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FIRST MERCHANTS CORP
Form 8-K
April 22, 2004

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): April 22, 2004

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 99.1 Press Release, dated April 22, 2004, issued by
First Merchants Corporation

ITEM 9. REGULATION FD DISCLOSURE.

See "ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION" below.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On April 22, 2004, First Merchants Corporation issued a press release to report its financial results for the first quarter ended March 31, 2004. The press release is attached hereto as Exhibit 99.1, is being furnished by the Registrant pursuant to Regulation FD and is not being filed.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

By: /s/ Larry R. Helms

Larry R. Helms, Senior Vice President

Dated: April 22, 2004

EXHIBIT INDEX

Exhibit No.

99.1

Description

Press Release, dated April 22, 2004, issued by
First Merchants Corporation.

First Merchants Corporation

Exhibit No. 99.1

Press Release, dated April 22, 2004

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

April 22, 2004

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, Muncie, Indiana

FIRST MERCHANTS CORPORATION ANNOUNCES 1st QUARTER 2004 RESULTS

First Merchants Corporation (NASDAQ - FRME) has reported first quarter 2004 diluted earnings per share of \$.37, a 15.6 percent increase from \$.32 recorded in 2003. Net income during the period totaled \$6.9 million compared to \$5.6 million in 2003.

Total assets of the Corporation were \$3 billion as of March 31, 2004, a modest increase of \$26 million from the prior year. Loans, investments and bank owned life insurance, the Corporation's three primary earning assets totaled \$2.8 billion, an increase of \$97 million or 3.6 percent, as fed funds sold declined by \$55 million resulting in increased earning assets of \$42 million. The improvement in earning assets was funded by increases in deposits and capital totaling \$46 million.

Net interest margin equaled 3.87 percent, a fifty-one basis point decline from the first quarter of 2003 margin of 4.38 percent. Declining margins were

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mitigated by a reduction in the provision for loan losses of \$1.4 million versus the \$4.6 million provided in the prior year.

The addition of CNBC Bancorporation on March 1, 2003, resulted in an additional two months of 2004 net income totaling \$472,000. The additional two months also accounted for \$2.0 million of additional net interest income, \$133,000 of non-interest income and \$1.4 million of additional non-interest expense.

Non-performing loans as a percentage of total loans equaled 1.12 percent, down from 1.19 percent in 2003. The Corporation's allowance for loan losses equaled 1.14 percent of average loans for the quarter and net charge-off's equaled .07 percent.

Michael L. Cox, President and Chief Executive Officer, stated that, "First Merchants Corporation's first quarter 2004 results reflect positive trends in a number of areas when compared to the fourth quarter of 2003. Earnings per share improved by \$.06, net interest margin improved by 9 basis points, return on assets and return on equity improved by 15 and 136 basis points respectively. Most encouraging is the decline in non-performing loans to the lowest level in five quarters." Cox also stated that, "First Merchants Corporation's management team is encouraged by recent progress and remains cautiously optimistic about the economy and the yield curve for the remainder of 2004."

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 9:30 a.m. Eastern Standard Time/10:30 a.m. Eastern Daylight Time on Thursday, April 22, 2004. To participate dial 888-710-8192 and reference First Merchants Corporation's first quarter earnings release. A digital recording will be available two hours after the completion of the conference from April 22, 2004, to April 24, 2004. To access, US/Canada participants should call 800-642-1687 or for International/Local participants, call 706-645-9291 and enter the Conference I.D. 6682180.

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, NA, Madison Community Bank, First United Bank, Union County National Bank, The Randolph County Bank, First National Bank, Decatur Bank & Trust Company, Frances Slocum Bank, Lafayette Bank & Trust Company, Commerce National Bank and 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 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>).

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CONSOLIDATED BALANCE SHEETS

(in thousands)

| | March 31, | |
|--|--------------|--------------|
| | 2004 | 2003 |
| Assets | | |
| Cash and due from banks | \$ 60,366 | \$ 81,789 |
| Federal funds sold | 0 | 54,925 |
| | ----- | ----- |
| Cash and cash equivalents | 60,366 | 136,714 |
| Interest-bearing time deposits | 10,674 | 5,170 |
| Investment securities | 376,974 | 333,692 |
| Mortgage loans held for sale | 3,883 | 13,558 |
| Loans | 2,320,103 | 2,291,178 |
| Less: Allowance for loan losses | (26,459) | (29,733) |
| | ----- | ----- |
| Net loans | 2,293,644 | 2,261,445 |
| Premises and equipment | 38,972 | 38,861 |
| Federal Reserve and Federal Home Loan Bank stock | 21,956 | 13,912 |
| Interest receivable | 15,061 | 16,789 |
| Core deposit intangibles and goodwill | 141,867 | 141,226 |
| Cash surrender value of life insurance | 40,843 | 14,567 |
| Other assets | 20,901 | 23,088 |
| | ----- | ----- |
| Total assets | \$ 3,025,141 | \$ 2,999,022 |
| | ===== | ===== |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | \$ 303,694 | \$ 289,835 |
| Interest-bearing | 2,009,726 | 1,996,836 |
| | ----- | ----- |
| Total deposits | 2,313,420 | 2,286,671 |
| Borrowings | 372,356 | 388,821 |
| Interest payable | 4,542 | 5,694 |
| Other liabilities | 25,676 | 28,212 |
| | ----- | ----- |
| Total liabilities | 2,715,994 | 2,709,398 |
| 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 -- 18,532,769 and 18,383,045 shares | | |
| | 2,317 | 2,298 |
| Additional paid-in capital | 150,679 | 143,505 |
| Retained earnings | 151,771 | 139,743 |
| Accumulated other comprehensive income | 4,380 | 4,078 |
| | ----- | ----- |
| Total stockholders' equity | 309,147 | 289,624 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 3,025,141 | \$ 2,999,022 |
| | ===== | ===== |

FINANCIAL HIGHLIGHTS

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| (In thousands) | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2004 | 2003 |
| NET CHARGE OFF'S | \$ 406 | \$ 1,012 |
| AVERAGE BALANCES | | |
| Total Assets | \$3,041,837 | \$2,733,077 |
| Total Loans | 2,339,080 | 2,111,056 |
| Total Deposits | 2,312,708 | 2,078,786 |
| Total Stockholders' Equity | 306,592 | 272,939 |
| FINANCIAL RATIOS | | |
| Return on Average Assets | .91% | .83% |
| Return on Avg. Stockholders' Equity | 9.05 | 8.29 |
| Avg. Earning Assets to Avg. Assets | 90.05 | 90.17 |
| Allowance for Loan Losses as % Of Total Loans | 1.14 | 1.29 |
| Net Charge Off's as % Of Avg. Loans (Annualized) | .07 | .19 |
| Dividend Payout Ratio | 62.16 | 68.75 |
| Avg. Stockholders' Equity to Avg. Assets | 10.08 | 9.99 |
| Tax Equivalent Yield on Earning Assets | 5.71 | 6.49 |
| Cost of Supporting Liabilities | 1.84 | 2.11 |
| Net Int. Margin (FTE) on Earning Assets | 3.87 | 4.38 |

CONSOLIDATED STATEMENTS OF INCOME

| (in thousands, except share data) | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2004 | 2003 |
| Interest income | | |
| Loans receivable | | |
| Taxable | \$ 34,227 | \$ 35,173 |
| Tax exempt | 163 | 165 |
| Investment securities | | |
| Taxable | 1,949 | 1,679 |
| Tax exempt | 1,430 | 1,631 |
| Federal funds sold | 18 | 113 |
| Deposits with financial institutions | 109 | 22 |
| Federal Reserve and Federal Home Loan Bank stock | 328 | 198 |
| | ----- | ----- |
| Total interest income | 38,224 | 38,981 |
| | ----- | ----- |
| Interest expense | | |
| Deposits | 8,190 | 8,884 |
| Securities sold under repurchase agreements | 220 | 449 |
| Federal Home Loan Bank advances | 2,442 | 2,273 |
| Subordinated debentures, revolving credit and term loans | 1,234 | 1,206 |
| Other borrowings | 506 | 159 |
| | ----- | ----- |
| Total interest expense | 12,592 | 12,971 |
| | ----- | ----- |

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| | | |
|--|----------|----------|
| Net interest income | 25,632 | 26,010 |
| Provision for loan losses | 1,372 | 4,601 |
| | ----- | ----- |
| Net interest income | | |
| after provision for loan losses | 24,260 | 21,409 |
| | ----- | ----- |
| Other income | | |
| Fiduciary activities | 1,810 | 1,697 |
| Service charges on deposit accounts | 2,772 | 2,784 |
| Other customer fees | 1,070 | 1,088 |
| Net realized gains on | | |
| sales of available-for-sale securities | 37 | 371 |
| Commission income | 953 | 754 |
| Earnings on cash surrender value | | |
| of life insurance | 429 | 199 |
| Net gains and fees on sales of loans | 801 | 935 |
| Other income | 344 | 458 |
| | ----- | ----- |
| Total other income | 8,216 | 8,286 |
| | ----- | ----- |
| Other expenses | | |
| Salaries and employee benefits | 13,024 | 11,777 |
| Net occupancy expenses | 1,254 | 1,091 |
| Equipment expenses | 1,979 | 1,844 |
| Marketing expense | 440 | 434 |
| Outside data processing fees | 1,223 | 928 |
| Printing and office supplies | 398 | 407 |
| Goodwill and core deposit amortization | 892 | 828 |
| Other expenses | 3,354 | 4,232 |
| | ----- | ----- |
| Total other expenses | 22,564 | 21,541 |
| | ----- | ----- |
| Income before income tax | 9,912 | 8,154 |
| Income tax expense | 2,977 | 2,496 |
| | ----- | ----- |
| Net income | \$ 6,935 | \$ 5,658 |
| | ===== | ===== |
| Per Share Data (1) | | |
| Basic Net Income | .37 | .32 |
| Diluted Net Income | .37 | .32 |
| Cash Dividends Paid | .23 | .22 |
| Average Diluted Shares | | |
| Outstanding (in thousands) | 18,646 | 17,676 |

(1) Restated for a five percent (5%) stock dividend distributed September 2003.

CONSOLIDATED BALANCE SHEETS

(in thousands)

March 31, December 31, September 30, June 30
2004 2003 2003 2003

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| | | | | |
|--|--------------|--------------|--------------|--------------|
| Assets | | | | |
| Cash and due from banks | \$ 60,366 | \$ 77,112 | \$ 87,619 | \$ 89,112 |
| Federal funds sold | 0 | 32,415 | 0 | 14,112 |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents | 60,366 | 109,527 | 87,619 | 103,224 |
| Interest-bearing time deposits | 10,674 | 8,141 | 3,789 | 8,789 |
| Investment securities | 376,974 | 356,797 | 316,852 | 363,112 |
| Mortgage loans held for sale | 3,883 | 3,043 | 12,042 | 15,112 |
| Loans | 2,320,103 | 2,353,503 | 2,351,405 | 2,324,512 |
| Less: Allowance for loan losses | (26,459) | (25,493) | (29,842) | (30,612) |
| | ----- | ----- | ----- | ----- |
| Net loans | 2,293,644 | 2,328,010 | 2,321,563 | 2,293,900 |
| Premises and equipment | 38,972 | 39,639 | 39,475 | 39,312 |
| Federal Reserve and Federal Home Loan Bank stock | 21,956 | 15,502 | 14,057 | 13,912 |
| Interest receivable | 15,061 | 16,840 | 17,139 | 16,512 |
| Core deposit intangibles and goodwill | 141,867 | 142,723 | 143,648 | 144,612 |
| Cash surrender value of life insurance | 40,843 | 37,927 | 37,536 | 34,512 |
| Other assets | 20,901 | 18,663 | 18,000 | 23,612 |
| | ----- | ----- | ----- | ----- |
| Total assets | \$ 3,025,041 | \$ 3,076,812 | \$ 3,011,720 | \$ 3,056,912 |
| | ===== | ===== | ===== | ===== |
| Liabilities | | | | |
| Deposits | | | | |
| Noninterest-bearing | \$ 303,694 | \$ 338,201 | \$ 316,058 | \$ 324,712 |
| Interest-bearing | 2,009,726 | 2,023,900 | 1,994,146 | 1,988,512 |
| | ----- | ----- | ----- | ----- |
| Total deposits | 2,313,420 | 2,362,101 | 2,310,204 | 2,313,224 |
| Borrowings | 372,356 | 383,170 | 374,051 | 417,612 |
| Interest payable | 4,542 | 4,680 | 5,200 | 5,412 |
| Other liabilities | 25,676 | 22,896 | 21,064 | 19,412 |
| | ----- | ----- | ----- | ----- |
| Total liabilities | 2,715,994 | 2,772,847 | 2,710,519 | 2,755,648 |
| 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 | 2,317 | 2,314 | 2,311 | 2,312 |
| Additional paid-in capital | 150,679 | 150,310 | 149,810 | 148,212 |
| Retained earnings | 151,771 | 149,096 | 147,559 | 144,412 |
| Accumulated other comprehensive income | 4,380 | 2,245 | 1,521 | 5,912 |
| | ----- | ----- | ----- | ----- |
| Total stockholders' equity | 309,147 | 303,965 | 301,201 | 301,012 |
| | ----- | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 3,025,141 | \$ 3,076,812 | \$ 3,011,720 | \$ 3,056,912 |
| | ===== | ===== | ===== | ===== |

NON-PERFORMING ASSETS

| (In thousands) | March 31, 2004 | December 31, 2003 | September 30, 2003 | June 30, 2003 | March 31, 2003 |
|-----------------------------|-------------------|----------------------|-----------------------|------------------|-------------------|
| 90 days past due | \$ 4,770 | \$ 6,530 | \$ 4,790 | \$ 5,295 | \$ 3,512 |
| Non-accrual loans | 19,914 | 19,453 | 20,093 | 22,532 | 19,712 |
| Other real estate | 1,571 | 1,399 | 1,547 | 2,351 | 1,812 |
| | ----- | ----- | ----- | ----- | ----- |
| Total non-performing assets | \$ 26,255 | \$ 27,382 | \$ 26,430 | \$ 30,178 | \$ 25,112 |
| | ===== | ===== | ===== | ===== | ===== |

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| | | | | | |
|---|-------------|--------------|--------------|-------------|-----------|
| Average total loans for the quarter | \$2,339,080 | \$ 2,349,536 | \$ 2,348,817 | \$2,313,688 | \$2,111,0 |
| Total non-performing assets as a percent of average total loans | 1.12% | 1.17% | 1.13% | 1.30% | 1.1 |
| Restructured loans | \$ 957 | \$ 641 | \$ 647 | \$ 899 | \$ 2,1 |

CONSOLIDATED STATEMENTS OF INCOME

| (in thousands, except share data) | Three Months Ended | | | |
|--|--------------------|----------------------|-----------------------|------------------|
| | March 31, 2004 | December 31, 2003 | September 30, 2003 | June 30, 2003 |
| Interest Income | | | | |
| Loans receivable | | | | |
| Taxable | \$ 34,227 | \$ 34,697 | \$ 35,607 | \$ 35,759 |
| Tax exempt | 163 | 195 | 185 | 162 |
| Investment securities | | | | |
| Taxable | 1,949 | 1,484 | 1,342 | 1,600 |
| Tax exempt | 1,430 | 1,451 | 1,562 | 1,626 |
| Federal funds sold | 18 | 148 | 49 | 177 |
| Deposits with financial institutions | 109 | 22 | 13 | 19 |
| Federal Reserve and Federal Home Loan Bank stock | 328 | 39 | 201 | 211 |
| | ----- | ----- | ----- | ----- |
| Total interest income | 38,224 | 38,036 | 38,959 | 39,554 |
| | ----- | ----- | ----- | ----- |
| Interest expense | | | | |
| Deposits | 8,190 | 8,303 | 8,623 | 9,048 |
| Securities sold under repurchase agreements | 220 | 248 | 370 | 454 |
| Federal Home Loan Bank advances | 2,442 | 2,362 | 2,409 | 2,395 |
| Subordinated debentures, revolving credit and term loans | 1,234 | 1,234 | 1,232 | 1,259 |
| Other borrowings | 506 | 586 | 451 | 443 |
| | ----- | ----- | ----- | ----- |
| Total interest expense | 12,592 | 12,733 | 13,085 | 13,599 |
| | ----- | ----- | ----- | ----- |
| Net interest income | 25,632 | 25,303 | 25,874 | 25,955 |
| Provision for loan losses | 1,372 | 1,047 | 1,706 | 2,123 |
| | ----- | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 24,260 | 24,256 | 24,168 | 23,832 |
| | ----- | ----- | ----- | ----- |
| Other income | | | | |
| Fiduciary activities | 1,810 | 1,603 | 1,547 | 1,889 |
| Service charges on deposit accounts | 2,772 | 2,717 | 2,861 | 2,743 |
| Other customer fees | 1,070 | 1,039 | 961 | 1,036 |
| Net realized gains on sales of available-for-sale securities | 37 | 0 | 512 | 67 |
| Commission income | 953 | 569 | 638 | 707 |
| Earnings on cash surrender value of life insurance | 429 | 446 | 498 | 204 |
| Net gains and fees on sales of loans | 801 | 770 | 1,332 | 3,351 |
| Other income | 344 | 443 | 527 | 1,156 |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|--|----------|----------|----------|----------|
| Total other income | 8,216 | 7,587 | 8,876 | 11,153 |
| | ----- | ----- | ----- | ----- |
| Other expenses | | | | |
| Salaries and employee benefits | 13,024 | 12,599 | 13,206 | 12,902 |
| Net occupancy expenses | 1,254 | 1,414 | 1,189 | 1,200 |
| Equipment expenses | 1,979 | 2,217 | 1,996 | 2,016 |
| Marketing expense | 440 | 538 | 414 | 411 |
| Outside data processing fees | 1,223 | 1,063 | 1,025 | 1,102 |
| Printing and office supplies | 398 | 466 | 401 | 432 |
| Goodwill and core deposit amortization | 892 | 923 | 958 | 991 |
| Other expenses | 3,354 | 4,623 | 3,771 | 3,881 |
| | ----- | ----- | ----- | ----- |
| Total other expenses | 22,564 | 23,843 | 22,960 | 22,935 |
| | ----- | ----- | ----- | ----- |
| Income before income tax | 9,912 | 8,000 | 10,084 | 12,050 |
| Income tax expense | 2,977 | 2,181 | 2,735 | 3,305 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 6,935 | \$ 5,819 | \$ 7,349 | \$ 8,745 |
| | ===== | ===== | ===== | ===== |
| Per Share Data(1) | | | | |
| Basic Net Income | \$.37 | \$.31 | \$.40 | \$.48 |
| Diluted Net Income | .37 | .31 | .39 | .48 |
| Cash Dividends Paid | .23 | .23 | .23 | .22 |
| Average Diluted Shares | | | | |
| Outstanding (in thousands) | 18,646 | 18,666 | 18,622 | 18,519 |
| FINANCIAL RATIOS | | | | |
| Return on Average Assets | .91% | .76% | .97% | 1.17% |
| Return on Avg. Stockholders' Equity | 9.05 | 7.69 | 9.76 | 11.77 |
| Avg. Earning Assets to Avg. Assets | 90.05 | 90.19 | 89.48 | 90.14 |
| Allowance for Loan Losses as % | | | | |
| Of Total Loans | 1.14 | 1.08 | 1.26 | 1.31 |
| Net Charge Off's as % Of Avg. Loans | | | | |
| (Annualized) | .07 | .92 | .43 | .21 |
| Dividend Payout Ratio | 62.16 | 74.19 | 58.97 | 46.00 |
| Avg. Stockholders' Equity to Avg. Assets | 10.08 | 9.86 | 9.93 | 9.90 |
| Tax Equivalent Yield on Earning Assets | 5.71 | 5.62 | 5.89 | 5.99 |
| Cost of Supporting Liabilities | 1.84 | 1.84 | 1.93 | 2.01 |
| Net Int. Margin (FTE) on Earning Assets | 3.87 | 3.78 | 3.96 | 3.98 |

(1) Restated for a five percent (5%) stock dividend distributed September 2003.