the Merger That Are Different From Your Interests (page 56)***

You should be aware that some of Lincoln's and Lincoln Bank's directors and executive officers may have interests in the merger that are different from, or in addition to, their interests as shareholders. Both Lincoln's Board of Directors and First Merchants' Board of Directors were aware of these interests and took them into account in approving the merger. These interests are as follows:

In the Merger Agreement, First Merchants has agreed that it will cause Jerry R. Engle, who currently serves as Chairman of the Board and President and Chief Executive Officer of Lincoln and President and Chief Executive Officer of Lincoln Bank, and another current director of Lincoln as chosen by First Merchants, to be nominated for election to the First Merchants Board of Directors for a three-year term at the first annual meeting of First Merchants' shareholders following the merger. Mr. Engle will not be separately compensated for his services as a director of First Merchants. If the First Merchants Board meets after the merger but before the next annual meeting of First Merchants' shareholders, the Board must appoint each of Mr. Engle and such other person as chosen by First Merchants as a director to serve until the next annual meeting of First Merchants' shareholders and then nominate each individual for election to a three-year term as a director at such annual meeting. See THE MERGER Management After the Merger, page 53.

First Merchants has indicated its intention to offer two year employment or other agreements to at least two current officers of Lincoln (Jerry R. Engle and John Ditmars), to be effective following the effective time of the merger, and the closing of the merger is conditioned upon the signing of those agreements. In addition, the Merger Agreement provides that the officers and directors of Lincoln Bank immediately prior to the merger will remain the officers and directors of Lincoln Bank after the merger until they resign or until their successors are duly elected and qualified. Lincoln Bank directors who desire to continue to serve in that capacity shall serve for at least the remainder of the term to which they have been elected as a director of the merged bank.

Directors and officers of Lincoln and Lincoln Bank held stock options that entitled them to purchase, in the aggregate, up to 561,622 shares of Lincoln's common stock as of September 2, 2008. Options for 69,400 of these shares are not currently exercisable. The Merger Agreement provides that Lincoln must use reasonable efforts to cause each option to acquire Lincoln common shares to become exercisable and be exercised prior to the merger. The exercise prices of these options range from \$7.32 to \$19.40 per share and, therefore, not all of them may have any value as of the effective time of the merger. Under the Merger Agreement, the value of these options is tied to the market value of First Merchants' common stock. Assuming a \$19.49 market value for First Merchants common stock (the equivalent of a \$13.65 market value for Lincoln's common stock), options for approximately 271,826 shares would be in the money. However, assuming all of such options are exercised, the directors and officers holding these options will receive, prior to tax withholdings but net of approximately \$3.0 million in exercise prices, a net aggregate of 190,387 shares of First Merchants common stock or \$4.3 million in cash at the effective time of the merger, depending on their election.

As of September 2, 2008, certain of the directors and executive officers of Lincoln and Lincoln Bank had a right to receive, in the aggregate, 15,251 shares of Lincoln's common stock under Lincoln's Recognition and Retention Plan. In addition, there are 17,637 unallocated shares and approximately \$185,000 in cash under the plan that may be allocated prior to consummation of the merger to executive officers and directors of Lincoln and Lincoln Bank. Under the Merger Agreement, all of the allocated shares will vest before closing, and assuming none of such shares are otherwise forfeited before the effective date of the merger, the directors and executive officers holding these shares will receive, prior to tax withholdings and depending on their elections, an aggregate of 10,681 shares of First Merchants common stock or approximately \$240,000 in cash at the effective time of the merger. The ultimate holders of the currently unallocated shares will receive, prior to tax withholdings and depending on their elections, an aggregate of 12,352 shares of First Merchants common stock or approximately \$278,000 in cash at the effective time of the merger.

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As of September 2, 2008, certain of the directors of Lincoln and Lincoln Bank had a right to receive, in the aggregate, approximately \$1.1 million in future cash payments under Lincoln's Unfunded Deferred Compensation Plan. As a result of the change-in-control provisions in the plan, these directors will have a right to receive this amount within 30 days after the effective time of the merger. In addition, the directors of Lincoln are participants in a nonqualified supplemental pension plan, the benefits under which become fully vested upon termination of the plan or upon the occurrence of a change in control. Under the Merger Agreement, this plan is to be frozen at or before the effective time of the merger. Assuming benefit accruals under the plan cease as of December 31, 2008 and assuming the plan is terminated and all of such participants elect to receive lump sum distributions on January 2, 2009 equal to the then present value of their accrued pension benefits under the plan, these participants would receive cash distributions on January 2, 2009 in the aggregate amount of approximately \$1.4 million.

Certain executive officers of Lincoln and Lincoln Bank have change in control agreements or employment agreements that provide for the executive to receive, following a change in control, a multiple of the executive's compensation prior to the change in control, subject to certain limitations. Under these agreements, 11 of such executive officers would be entitled to receive an aggregate of approximately \$3.1 million.

First Merchants has agreed to offer Mr. Engle, Mr. Ditmars and certain other Lincoln executives an aggregate of 32,000 shares of restricted First Merchants common stock or options to acquire 120,000 shares of First Merchants common stock, or a combination of both, following the merger. Approximately 40% of these shares or options will be split evenly between Mr. Engle and Mr. Ditmars with the balance to be distributed among certain other Lincoln executives.

First Merchants has agreed that for a period of six years after the effective time of the merger, it will succeed to Lincoln's obligations with respect to indemnification or exculpation now existing in favor of the directors and officers of Lincoln and Lincoln Bank as provided in Lincoln's articles of incorporation and by-laws. First Merchants has also agreed to maintain directors' and officers' liability insurance in force for the directors and officers of Lincoln for a period of three years following the effective time of the merger, subject to certain conditions in the Merger Agreement.

For additional information regarding these interests in the proposed merger, see **THE MERGER** Interests of Certain Persons in the Merger beginning on page 56.

***Termination of the Merger (page 50)***

We can mutually agree to terminate the Merger Agreement before we complete the merger. In addition, either Lincoln or First Merchants acting alone can terminate the Merger Agreement under the circumstances described on page 50.

Lincoln has agreed to pay First Merchants the amount of \$3,200,000 in liquidated damages if:

Lincoln's Board of Directors terminates the Merger Agreement in the exercise of its fiduciary duties after receipt of an unsolicited acquisition proposal from a third party;

First Merchants terminates the Merger Agreement because Lincoln's Board of Directors withdraws or modifies its recommendation to Lincoln's shareholders to vote for the merger following receipt of a written proposal for an acquisition from a third party; or

First Merchants terminates the Merger Agreement because Lincoln fails to give First Merchants written notice that it intends to furnish information to or enter into discussions or negotiations with a third party relating to a proposed acquisition of Lincoln, or if Lincoln, within 20 days after giving such



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written notice to First Merchants of Lincoln's intent to furnish information to or enter into discussions or negotiations with another person or entity, does not terminate all discussions, negotiations and information exchanges related to such acquisition proposal. First Merchants has agreed to pay Lincoln the amount of \$2,000,000 in liquidated damages if First Merchants terminates the Merger Agreement because the merger has not been consummated before January 1, 2009.

First Merchants has agreed to pay Lincoln the amount of \$3,200,000 in liquidated damages if Lincoln terminates the Merger Agreement because First Merchants enters into a definitive agreement in which it is the target company or the company to be acquired which would result in a change of control of First Merchants or require approval pursuant to the Bank Holding Company Act of 1956, as amended.

***Certain U.S. Federal Income Tax Consequences (page 59)***

It is a condition to the closing of the merger that Bose, McKinney & Evans LLP and Bingham McHale LLP deliver opinions, effective as of the date of the merger, to Lincoln and First Merchants, respectively, substantially to the effect that:

the merger will be treated for United States tax purposes as a reorganization within the meaning of Section 368 of the Internal Revenue Code; and

First Merchants and Lincoln will be treated as a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code.

These opinions will not, however, bind the Internal Revenue Service which could take a different view.

**Determining the actual tax consequences of the merger to you can be complicated. You are urged to consult with your own tax advisors with respect to the tax consequences of the merger to you.**

For a more detailed description of certain federal income tax consequences of the merger to Lincoln shareholders, see MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES on page 59.

***Accounting Treatment (page 58)***

The merger will be accounted for as a purchase transaction for accounting and financial reporting purposes. As a result, Lincoln's assets, including identified intangible assets, and liabilities will be recorded by First Merchants on its books at their fair market values and added to those of First Merchants. Any excess payment by First Merchants over the fair market value of the net assets and identifiable intangibles of Lincoln will be recorded as goodwill on the financial statements of First Merchants. Conversely, any excess of the fair value of the net assets acquired over the payment made by First Merchants will be reflected as a reduction of certain long-lived assets.

***Comparative Rights of First Merchants Shareholders and Lincoln Shareholders (page 127)***

The rights of shareholders of First Merchants and Lincoln differ in some respects. The rights of holders of First Merchants common stock are governed by First Merchants' Articles of Incorporation and By-Laws. Your rights as holders of Lincoln common shares are governed by Lincoln's Articles of Incorporation and By-Laws. Upon completion of the merger, Lincoln shareholders who receive First Merchants common stock will take such stock subject to First Merchants' Articles of Incorporation and By-Laws.

See COMPARISON OF COMMON STOCK on page 127 to learn more about the material differences between the rights of holders of First Merchants common stock and holders of Lincoln common shares.

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**Recent Developments (page 99)**

On September 3, 2008, the date Lincoln and First Merchants announced the signing of the Merger Agreement, Lincoln determined that goodwill with a carrying amount of \$23.9 million would need to be evaluated for impairment in accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142). This evaluation requires an extensive fair value determination of Lincoln's assets and liabilities to determine an estimate of the implied fair value of goodwill. Impairment will be recognized as a noncash expense as part of Lincoln's results of operations for the three month and nine month periods ending September 30, 2008. As noted in the announcement of the Merger Agreement, the merger transaction value is estimated between \$74 million and \$77 million depending on the elections of Lincoln's shareholders. Assuming the evaluation performed under SFAS 142 results in an implied fair value of the organization excluding goodwill to approximate the transaction value, the indicated range of goodwill impairment would be between \$19 million and \$22 million. However, the actual results of the impairment evaluation could differ materially from these amounts.

This charge, once determined, will have no effect on Lincoln's cash flow or the regulatory capital or regulatory capital ratios of Lincoln or Lincoln Bank. Regulatory capital measurements used to assess the strength of individual banks, as well as the safety and soundness of the entire banking system, exclude goodwill as a component of capital.

**Comparative Market Price Information**

Shares of First Merchants common stock are quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. Lincoln common shares are quoted and traded on the NASDAQ Global Market System under the symbol LNCB. The following table presents quotation information for First Merchants common stock on the NASDAQ Global Select Market System and for Lincoln common stock on the NASDAQ Global Market System on September 2, 2008, the business day before the merger was publicly announced, and \_\_\_\_\_, 2008, the last practicable trading day for which information was available prior to the date of this proxy statement-prospectus.

	First Merchants Common Stock			Lincoln Common Shares		
	High	Low	Close	High	Low	Close
September 2, 2008	\$ 20.80	\$ 19.32	\$ 19.89	\$ 10.35	\$ 9.92	\$ 10.35
_____, 2008	\$	\$	\$	\$	\$	\$

The market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately \$75 million (or \$14.01 per Lincoln common share) based on 5,319,731 Lincoln common shares outstanding, First Merchants' closing stock price of \$19.89 on September 2, 2008, the business day before the merger was publicly announced, and the maximum number of Lincoln common shares being exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The assumption of 5,319,731 Lincoln common shares outstanding was calculated under the assumption all outstanding stock options are exchanged for cash. Using this same First Merchants' closing stock price and number of outstanding Lincoln common shares, but assuming that 80% of Lincoln's common shares are exchanged for First Merchants common stock and 20% of Lincoln's common shares are exchanged for cash in the merger, the market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately \$76 million (or \$14.30 per Lincoln common share).

The market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately \$ \_\_\_\_\_ million (or \$ \_\_\_\_\_ per Lincoln common share) based on \_\_\_\_\_ Lincoln common shares outstanding, First Merchants' closing stock price of \$ \_\_\_\_\_ on \_\_\_\_\_, 2008, the last practicable trading day for which information was available prior to the date of this proxy statement-prospectus, and the

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maximum number of Lincoln common shares being exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The assumption of Lincoln common shares outstanding was calculated by adding the outstanding stock options and the outstanding common shares as of , 2008. Using this same First Merchants closing stock price and number of outstanding Lincoln common shares, but assuming that 80% of Lincoln s common shares are exchanged for First Merchants common stock and 20% of Lincoln s common shares are exchanged for cash in the merger, the market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately \$ million (or \$ per Lincoln common share).

Also set forth below for each of the closing prices of First Merchants common stock on September 2, 2008, and , 2008, is the equivalent pro forma price of Lincoln common shares, which we determined by multiplying the applicable price of First Merchants common stock by the number of shares of First Merchants common stock we are issuing for a Lincoln common share in the merger, which is the conversion ratio of 0.7004. The equivalent pro forma price of Lincoln common shares shows the implied value to be received in the merger by Lincoln shareholders who receive First Merchants common stock in exchange for a Lincoln common share on these dates.

	<b>First Merchants Common Stock</b>	<b>Lincoln Common Shares</b>	<b>Lincoln Equivalent Pro Forma</b>
September 2, 2008	\$ 19.89	\$ 10.35	\$ 13.93
, 2008	\$	\$	\$

We urge you to obtain current market quotations for First Merchants common stock and Lincoln common shares. We expect that the market price of First Merchants common stock will fluctuate between the date of this document and the date on which the merger is completed and thereafter. Because the market price of First Merchants common stock is subject to fluctuation, the value of the shares of First Merchants common stock that Lincoln shareholders will receive in the merger may increase or decrease prior to and after the merger, while the conversion ratio is fixed within certain parameters. Lincoln shareholders who receive cash will receive a fixed amount of \$15.76 per share.

***Comparative Per Share Data***

The following table shows historical information about our companies earnings per share, dividends per share and book value per share, and similar information reflecting the merger, which we refer to as pro forma information. In presenting the comparative pro forma information, we have assumed that we were merged through the periods shown in the table. The pro forma information reflects the purchase method of accounting. The information is presented under two separate assumptions relating to the level of Lincoln common shares which are exchanged for First Merchants common stock in the merger. The financial information presented under Alternative A was compiled assuming the maximum number of Lincoln common shares are exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The financial information presented under Alternative B was compiled assuming 80% of the outstanding Lincoln common shares are exchanged for shares of First Merchants common stock and 20% of the outstanding Lincoln common shares are exchanged for cash in the merger. For a more detailed description of these assumptions and how we derived the First Merchants and Lincoln pro forma data, see Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 20 and UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION on page 63.



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The information listed as equivalent pro forma was obtained by multiplying the pro forma amounts by the conversion ratio of 0.7004. This information is presented to reflect the value of shares of First Merchants common stock that Lincoln shareholders will receive in the merger for each share of Lincoln common stock exchanged.

We expect that we will incur reorganization and restructuring expenses as a result of combining our companies. We also anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses and the opportunity to earn more revenue. The pro forma information, while helpful in illustrating the financial characteristics of the new company under two sets of assumptions, does not take into account these expected expenses or these anticipated financial benefits, and does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the merged company would have been had our companies been merged during the periods presented.

The information in the following table is based on historical financial information of Lincoln and of First Merchants which are included in each company's respective prior Securities and Exchange Commission filings. The historical financial information of First Merchants has been incorporated into this document by reference. Certain historical financial information for Lincoln is included in this document. Additional historical financial information of Lincoln has been incorporated into this document by reference. See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 138 for a description of documents that we incorporate by reference into this document and how to obtain copies of them.

**FIRST MERCHANTS AND LINCOLN****HISTORICAL AND PRO FORMA PER SHARE DATA**

	Historical	First Merchants Pro Forma		Historical	Lincoln Equivalent Pro Forma	
		Alternative A (1)	Alternative B (2)		Alternative A (1)(3)	Alternative B (2)(4)
<b>Net income per share</b>						
Six months ended June 30, 2008						
Basic	\$ 0.82	\$ 0.73	\$ 0.75	\$ 0.23	\$ 0.51	\$ 0.53
Diluted	\$ 0.81	\$ 0.73	\$ 0.74	\$ 0.23	\$ 0.51	\$ 0.52
Twelve months ended December 31, 2007						
Basic	\$ 1.73	\$ 1.54	\$ 1.55	\$ 0.35	\$ 1.08	\$ 1.09
Diluted	\$ 1.73	\$ 1.53	\$ 1.55	\$ 0.34	\$ 1.07	\$ 1.08
<b>Cash dividends per share</b>						
Six months ended June 30, 2008						
	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.28	\$ 0.32	\$ 0.32
Twelve months ended December 31, 2007						
	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.56	\$ 0.64	\$ 0.64
<b>Book value per share</b>						
At June 30, 2008						
	\$ 19.23	\$ 16.05	\$ 16.51	\$ 18.16	\$ 11.24	\$ 11.56
At December 31, 2007						
	\$ 18.88	\$ 19.11	\$ 19.10	\$ 18.63	\$ 13.38	\$ 13.38

- (1) See Note (1) in Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 20.
- (2) See Note (2) in Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 20.
- (3) Calculated by multiplying the First Merchants Pro Forma Alternative A combined per share data by the assumed conversion ratio of 0.7004.
- (4) Calculated by multiplying the First Merchants Pro Forma Alternative B combined per share data by the assumed conversion ratio of 0.7004.

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**SELECTED HISTORICAL AND UNAUDITED PRO FORMA**

**CONSOLIDATED FINANCIAL DATA**

The following tables set forth certain summary historical consolidated financial data for First Merchants and Lincoln. First Merchants' and Lincoln's balance sheet data and income statement data as of and for the five years ended December 31, 2007 are taken from each of their respective audited consolidated financial statements. First Merchants' and Lincoln's balance sheet data and income statement data as of and for the six months ended June 30, 2008 and 2007 are taken from their respective unaudited consolidated financial statements. Results for the six months ended June 30, 2008 do not necessarily indicate results for the entire year.

The following tables also set forth certain summary unaudited pro forma consolidated financial information for First Merchants and Lincoln reflecting the merger. The income statement information presented gives effect to the merger as if it occurred on the first day of each period presented. The balance sheet information presented gives effect to the merger as if it occurred on June 30, 2008. The information is presented under two separate assumptions relating to the level of Lincoln common shares which are exchanged for First Merchants common stock in the merger. The financial information presented under Alternative A was compiled assuming the maximum number of Lincoln common shares are exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The financial information presented under Alternative B was compiled assuming 80% of the outstanding Lincoln common shares are exchanged for shares of First Merchants common stock and 20% of the outstanding Lincoln common shares are exchanged for cash in the merger. For a more detailed description of these assumptions, see Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 20.

The pro forma information reflects the purchase method of accounting, with Lincoln's assets and liabilities recorded at their estimated fair values as of June 30, 2008. The actual fair value adjustments to the assets and the liabilities of Lincoln will be made on the basis of appraisals and evaluations that will be made as of the date the merger is completed. Thus, the actual fair value adjustments may differ significantly from those reflected in these pro forma financial statements. In the opinion of First Merchants' management, the estimates used in the preparation of these pro forma financial statements are reasonable under the circumstances.

We expect that we will incur reorganization and restructuring expenses as a result of combining our companies. We also anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses and the opportunity to earn more revenue. The pro forma information, while helpful in illustrating the financial characteristics of the new company under two sets of assumptions, does not take into account these expected expenses or these anticipated financial benefits, and does not attempt to predict or suggest future results.

This selected financial data is only a summary and you should read it in conjunction with First Merchants' consolidated financial statements and related notes incorporated into this document by reference and Lincoln's consolidated financial statements and related notes included in this document, and in conjunction with the Unaudited Pro Forma Combined Consolidated Financial Information appearing on page 17 in this document. See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 138 for a description of documents that we incorporate by reference into this document and how to obtain copies of such documents.

**Table of Contents****FIRST MERCHANTS****FIVE YEAR SUMMARY OF SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

(Dollars In Thousands, Except Per Share Amounts)

	For the Six Months Ended June 30		For the Years Ended December 31				
	2008	2007	2007	2006	2005	2004	2003
<b>Summary of Operations</b>							
Interest income	\$ 110,759	\$ 112,249	\$ 230,733	\$ 208,606	\$ 177,209	\$ 156,974	\$ 155,530
Interest expense	47,777	57,559	117,613	98,511	66,080	51,585	52,388
Net interest income	62,982	54,690	113,120	110,095	111,129	105,389	103,142
Provision for loan losses	10,893	3,247	8,507	6,258	8,354	5,705	9,477
Net interest income after provision	52,089	51,443	104,613	103,837	102,775	99,684	93,665
Noninterest income	20,861	19,570	40,551	34,613	34,717	34,554	35,902
Noninterest expense	52,677	51,933	102,182	96,057	93,957	91,642	91,279
Net income before income tax	20,273	19,080	42,982	42,393	43,535	42,596	38,288
Income tax expense	5,605	5,101	11,343	12,195	13,296	13,185	10,717
<b>Net Income</b>	<b>\$ 14,668</b>	<b>\$ 13,979</b>	<b>\$ 31,639</b>	<b>\$ 30,198</b>	<b>\$ 30,239</b>	<b>\$ 29,411</b>	<b>\$ 27,571</b>
<b>Per Share Data (1)</b>							
Net income							
Basic	\$ 0.82	\$ 0.76	\$ 1.73	\$ 1.64	\$ 1.64	\$ 1.59	\$ 1.51
Diluted	\$ 0.81	\$ 0.76	\$ 1.73	\$ 1.64	\$ 1.63	\$ 1.58	\$ 1.50
Cash dividends (2)	\$ 0.46	\$ 0.46	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.90
<b>Balances End of Period</b>							
Total assets	\$ 3,822,460	\$ 3,669,515	\$ 3,782,087	\$ 3,554,870	\$ 3,237,079	\$ 3,191,668	\$ 3,076,812
Total loans	3,021,830	2,808,911	2,880,578	2,698,014	2,462,337	2,431,418	2,356,546
Total deposits	2,863,635	2,719,601	2,884,121	2,750,538	2,382,576	2,408,150	2,362,101
Fed funds purchased	151,356	125,650	52,350	56,150	50,000	32,550	
Securities sold under repurchase agreements	90,872	91,038	106,497	42,750	106,415	87,472	71,095
Federal home loan bank advances	228,196	268,680	294,101	242,408	247,865	223,663	212,779
Total subordinated debentures, revolving credit lines, term loans	115,826	102,206	115,826	99,456	103,956	97,206	97,782
Stockholders equity	347,392	327,380	339,936	327,325	313,396	314,603	303,965
<b>Selected Ratios</b>							
Return on average assets	0.78%	0.78%	0.87%	0.90%	0.95%	0.95%	0.93%
Return on average equity	8.44%	8.50%	9.56%	9.45%	9.58%	9.49%	9.39%

(1) Restated for all stock dividends and splits.

(2) Dividends per share are for First Merchants only, not restated for pooling transactions.



**Table of Contents****LINCOLN****FIVE YEAR SUMMARY OF SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

(Dollars In Thousands, Except Per Share Amounts)

	For the Six Months Ended June 30		For the Years Ended December 31				
	2008	2007	2007	2006	2005	2004	2003
<b>Summary of Operations</b>							
Interest income	\$ 24,191	\$ 26,709	\$ 53,694	\$ 51,218	\$ 43,882	\$ 34,328	\$ 30,128
Interest expense	12,286	16,012	31,908	29,007	21,008	15,528	14,474
Net interest income	11,905	10,697	21,786	22,211	22,874	18,800	15,654
Provision for loan losses	1,806	307	957	884	2,642	655	753
Net interest income after provision	10,099	10,390	20,829	21,327	20,232	18,145	14,901
Noninterest income	3,799	1,704	5,023	5,429	5,067	3,963	3,431
Noninterest expense	12,800	12,132	24,492	23,043	24,140	17,396	13,568
Net income before income tax	1,098	(38)	1,360	3,713	1,159	4,712	4,764
Income tax expense (benefit)	(46)	(416)	(389)	813	(40)	1,057	1,175
<b>Net Income</b>	<b>\$ 1,144</b>	<b>\$ 378</b>	<b>\$ 1,749</b>	<b>\$ 2,900</b>	<b>\$ 1,199</b>	<b>\$ 3,655</b>	<b>\$ 3,589</b>
<b>Per Share Data (1)</b>							
Net income							
Basic	\$ 0.23	\$ 0.07	\$ 0.35	\$ 0.58	\$ 0.24	\$ 0.84	\$ 0.91
Diluted	\$ 0.23	\$ 0.07	\$ 0.34	\$ 0.56	\$ 0.23	\$ 0.81	\$ 0.88
Cash dividends (2)	\$ 0.28	\$ 0.28	\$ 0.56	\$ 0.56	\$ 0.56	\$ 0.53	\$ 0.49
<b>Balances End of Period</b>							
Total assets	\$ 869,898	\$ 898,953	\$ 889,314	\$ 883,543	\$ 844,454	\$ 808,967	\$ 591,685
Total loans	638,256	614,337	642,416	635,412	600,389	572,884	441,204
Total deposits	631,991	699,488	656,405	655,664	600,572	516,329	321,839
Fed funds purchased							
Securities sold under repurchase agreements	13,283	15,674	16,767	16,864	10,064	6,500	
Federal home loan bank advances	119,512	77,051	108,052	103,608	127,072	174,829	184,693
Total subordinated debentures, revolving credit lines, term loans			1,125			3,000	
Stockholders' equity	96,599	98,068	98,986	99,300	99,940	101,755	79,227
<b>Selected Ratios</b>							
Return on average assets	0.26%	0.08%	0.20%	0.33%	0.14%	0.53%	0.64%
Return on average equity	2.31%	0.76%	1.76%	2.89%	1.18%	4.08%	4.53%

**Table of Contents****FIRST MERCHANTS****UNAUDITED PRO FORMA SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA**

(Dollars In Thousands, Except Per Share Amounts)

	For The Six Months Ended June 30, 2008		For The Year Ended December 31, 2007	
	Alternative A (1)	Alternative B (2)	Alternative A (1)	Alternative B (2)
<b>Summary of Operations</b>				
Interest income	\$ 134,880	\$ 134,880	\$ 284,288	\$ 284,288
Interest expense	59,890	60,163	149,175	149,721
Net interest income	74,991	74,717	135,113	134,566
Provision for loan losses	12,699	12,699	9,464	9,464
Net interest income after provision	62,292	62,018	125,649	125,102
Noninterest income	24,660	24,660	45,574	45,574
Noninterest expense	65,536	65,604	126,627	127,050
Net income before income tax	21,415	21,074	44,596	43,626
Income tax expense	5,577	5,440	11,056	10,668
<b>Net income</b>	<b>\$ 15,839</b>	<b>\$ 15,634</b>	<b>\$ 33,541</b>	<b>\$ 32,959</b>
<b>Per Share Data</b>				
Net income				
Basic	\$ 0.73	\$ 0.75	\$ 1.54	\$ 1.55
Diluted	\$ 0.73	\$ 0.74	\$ 1.53	\$ 1.55
Cash dividends declared	\$ 0.46	\$ 0.46	\$ 0.92	\$ 0.92
Book value at end of period	\$ 19.27	\$ 19.27		

**Balances End of Period**