FIRST MERCHANTS CORP
Form 8-K
July 24, 2006
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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): July 24, 2006

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

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

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

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

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

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

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On July 24, 2006, First Merchants Corporation issued a press release to report its financial results for the second quarter ended June 30,

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 July 24, 2006, issued by First Merchants Corporation

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: July 24, 2006

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release, dated July 24, 2006, issued by First Merchants Corporation.

First Merchants Corporation

Exhibit No. 99.1

Press Release, dated July 24, 2006

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

July 24, 2006

FOR IMMEDIATE RELEASE
For more information, contact:
Mark K. Hardwick, Executive Vice President/Chief Financial Officer, 765-751-1857
http://firstmerchants.com

SOURCE: First Merchants Corporation, Muncie, Indiana

FIRST MERCHANTS CORPORATION ANNOUNCES YEAR TO DATE EARNINGS PER SHARE INCREASE OF 2.6 PERCENT

First Merchants Corporation (NASDAQ - FRME) has reported year-to-date diluted earnings per share totaling $.80, a 2.6 percent increase over $.78 recorded in 2005. Net income for the six months ended June 30, 2006 totaled $14.8 million compared to $14.5 million in 2005.

Second quarter diluted earnings per share of $.39, a $.04 decline from second quarter earnings per share of $.43 in 2005. Net income for the quarter totaled $7.3 million compared to $7.9 million in 2005.

Total assets reached a record $3.4 billion at quarter-end, an increase of $207 million, or 6.5 percent from June 30, 2005. Loans and investments, the Corporation's primary earning assets, totaled $3.1 billion, an increase of $197 million or 6.9 percent over the prior year.

Net-interest income improved by $492,000, or 1.00 percent for the six month ended June 30, 2006, reflecting the challenges of a sustained inverted yield curve. Non-interest income declined by $833,000 resulting from reduced mortgage loans sales and rising earnings credit rates on commercial checking accounts.

Operating expense increased by a modest half of a percentage point as management continues the process of streamlining its operating structure. Included in the second quarter results is a charge relating to the disposition of fixed assets from a branch closing of $290,000 or $.01 per share.

The allowance for loan losses increased during the period by $793,000 as the Corporation's provision for loan losses declined by $1.2 million reflecting reductions in specific reserve allocations. As of June 30, 2006, non-performing loans totaled 94 basis points of average total loans and the allowance for loan losses as a percent of total loans equaled 1.00 percent.

Michael L. Cox, President and Chief Executive Officer, stated that, "Year-to-date growth in loans of 6.0 percent, growth in deposits of 5.5 percent and expense containment are positive representations of the controllable items in this business." Cox also added, "Management believes that a continued focus on customer acquisition and cross selling is the best way to maximize shareholder value."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Daylight Time on Monday, July 24, 2006. To participate dial (Toll Free) 877-407-9210 and reference First Merchants Corporation's second quarter earnings release. A replay will be available until July 31, 2006. 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 # 207562.

During the call we may make Forward Looking statements about our relative business outlook. These Forward Looking statements and all other statements made during the call that do not concern historical facts are subject to risks and uncertainties that may materially affect actual results.

Specific Forward Looking statements include but are not limited to any indications regarding the Financial Services industry, the economy and future growth of the balance sheet or income statement.

Detailed financial results are reported on the attached pages.

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. Subsidiaries of the Corporation include First Merchants Bank, Madison Community Bank, United Communities National Bank, First National Bank, Decatur Bank & Trust Company, Frances Slocum Bank, Lafayette Bank & Trust Company, Commerce National Bank and First Merchants Trust Company. The Corporation also operates First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare insurance agency, headquartered in Muncie, Indiana, and is a majority member of Indiana Title Insurance Company, LLC, a title insurance agency.

First Merchants Corporation's common stock is traded over-the-counter on the NASDAQ National Market System under the symbol FRME. Quotations are carried in daily newspapers and can be found on the company's Internet web page (http:/www.firstmerchants.com).

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CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30, 2006	June 30, 2005
Assets		
Cash and due from banks	$ 71,275	$ 71,498
Interest-bearing time deposits	8,529	9,255
Investment securities	466,882	420,685
Mortgage loans held for sale	5,338	1,356
Loans	2,591,440	2,440,906
Less: Allowance for loan losses	(25,884)	(25,091)
Net loans	2,565,556	2,415,815
Premises and equipment	41,122	37,240
Federal Reserve and Federal Home Loan Bank stock	23,889	23,054
Interest receivable	19,539	16,950
Core deposit intangibles and goodwill	137,429	139,799
Cash surrender value of life insurance	44,358	42,827
Other assets	24,346	22,819
Total assets	$ 3,408,263	$ 3,201,298
Liabilities		
Deposits		

Noninterest-bearing	$ 340,046	$ 363,654
Interest-bearing	2,195,354	2,040,624
Total deposits	2,535,400	2,404,278
Borrowings	527,347	454,400
Interest payable	6,927	5,068
Other liabilities	25,585	24,194
Total liabilities	3,095,259	2,887,940
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 -- 18,259,256 and 18,415,725 shares	2,282	2,302
Additional paid-in capital	142,037	146,057
Retained earnings	181,042	167,452
Accumulated other comprehensive loss	(12,357)	(2,453)
Total stockholders' equity	313,004	313,358
Total liabilities and stockholders' equity	$ 3,408,263	$ 3,201,298

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
NET CHARGE OFF'S	$ 1,468	$ 1,345	$ 2,759	$ 2,072
AVERAGE BALANCES				
Total Assets	$3,321,852	$3,191,275	$3,279,130	$3,177,488
Total Loans	2,534,675	2,430,081	2,504,886	2,422,110
Total Deposits	2,491,665	2,422,688	2,449,888	2,420,810
Total Stockholders' Equity	316,871	312,611	316,751	313,961
FINANCIAL RATIOS				
Return on Average Assets	.88%	.99%	.90%	.91
Return on Avg. Stockholders' Equity	9.20	10.13	9.35	9.23
Avg. Earning Assets to Avg. Assets	91.21	90.81	91.24	90.71
Allowance for Loan Losses as % Of Total Loans	1.00	1.03	1.00	1.03
Net Charge Off's as % Of Avg. Loans (Annualized)	.23	.22	.22	.17
Dividend Payout Ratio	58.97	53.49	57.50	58.98
Avg. Stockholders' Equity to Avg. Assets	9.54	9.80	9.66	9.88
Tax Equivalent Yield on Earning Assets	6.87	6.14	6.76	6.01
Cost of Supporting Liabilities	3.07	2.15	2.92	2.08
Net Int. Margin (FTE) on Earning Assets	3.80	3.99	3.83	3.93

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months End June 30, 2006	Six Months End June 30, 20
Interest income				
Loans receivable				
Taxable	$ 45,658	$ 38,831	$ 88,737	$ 75,
Tax exempt	231	189	399	
Investment securities				
Taxable	3,082	2,376	5,808	4,
Tax exempt	1,613	1,554	3,260	3,
Federal funds sold	11	112	28	
Deposits with financial institutions	132	166	246	
Federal Reserve and Federal Home Loan Bank stock	320	285	631	
Total interest income	51,047	43,513	99,109	84,
Interest expense				
Deposits	16,914	10,729	31,333	20,
Federal funds purchased	625	161	1,114	
Securities sold under repurchase agreements	1,053	193	1,888	
Federal Home Loan Bank advances	2,610	2,443	5,266	4,
Subordinated debentures, revolving credit lines and term loans	2,020	1,839	4,011	3,
Other borrowings	59	227	142	
Total interest expense	23,281	15,592	43,754	29,
Net interest income	27,766	27,921	55,355	54,
Provision for loan losses	1,729	1,948	3,455	4,
Net interest income after provision for loan losses	26,037	25,973	51,900	50,
Other income				
Fiduciary activities	1,949	1,963	3,900	3,
Service charges on deposit accounts	2,771	3,048	5,197	5,
Other customer fees	1,389	1,188	2,744	2,
Net realized gains on sales of available-for-sale securities	(9)	6	0	
Commission income	946	757	2,450	2,
Earnings on cash surrender value of life insurance	432	439	855	
Net gains and fees on sales of loans	511	779	1,065	1,
Other income	422	582	797	1,
Total other income	8,411	8,762	17,008	17,
Other expenses				
Salaries and employee benefits	13,543	13,258	27,935	28,
Net occupancy expenses	1,477	1,422	2,911	2,
Equipment expenses	2,007	1,852	3,956	3,
Marketing expense	438	526	838	
Outside data processing fees	921	1,033	1,804	2,
Printing and office supplies	424	304	728	
Core deposit amortization	761	778	1,523	1,
Other expenses	4,323	4,026	7,987	7,
Total other expenses	23,894	23,199	47,682	47,

Income before income tax	10,554	11,536	21,226	20,
Income tax expense	3,263	3,615	6,426	6,
Net income	$ 7,291	$ 7,921	$ 14,800	$ 14,
Per Share Data				
Basic Net Income	.39	.43	.80	
Diluted Net Income	.39	.43	.80	
Cash Dividends Paid	.23	.23	.46	
Average Diluted Shares Outstanding (in thousands)	18,463	18,536	18,495	18,

CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30, 2006	March 31, 2006	December 31, 2005	Septem 20
Assets				
Cash and due from banks	$ 71,275	$ 59,176	$ 70,417	$ 8
Interest-bearing time deposits	8,529	9,104	8,748	1
Investment securities	466,882	441,651	434,266	43
Mortgage loans held for sale	5,338	5,170	4,910	
Loans	2,591,440	2,491,488	2,457,427	2,44
Less: Allowance for loan losses	(25,884)	(25,623)	(25,188)	(2
Net loans	2,565,556	2,465,865	2,432,239	2,41
Premises and equipment	41,122	39,029	39,417	3
Federal Reserve and Federal Home Loan Bank stock	23,889	23,421	23,200	2
Interest receivable	19,539	19,035	19,690	1
Core deposit intangibles and goodwill	137,429	138,174	138,833	13
Cash surrender value of life insurance	44,358	43,964	43,579	4
Other assets	24,346	25,346	21,780	2
Total assets	$ 3,408,263	$ 3,269,935	$ 3,237,079	$ 3,23
Liabilities				
Deposits				
Noninterest-bearing	$ 340,046	$ 325,548	$ 314,335	$ 34
Interest-bearing	2,195,354	2,120,524	2,068,241	2,11
Total deposits	2,535,400	2,446,072	2,382,576	2,46
Borrowings	527,347	469,002	508,236	42
Interest payable	6,927	6,412	5,874	
Other liabilities	25,585	31,711	26,997	2
Total liabilities	3,095,259	2,953,197	2,923,683	2,92
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	2,282	2,305	2,302	
Additional paid-in capital	142,037	146,374	145,682	14

Retained earnings	181,042	177,975	174,717	17
Accumulated other comprehensive loss	(12,357)	(9,916)	(9,305)	(
Total stockholders' equity	313,004	316,738	313,396	31
Total liabilities and stockholders' equity	$ 3,408,263	$ 3,269,935	$ 3,237,079	$ 3,23

NON-PERFORMING ASSETS

(in thousands)	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
90 days past due	$ 8,818	$ 5,188	$ 3,965	$ 3,560
Non-accrual loans	12,611	11,424	10,030	11,757
Other real estate	2,497	3,209	2,835	3,023
Total non-performing assets	$ 23,926	$ 19,821	$ 16,830	$ 18,340
Average total loans for the quarter	$2,534,675	$2,474,759	$2,447,794	$2,444,131
Total non-performing assets as a percent of average total loans	.94%	.80%	.69%	.75%
Restructured loans	$ 111	$ 114	$ 310	$ 454

CONSOLIDATED STATEMENTS OF INCOME

		Three Months Ended		
(in thousands, except share data)	June 30, 2006	March 31, 2006	December 31, 2005	Sep
Interest Income				
Loans receivable				
Taxable	$ 45,658	$ 43,079	$ 41,930	$
Tax exempt	231	168	160	
Investment securities				
Taxable	3,082	2,726	2,480	
Tax exempt	1,613	1,647	1,672	
Federal funds sold	11	17	74	
Deposits with financial institutions	132	114	202	
Federal Reserve and Federal Home Loan Bank stock	320	311	296	
Total interest income	51,047	48,062	46,814	
Interest expense				
Deposits	16,914	14,419	13,414	
Federal funds purchased	625	489	163	
Securities sold under repurchase agreements	1,053	835	647	
Federal Home Loan Bank advances	2,610	2,656	2,410	
Subordinated debentures, revolving credit lines and term loans	2,020	1,991	1,910	
Other borrowings	59	83	144	
Total interest expense	23,281	20,473	18,688	

Net interest income	27,766	27,589	28,126
Provision for loan losses	1,729	1,726	1,945
Net interest income after provision for loan losses	26,037	25,863	26,181
Other income			
Fiduciary activities	1,949	1,951	1,762
Service charges on deposit accounts	2,771	2,426	2,691
Other customer fees	1,389	1,355	1,432
Net realized gains (losses) on sales of available-for-sale securities	(9)	9	(24)
Commission income	946	1,504	690
Earnings on cash surrender value of life insurance	432	423	386
Net gains and fees on sales of loans	511	554	676
Other income	422	375	516
Total other income	8,411	8,597	8,129
Other expenses			
Salaries and employee benefits	13,543	14,392	12,596
Net occupancy expenses	1,477	1,434	1,428
Equipment expenses	2,007	1,949	1,952
Marketing expense	438	400	625
Outside data processing fees	921	883	989
Printing and office supplies	424	304	400
Core deposit amortization	761	762	767
Other expenses	4,323	3,664	4,469
Total other expenses	23,894	23,788	23,226
Income before income tax	10,554	10,672	11,084
Income tax expense	3,263	3,163	3,553
Net income	$ 7,291	$ 7,509	$ 7,531
Per Share Data			
Basic Net Income	$ .39	$ .41	$ .41
Diluted Net Income	.39	.41	.41
Cash Dividends Paid	.23	.23	.23
Average Diluted Shares Outstanding (in thousands)	18,463	18,526	18,558
FINANCIAL RATIOS			
Return on Average Assets	.88%	.93%	.95%
Return on Avg. Stockholders' Equity	9.20	9.49	9.49
Avg. Earning Assets to Avg. Assets	91.21	91.27	91.47
Allowance for Loan Losses as % Of Total Loans	1.00	1.03	1.02
Net Charge Off's as % Of Avg. Loans (Annualized)	.23	.21	.31
Dividend Payout Ratio	58.97	56.10	56.10
Avg. Stockholders' Equity to Avg. Assets	9.54	9.78	10.05
Tax Equivalent Yield on Earning Assets	6.87	6.64	6.62
Cost of Supporting Liabilities	3.07	2.77	2.59
Net Int. Margin (FTE) on Earning Assets	3.80	3.87	4.03

LOANS

(in thousands)	June 30, 2006	March 31, 2006	December 31, 2005	Sep
Commercial and industrial loans	$ 501,238	$ 486,411	$ 461,102	$
Agricultural production financing and other loans to farmers	95,352	87,433	95,130	
Real estate loans:				
Construction	178,254	175,784	174,783	
Commercial and farmland	813,171	743,905	734,865	
Residential	744,552	746,410	751,217	
Individuals' loans for household and other personal expenditures	208,768	202,478	200,139	
Tax exempt loans	13,656	13,656	8,263	
Lease financing receivables, net of unearned income	8,589	8,193	8,713	
Other loans	27,860	27,218	23,215	
	2,591,440	2,491,488	2,457,427	2,
Allowance for loan losses	(25,884)	(25,623)	(25,188)	
Total loans	$2,565,556	$2,465,865	$2,432,239	$2,

DEPOSITS

(in thousands)	June 30, 2006	March 31, 2006	December 31, 2005	Sept
Demand deposits	$ 758,132	$ 671,027	$ 690,923	$ 6
Savings deposits	510,878	526,554	566,212	5
Certificates and other time deposits of $100,000 or more	313,751	320,213	264,665	3
Other certificates and time deposits	952,639	928,278	860,776	8
	$2,535,400	$2,446,072	$2,382,576	$2,4