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FIRST MERCHANTS CORP
Form 8-K
July 21, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 21, 2003

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction of incorporation)

0-17071
(Commission File Number)

35-1544218
(IRS Employer Identification No.)

200 East Jackson Street
P.O. Box 792
Muncie, Indiana
(Address of principal executive offices)

47305-2814
(Zip Code)

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

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

Exhibit 99 Press Release, dated July 21, 2003, issued by
First Merchants Corporation

ITEM 9. REGULATION FD DISCLOSURE (INFORMATION PROVIDED UNDER ITEM 12 - RESULTS OF OPERATIONS AND FINANCIAL CONDITION).

The following information is being provided under Item 12 - Results of Operations and Financial Condition. It is being furnished under Item 9 of this Form 8-K in accordance with interim guidance issued by the SEC in Release No. 33-8216. Such information, including the Exhibit attached hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934.

On July 21, 2003, First Merchants Corporation issued a press release to report its financial results for the quarter ended June 30, 2003. The release is furnished as Exhibit 99 hereto.

SIGNATURES

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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.

By: /s/ Larry R. Helms

Larry R. Helms, Senior Vice President

Dated: July 21, 2003

EXHIBIT INDEX

Exhibit No.

99

Description

Press Release, dated July 21, 2003, issued by
First Merchants Corporation.

First Merchants Corporation

Exhibit No. 99

Press Release, dated July 21, 2003

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

July 21, 2003

FOR IMMEDIATE RELEASE

For more information, contact:

Mark K. Hardwick, Senior Vice President/Chief Financial Officer

765-751-1857

<http://firstmerchants.com>

SOURCE: First Merchants Corporation

FIRST MERCHANTS ANNOUNCES RECORD QUARTER AS EARNINGS PER SHARE REACH \$.50

First Merchants Corporation (NASDAQ - FRME) has reported that second quarter 2003 diluted earnings per share increased 4.2% to \$.50, up from \$.48 in the prior year. Net income increased \$805,000, or 10.1%, from \$7,940,000 to \$8,745,000 during the same period.

Year-to-date diluted earnings reached \$.84 per share compared to \$.89 in 2002. Year-to-date net income increased \$990,000, or 7.4%, from \$13,413,000 to \$14,403,000.

Total assets reached \$3.1 billion as total loans outstanding reached \$2.3 billion, an increase of \$365 million, or 18.5%.

Michael L. Cox, President and Chief Executive Officer, commented that, "given a challenging economic environment, a record-low interest rate environment coupled

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with the Corporation's conservative asset sensitive interest rate risk position, earnings for the quarter are very positive." Cox also added, "Gains from the sale of fixed rate mortgage loans have exceeded all budget expectations for 2003 and has significantly aided the Corporation's earnings per share."

Total non-performing assets increased from .91% of total loans in the second quarter of 2002 to 1.30% as of June 30, 2003. The Corporation's allowance for loan losses also increased to 1.31% versus 1.11% during the same period last year. The increase in non-performing loans has caused the Corporation to increase the provision for loan and lease losses from \$2,476,000 in 2002 to \$6,724,000. The increase represents \$.15 per share.

Merchants Trust Company, in an effort to leverage the Corporation's current banking relationships, has expand into additional growth markets by opening offices in Indianapolis and Columbus, Ohio during the quarter.

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 3:30 p.m. Eastern Standard Time on Monday, July 21, 2003. To participate dial 888-710-8192 and reference First Merchants Corporation's second quarter earnings release. A digital recording will be available two hours after the completion of the conference from July 21, 2003, to July 23, 2003. To access, US/Canada guests should call 800-642-1687 or for International/Local guests, call 706-645-9291 and enter the Conference I.D. 1669081.

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 in Delaware and Hamilton Counties, Madison Community Bank in Madison County, First United Bank in Henry County, Union County National Bank (with offices in Union, Fayette, Wayne, and Butler (OH) Counties), The Randolph County Bank, First National Bank of Portland in Jay County, Decatur Bank & Trust Company in Adams County, and Frances Slocum Bank (with offices in Wabash, Howard, and Miami Counties) and Lafayette Bank & Trust Company (with offices in Carrol, Jasper, White, and Tippecanoe Counties). 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 and is rated A+ by Standard & Poor's Corporation. Quotations are carried in daily newspapers and can be found on the company's Internet web page (<http://www.firstmerchants.com>). Eleven brokerage firms make a market in First Merchants Corporation stock: Midwest Research First Tennessee; Keefe, Bruyette & Woods, Inc.; Knight Securities, L.P.; Herzog, Heine, Geduld, Inc.; Howe Barnes Investments, Inc.; Sandler O'Neill & Partners; NatCity Investments, Inc.; Sherwood Securities Corp.; Spear, Leeds & Kellogg; RBC Capital Markets; and Stifel, Nicolaus & Company, Inc.

* * * *

CONSOLIDATED BALANCE SHEETS

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(in thousands)

June 30,

	2003	2002
Assets		
Cash and due from banks	\$ 89,126	\$ 93,420
Federal funds sold	14,150	43,587
	-----	-----
Cash and cash equivalents	103,276	137,007
Interest-bearing time deposits	8,777	14,577
Investment securities	363,103	361,076
Mortgage loans held for sale	15,151	203
Loans, net of allowance for loan losses of \$30,639 and \$21,963	2,293,937	1,952,211
Premises and equipment	39,313	39,292
Federal Reserve and Federal Home Loan Bank stock	13,933	11,036
Interest receivable	16,592	17,701
Core deposit intangibles and goodwill	144,663	106,622
Cash surrender value of life insurance	34,575	13,976
Other assets	23,641	10,283
	-----	-----
Total assets	\$ 3,056,961	\$ 2,663,984
	=====	=====
Liabilities		
Deposits		
Noninterest-bearing	\$ 324,735	\$ 259,353
Interest-bearing	1,988,593	1,797,188
	-----	-----
Total deposits	2,313,328	2,056,541
Borrowings	417,669	337,525
Interest payable	5,494	7,248
Other liabilities	19,460	11,240
	-----	-----
Total liabilities	2,755,951	2,412,554
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 - 17,531,597 and 16,209,538	2,191	2,026
Additional paid-in capital	148,406	114,064
Retained earnings	144,457	131,222
Accumulated other comprehensive income	5,956	4,118
	-----	-----
Total stockholders' equity	301,010	251,430
	-----	-----
Total liabilities and stockholders' equity	\$ 3,056,961	\$ 2,663,984
	=====	=====

FINANCIAL HIGHLIGHTS

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
NET CHARGE OFF'S	\$ 1,217	\$ 1,351	\$ 2,229	\$ 2,556
AVERAGE BALANCES				
Total Assets	\$3,001,760	\$2,559,421	\$2,868,161	\$2,158,146
Total Loans	2,313,688	1,951,648	2,212,932	1,656,355

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Total Deposits	2,278,743	1,991,318	2,179,316	1,690,418
Total Stockholders' Equity	297,214	247,652	285,143	214,754

FINANCIAL RATIOS

Return on Average Assets	1.17%	1.24%	1.00%	1.24%
Return on Avg. Stockholders' Equity	11.77	12.82	10.10	12.49
Avg. Earning Assets to Avg. Assets	90.14	90.46	90.15	91.63
Allowance for Loan Losses as % Of Total Loans	1.31	1.11	1.31	1.11
Net Charge Off's as % Of Avg. Loans (Annualized)	.21	.28	.20	.31
Dividend Payout Ratio	46.00	45.83	54.76	49.44
Avg. Stockholders' Equity to Avg. Assets	9.90	9.68	9.94	9.95
Tax Equivalent Yield on Earning Assets	5.99	7.02	6.23	6.96
Cost of Supporting Liabilities	2.01	2.52	2.06	2.51
Net Int. Margin (FTE) on Earning Assets	3.98	4.50	4.17	4.45

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Interest Income				
Loans receivable				
Taxable	\$ 35,759	\$ 34,875	\$ 70,932	\$ 59,759
Tax exempt	162	126	327	252
Investment securities				
Taxable	1,600	2,641	3,279	4,461
Tax exempt	1,626	1,670	3,257	2,750
Federal funds sold	177	84	290	177
Deposits with financial institutions	19	84	41	19
Federal Reserve and Federal Home Loan Bank stock	211	198	409	211
Total interest income	39,554	39,678	78,535	67,759
Interest expense				
Deposits	9,048	10,842	17,932	19,048
Securities sold under repurchase agreements	454	501	903	1,055
Federal Home Loan Bank advances	2,395	2,101	4,668	3,296
Trust preferred securities	1,259	962	2,465	1,259
Other borrowings	443	190	602	443
Total interest expense	13,599	14,596	26,570	24,197
Net interest income	25,955	25,082	51,965	42,562
Provision for loan losses	2,123	1,284	6,724	2,123
Net interest income after provision for loan losses	23,832	23,798	45,241	39,439
Other income				
Fiduciary activities	1,889	1,751	3,586	3,586
Service charges on deposit accounts	2,743	2,563	5,527	4,886
Other customer fees	1,036	1,064	2,124	1,036
Net realized gains on				

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sales of available-for-sale securities	67	290	438	
Commission income	707	518	1,461	1,
Other income	4,711	865	6,303	1,
	-----	-----	-----	-----
Total other income	11,153	7,051	19,439	12,
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	12,902	10,422	24,679	17,
Net occupancy expenses	1,200	966	2,291	1,
Equipment expenses	2,016	1,892	3,860	2,
Marketing expense	411	356	845	
Deposit insurance expense		75		
Outside data processing fees	1,102	897	2,030	1,
Printing and office supplies	432	429	839	
Goodwill and core deposit amortization	991	815	1,819	1,
Other expenses	3,881	3,086	8,013	5,
	-----	-----	-----	-----
Total other expenses	22,935	18,938	44,376	31,
	-----	-----	-----	-----
Income before income tax	12,050	11,911	20,304	20,
Income tax expense	3,305	3,971	5,901	6,
	-----	-----	-----	-----
Net income	\$ 8,745	\$ 7,940	\$ 14,403	\$ 13,
	=====	=====	=====	=====
Per Share Data				
Basic Net Income	.50	.49	.84	
Diluted Net Income	.50	.48	.84	
Cash Dividends Paid	.23	.22	.46	

CONSOLIDATED BALANCE SHEETS

(in thousands)	June 30,	March 31,	December 31,	September 30,
	2003	2003	2002	2002
Assets				
Cash and due from banks	\$ 89,126	\$ 81,789	\$ 87,638	\$ 73,126
Federal funds sold	14,150	54,925	31,400	8,125
	-----	-----	-----	-----
Cash and cash equivalents	103,276	136,714	119,038	81,251
Interest-bearing time deposits	8,777	5,170	3,568	10,125
Investment securities	363,103	333,692	342,062	345,125
Mortgage loans held for sale	15,151	13,558	21,545	14,125
Loans	2,324,576	2,291,178	2,004,377	1,994,125
Less: Allowance for loan losses	(30,639)	(29,733)	(22,417)	(22,417)
	-----	-----	-----	-----
Net loans	2,293,937	2,261,445	1,981,960	1,971,708
Premises and equipment	39,313	38,861	38,645	39,313
Federal Reserve and Federal Home Loan Bank stock	13,933	13,912	11,409	11,409
Interest receivable	16,592	16,789	17,346	18,125
Core deposit intangibles and goodwill	144,663	141,226	107,217	106,125
Cash surrender value of life insurance	34,575	14,567	14,309	14,309
Other assets	23,641	23,088	21,588	16,125

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Total assets	\$ 3,056,961	\$ 2,999,022	\$ 2,678,687	\$ 2,629,000
Liabilities				
Deposits				
Noninterest-bearing	\$ 324,735	\$ 289,835	\$ 272,128	\$ 246,000
Interest-bearing	1,988,593	1,996,836	1,764,560	1,773,000
Total deposits	2,313,328	2,286,671	2,036,688	2,019,000
Borrowings	417,669	388,821	356,927	328,000
Interest payable	5,494	5,694	6,019	6,000
Other liabilities	19,460	28,212	17,924	14,000
Total liabilities	2,755,951	2,709,398	2,417,558	2,369,000
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	2,191	2,188	2,040	2,000
Additional paid-in capital	148,406	143,615	116,503	116,000
Retained earnings	144,457	139,743	138,110	135,000
Accumulated other comprehensive income	5,956	4,078	4,476	6,000
Total stockholders' equity	301,010	289,624	261,129	259,000
Total liabilities and stockholders' equity	\$ 3,056,961	\$ 2,999,022	\$ 2,678,687	\$ 2,629,000

NON-PERFORMING ASSETS

(In thousands)	June 30, 2003	March 31, 2003	December 31, 2002	September 30, 2002	June 30, 2002
90 days past due	\$ 5,295	\$ 3,552	\$ 6,676	\$ 9,786	\$ 6,000
Non-accrual loans	22,532	19,747	14,134	13,285	10,000
Other real estate	2,351	1,841	1,691	868	0
Total non-performing assets	\$ 30,178	\$ 25,140	\$ 22,501	\$ 23,939	\$ 17,000
Average total loans for the quarter	\$2,313,688	\$2,111,056	\$ 2,066,616	\$ 1,984,323	\$1,951,000
Total non-performing assets as a percent of average total loans	1.30%	1.19%	1.09%	1.21%	
Restructured loans	\$ 899	\$ 2,194	\$ 2,508	\$ 2,326	\$ 2,000

CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended

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(in thousands, except share data)

	June 30, 2003	March 31, 2003	December 31, 2002	September 30, 2002
Interest Income				
Loans receivable				
Taxable	\$ 35,759	\$ 35,173	\$ 34,775	\$ 35,362
Tax exempt	162	165	235	169
Investment securities				
Taxable	1,600	1,679	2,100	2,442
Tax exempt	1,626	1,631	1,740	1,793
Federal funds sold	177	113	169	123
Deposits with financial institutions	19	22	38	53
Federal Reserve and Federal Home Loan Bank stock	211	198	208	206
	-----	-----	-----	-----
Total interest income	39,554	38,981	39,265	40,148
	-----	-----	-----	-----
Interest expense				
Deposits	9,048	8,884	9,934	10,696
Securities sold under repurchase agreements	454	449	502	517
Federal Home Loan Bank advances	2,395	2,273	2,359	2,283
Trust preferred securities	1,259	1,206	1,181	1,181
Other borrowings	443	159	154	143
	-----	-----	-----	-----
Total interest expense	13,599	12,971	14,130	14,820
	-----	-----	-----	-----
Net interest income	25,123	26,010	25,135	25,328
Provision for loan losses	2,123	4,601	2,877	1,821
	-----	-----	-----	-----
Net interest income after provision for loan losses	23,832	21,409	22,258	23,507
	-----	-----	-----	-----
Other income				
Fiduciary activities	1,889	1,697	1,487	1,651
Service charges on deposit accounts	2,743	2,784	2,695	2,626
Other customer fees	1,036	1,088	993	957
Net realized gains on sales of available-for-sale securities	67	371	169	162
Commission income	707	754	586	557
Other income	4,711	1,592	1,286	1,693
	-----	-----	-----	-----
Total other income	11,153	8,286	7,216	7,646
	-----	-----	-----	-----
Other expenses				
Salaries and employee benefits	12,902	11,777	10,849	10,606
Net occupancy expenses	1,200	1,091	933	999
Equipment expenses	2,016	1,844	1,861	1,880
Marketing expense	411	434	416	415
Deposit insurance expense			104	143
Outside data processing fees	1,102	928	940	1,018
Printing and office supplies	432	407	442	388
Goodwill and core deposit amortization	991	828	750	786
Other expenses	3,881	4,132	3,591	2,952
	-----	-----	-----	-----
Total other expenses	22,935	21,441	19,886	19,187
	-----	-----	-----	-----
Income before income tax	12,050	8,254	9,588	11,966
Income tax expense	3,305	2,596	2,998	4,139
	-----	-----	-----	-----
Net income	\$ 8,745	\$ 5,658	\$ 6,590	\$ 7,827

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Per Share Data(1)	=====	=====	=====	=====
Basic Net Income	\$.50	\$.34	\$.40	\$.49
Diluted Net Income	.50	.34	.40	.48
Cash Dividends Paid	.23	.23	.23	.23

(1) Restated for a five percent (5%) stock dividend distributed September 2002.