

FIRST MERCHANTS CORP
Form 10-Q
November 09, 2012

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission File Number 0-17071

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

Indiana	35-1544218
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 East Jackson Street, Muncie, IN	47305-2814
(Address of principal executive offices)	(Zip code)

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

Not Applicable
(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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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 definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2012, there were 28,672,461 outstanding common shares of the registrant.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in thousands)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 57,027	\$ 73,312
Interest-bearing time deposits	35,324	52,851
Investment securities available for sale	551,619	518,491
Investment securities held to maturity (fair value of \$396,217 and \$442,469)	377,097	427,909
Mortgage loans held for sale	27,711	17,864
Loans, net of allowance for loan losses of \$69,493 and \$70,898	2,766,831	2,642,517
Premises and equipment	51,373	51,013
Federal Reserve and Federal Home Loan Bank stock	32,824	31,270
Interest receivable	17,519	17,723
Core deposit intangibles	8,644	9,114
Goodwill	141,375	141,357
Cash surrender value of life insurance	124,702	124,329
Other real estate owned	13,780	16,289
Tax asset, deferred and receivable	29,344	36,424
Other assets	14,998	12,613
TOTAL ASSETS	\$ 4,250,168	\$ 4,173,076
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 679,818	\$ 646,508
Interest-bearing	2,514,933	2,488,147
Total Deposits	3,194,751	3,134,655
Borrowings:		
Federal funds purchased	57,024	
Securities sold under repurchase agreements	153,454	156,305
Federal Home Loan Bank advances	145,467	138,095
Subordinated debentures and term loans	112,169	194,974
Total Borrowings	468,114	489,374
Interest payable	1,591	2,925
Other liabilities	38,857	31,655
Total Liabilities	3,703,313	3,658,609
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Preferred Stock, no-par value, \$1,000 liquidation value:		
Authorized - 500,000 shares		
Senior Non-Cumulative Perpetual Preferred Stock, Series B		
Issued and outstanding - 90,782.94 shares	90,783	90,783
Cumulative Preferred Stock, \$1,000 par value, \$1,000 liquidation value:		
Authorized - 600 shares		
Issued and outstanding - 125 shares	125	125

Common Stock, \$.125 stated value:

Authorized - 50,000,000 shares

Issued and outstanding - 28,672,177 and 28,559,707 shares	3,584	3,570
Additional paid-in capital	256,290	254,874
Retained earnings	198,094	168,717
Accumulated other comprehensive loss	(2,021)	(3,602)
Total Stockholders' Equity	546,855	514,467
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,250,168	\$ 4,173,076

See notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
INTEREST INCOME				
Loans receivable:				
Taxable	\$ 38,160	\$ 37,024	\$ 110,660	\$ 113,219
Tax exempt	118	86	358	435
Investment securities:				
Taxable	4,176	5,078	13,218	14,665
Tax exempt	2,532	2,529	7,645	7,617
Federal funds sold				3
Deposits with financial institutions	16	45	69	228
Federal Reserve and Federal Home Loan Bank stock	345	323	1,035	1,005
Total Interest Income	45,347	45,085	132,985	137,172
INTEREST EXPENSE				
Deposits	3,517	5,046	11,566	17,776
Federal funds purchased	38	16	62	22
Securities sold under repurchase agreements	211	384	703	1,148
Federal Home Loan Bank advances	492	1,089	2,123	3,067
Subordinated debentures and term loans	1,187	2,699	4,460	7,984
Total Interest Expense	5,445	9,234	18,914	29,997
NET INTEREST INCOME	39,902	35,851	114,071	107,175
Provision for loan losses	4,609	5,556	14,029	16,775
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	35,293	30,295	100,042	90,400
OTHER INCOME				
Service charges on deposit accounts	2,913	3,169	8,625	8,945
Fiduciary activities	1,986	1,881	5,907	5,846
Other customer fees	2,740	2,583	8,476	7,452
Commission income	1,618	1,528	4,770	4,440
Earnings on cash surrender value of life insurance	685	644	2,725	1,793
Net gains and fees on sales of loans	2,849	1,768	7,115	4,671
Net realized gains on sales of available for sale securities	843	861	2,134	2,149
Other-than-temporary impairment on available for sale securities				(2,780)
Portion of loss recognized in other comprehensive income before taxes				2,380
Net impairment losses recognized in earnings				(400)
Gain on FDIC modified whole bank transaction			9,124	
Other income	639	796	1,220	1,253
Total Other Income	14,273	13,230	50,096	36,149
OTHER EXPENSES				
Salaries and employee benefits	20,083	19,964	59,078	55,700
Net occupancy	2,568	2,530	7,692	7,690
Equipment	1,798	1,662	5,259	5,122

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Marketing	536	534	1,542	1,352
Outside data processing fees	1,413	1,391	4,295	4,294
Printing and office supplies	287	301	848	902
Core deposit amortization	489	755	1,438	2,957
FDIC assessments	792	1,201	2,771	4,756
Other real estate owned and credit-related expenses	2,104	2,007	6,412	8,045
Other expenses	4,334	3,877	13,277	11,684
Total Other Expenses	34,404	34,222	102,612	102,502
INCOME BEFORE INCOME TAX	15,162	9,303	47,526	24,047
Income tax expense	3,926	2,561	12,714	6,356
NET INCOME	11,236	6,742	34,812	17,691
Loss on retirement of CPP preferred stock		(1,401)		(1,401)
Loss on extinguishment of trust preferred securities		(10,857)		(10,857)
Preferred stock dividends and discount accretion	(1,134)	(868)	(3,404)	(2,846)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$ 10,102	\$ (6,384)	\$ 31,408	\$ 2,587

Per Share Data:

Basic Net Income (Loss) Available to Common Stockholders	\$ 0.35	\$ (0.25)	\$ 1.09	\$ 0.10
Diluted Net Income (Loss) Available to Common Stockholders	\$ 0.35	\$ (0.25)	\$ 1.09	\$ 0.10
Cash Dividends Paid	\$ 0.03	\$ 0.01	\$ 0.07	\$ 0.03
Average Diluted Shares Outstanding (in thousands)	28,888	26,367	28,819	26,019

See notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$ 11,236	\$ 6,742	\$ 34,812	\$ 17,691
Other comprehensive income net of tax:				
Unrealized holding gain on securities available for sale arising during the period, net of income tax of \$1,018, \$4,553, \$1,670, and \$8,212	1,891	8,457	3,102	15,255
Unrealized loss on securities available for sale for which a portion of an other than temporary impairment has been recognized in income, net of tax of \$12, \$0, \$43, and \$831	(22)		(80)	(1,546)
Unrealized loss on cash flow hedges arising during the period, net of income tax of \$131, \$778, \$535, and \$949	(244)	(1,446)	(994)	(1,762)
Amortization of items previously recorded in accumulated other comprehensive income (loss), net of income tax of \$113, \$10, \$506, and \$29	210	(18)	940	(53)
Reclassification adjustment for gains included in net income net of income tax expense of \$295, \$301, \$747, and \$612	(549)	(560)	(1,387)	(1,137)
	1,286	6,433	1,581	10,757
Comprehensive income	\$ 12,522	\$ 13,175	\$ 36,393	\$ 28,448

The components of accumulated other comprehensive loss, net of tax, included in stockholders' equity, are as follows:

	September 30, 2012	December 31, 2011
Net unrealized gain on securities available for sale	\$ 19,959	\$ 18,244
Net unrealized loss on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in income	(3,248)	(3,168)
Net unrealized loss on cash flow hedges	(2,834)	(1,841)
Defined benefit plans	(15,898)	(16,837)
	\$ (2,021)	\$ (3,602)

See notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
(Dollars in thousands, except per share data)
(Unaudited)

	Preferred		Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid in Capital	Earnings	Other Comprehensive Income (Loss)	
Balances, December 31, 2011	90,908	\$ 90,908	28,559,707	\$ 3,570	\$ 254,874	\$ 168,717	\$ (3,602)	\$ 514,467
Comprehensive Income								
Net Income						34,812		34,812
Other Comprehensive Income, net of tax							1,581	1,581
Cash Dividends on Common Stock (\$0.07 per Share)						(2,031)		(2,031)
Cash Dividends on Preferred Stock under Small Business Lending Fund						(3,404)		(3,404)
Share-based Compensation			79,385	10	1,091			1,101
Stock Issued Under Employee Benefit Plans			34,352	4	350			354
Stock Issued Under Dividend Reinvestment and Stock Purchase Plan			11,475	1	142			143
Stock options exercised			8,750	1	66			67
Stock Redeemed			(21,492)	(2)	(233)			(235)
Balances, September 30, 2012	90,908	\$ 90,908	28,672,177	\$ 3,584	\$ 256,290	\$ 198,094	\$ (2,021)	\$ 546,855

See notes to consolidated condensed financial statements.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	September 30,	
	2012	2011
Cash Flow From Operating Activities:		
Net income	\$ 34,812	\$ 17,691
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	14,029	16,775
Depreciation and amortization	3,432	3,998
Change in deferred taxes	11,239	7,211
Share-based compensation	1,101	1,009
Mortgage loans originated for sale	(314,240)	(185,658)
Proceeds from sales of mortgage loans	304,393	194,870
Gain on acquisition	(9,124)	
Gains on sales of securities available for sale	(2,134)	(2,149)
Recognized loss on other-than-temporary-impairment		400
Change in interest receivable	732	904
Change in interest payable	(1,701)	(2,076)
Other adjustments	4,650	14,171
Net cash provided by operating activities	\$ 47,189	\$ 67,146
Cash Flows from Investing Activities:		
Net change in interest-bearing deposits	\$ 17,527	\$ 49,101
Purchases of:		
Securities available for sale	(129,297)	(133,526)
Securities held to maturity	(566)	(77,678)