

Edgar Filing: FIRST MERCHANTS CORP - Form 8-K

FIRST MERCHANTS CORP  
Form 8-K  
April 28, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 8-K  
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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 28, 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 April 28, 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 April 28, 2003, First Merchants Corporation issued a press release to report its financial results for the quarter ended March 31, 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

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Larry R. Helms, Senior Vice President

Dated: April 28, 2003

EXHIBIT INDEX  
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Exhibit No.  
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99

Description  
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Press Release, dated April 28, 2003, issued by First Merchants Corporation.

First Merchants Corporation

Exhibit No. 99

Press Release, dated April 28, 2003

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

April 28, 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, Muncie, Indiana

FIRST MERCHANTS ANNOUNCES 1ST QUARTER 2003 EARNINGS

First Merchants Corporation (NASDAQ - FRME) has reported that 1st quarter 2003 diluted earnings per share improved 7.3%, before a special loan loss provision. The provision, amounting to \$2.8 million, increased the allowance for loan losses in response to declining collateral values of a commercial borrower. Consequently, diluted earnings per share for the 1st quarter of 2003 were reduced from \$.44 to \$.34. First quarter diluted earnings per share in 2002 amounted to \$.41.

Michael L. Cox, President and Chief Executive Officer, stated that, "First Merchants management is pleased with the Corporation's strategic accomplishments for the 1st quarter of 2003. The previously announced acquisition of CNBC Bancorp has added Columbus Ohio as a commercial banking market to the Corporation's regional footprint and increased total assets to \$3 billion. However, the financial deterioration of a long-time valued commercial client and an assessment of our loan loss adequacy led us to believe a special provision is

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warranted."

The acquisitions of Lafayette Bancorporation, effective April 1, 2002 and CNBC Bancorp, effective March 1, 2003, significantly impacted 1st quarter results. The acquisitions accounted for increased average earning assets of \$821 million and \$1.3 million of the \$3.2 million increase in non-interest income.

Non-performing loans as a percentage of total loans increased to 1.19% from 1.09% as of December 31, 2002. The increase in non-performing loans is solely attributable to the previously mentioned troubled credit. The allowance for loan losses increased to 1.29%, up from 1.11% as of December 31, 2002.

### CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Indiana (East) Time on Monday, April 28, 2003. 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 28, 2003, to April 30, 2003. 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. 9661911.

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, N.A., 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 insurer, 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>). Ten brokerage firms make a market in First Merchants Corporation stock: First Tennessee Securities; Herzog, Heine, Geduld, LLC; Howe Barnes Investments, Inc.; Keefe, Bruyette & Woods, Inc.; Knight Securities, L.P.; NatCity Investments, Inc.; RBC Capital Markets; Sandler O'Neill & Partners; Spear, Leeds & Kellogg; and Stifel, Nicolaus & Co.

\* \* \* \*

### CONSOLIDATED BALANCE SHEET

| (in thousands)            | March 31, |           |
|---------------------------|-----------|-----------|
|                           | 2003      | 2002      |
| Assets                    |           |           |
| Cash and due from banks   | \$ 81,789 | \$ 44,059 |
| Federal funds sold        | 54,925    | 21,194    |
|                           | -----     | -----     |
| Cash and cash equivalents | 136,714   | 65,253    |

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|  |              |              |
|--|--------------|--------------|
| Interest-bearing time deposits                                   | 5,170        | 3,818        |
| Investment securities  | 333,692      | 220,361      |
| Mortgage loans held for sale                                     | 13,558       | 163          |
| Loans, net of allowance for loan losses of \$29,733 and \$15,128 | 2,261,445    | 1,348,923    |
| Premises and equipment   | 38,861       | 28,426       |
| Federal Reserve and Federal Home Loan Bank stock                 | 13,912       | 8,350        |
| Interest receivable  | 16,789       | 11,356       |
| Core deposit intangibles and goodwill                            | 141,226      | 33,551       |
| Cash surrender value of life insurance                           | 14,567       | 6,557        |
| Other assets   | 23,088       | 9,154        |
|  | -----        | -----        |
| Total assets   | \$ 2,999,022 | \$ 1,735,912 |
|  | =====        | =====        |
| Liabilities  |              |              |
| Deposits   |              |              |
| Noninterest-bearing  | \$ 289,835   | \$ 171,825   |
| Interest-bearing   | 1,996,836    | 1,201,861    |
|  | -----        | -----        |
| Total deposits   | 2,286,671    | 1,373,686    |
| Borrowings   | 388,821      | 164,954      |
| Interest payable   | 5,694        | 5,621        |
| Other liabilities  | 28,212       | 8,567        |
|  | -----        | -----        |
| Total liabilities  | 2,709,398    | 1,552,828    |
| 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 -- 17,507,662 and 13,427,439 shares       |              |              |
|  | 2,188        | 1,678        |
| Additional paid-in capital                                       | 143,615      | 53,259       |
| Retained earnings  | 139,743      | 126,842      |
| Accumulated other comprehensive income                           | 4,078        | 1,305        |
|  | -----        | -----        |
| Total stockholders' equity                                       | 289,624      | 183,084      |
|  | -----        | -----        |
| Total liabilities and stockholders' equity                       | \$ 2,999,022 | \$ 1,735,912 |
|  | =====        | =====        |

FINANCIAL HIGHLIGHTS

| (In thousands)                      | Three Months Ended |             |
|-------------------------------------|--------------------|-------------|
|                                     | March 31,<br>2003  | 2002        |
| NET CHARGE OFF'S                    | \$ 1,012           | \$ 1,205    |
| AVERAGE BALANCES                    |                    |             |
| Total Assets                        | \$2,733,077        | \$1,752,413 |
| Total Loans                         | 2,111,056          | 1,357,781   |
| Total Deposits                      | 2,078,786          | 1,386,175   |
| Total Stockholders' Equity          | 272,939            | 183,370     |
| FINANCIAL RATIOS                    |                    |             |
| Return on Average Assets            | .83%               | 1.25%       |
| Return on Avg. Stockholders' Equity | 8.29               | 12.14       |
| Avg. Earning Assets to Avg. Assets  | 90.17              | 93.34       |
| Allowance for Loan Losses as %      |                    |             |

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|   |       |       |
|---|-------|-------|
| Of Total Loans                                      | 1.29  | 1.11  |
| Net Charge Off's as % Of Avg. Loans<br>(Annualized) | .19   | .35   |
| Dividend Payout Ratio                               | 67.65 | 53.66 |
| Avg. Stockholders' Equity to Avg. Assets            | 9.99  | 10.30 |
| Tax Equivalent Yield on Earning Assets              | 6.49  | 6.89  |
| Cost of Supporting Liabilities                      | 2.11  | 2.50  |
| Net Int. Margin (FTE) on Earning Assets             | 4.38  | 4.39  |

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except share data)

Three Months Ended  
March 31,  
2003                      2002

|   |           |           |
|---|-----------|-----------|
| Interest income   |           |           |
| Loans receivable  |           |           |
| Taxable   | \$ 35,173 | \$ 24,266 |
| Tax exempt  | 165       | 108       |
| Investment securities   |           |           |
| Taxable   | 1,679     | 1,903     |
| Tax exempt  | 1,631     | 987       |
| Federal funds sold  | 113       | 181       |
| Deposits with financial institutions                            | 22        | 22        |
| Federal Reserve and Federal Home Loan Bank stock                | 198       | 124       |
|   | -----     | -----     |
| Total interest income   | 38,981    | 27,591    |
|   | -----     | -----     |
| Interest expense  |           |           |
| Deposits  | 8,884     | 8,228     |
| Securities sold under repurchase agreements                     | 449       | 540       |
| Federal Home Loan Bank advances                                 | 2,273     | 1,423     |
| Trust Preferred Securities                                      | 1,206     |           |
| Other borrowings  | 159       | 22        |
|   | -----     | -----     |
| Total interest expense  | 12,971    | 10,213    |
|   | -----     | -----     |
| Net interest income   | 26,010    | 17,378    |
| Provision for loan losses                                       | 4,601     | 1,192     |
|   | -----     | -----     |
| Net interest income<br>after provision for loan losses          | 21,409    | 16,186    |
|   | -----     | -----     |
| Other income  |           |           |
| Fiduciary activities  | 1,697     | 1,369     |
| Service charges on deposit accounts                             | 2,784     | 1,446     |
| Other customer fees   | 1,088     | 904       |
| Net realized gains on<br>sales of available-for-sale securities | 371       | 118       |
| Commission income   | 754       | 542       |
| Other income  | 1,592     | 785       |
|   | -----     | -----     |
| Total other income  | 8,286     | 5,164     |
|   | -----     | -----     |

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|  |          |          |
|--|----------|----------|
| Other expenses                         |          |          |
| Salaries and employee benefits         | 11,777   | 7,273    |
| Net occupancy expenses                 | 1,091    | 734      |
| Equipment expenses                     | 1,844    | 1,076    |
| Marketing expense                      | 434      | 308      |
| Deposit insurance expense              |          | 72       |
| Outside data processing fees           | 928      | 809      |
| Printing and office supplies           | 407      | 338      |
| Goodwill and core deposit amortization | 828      | 238      |
| Other expenses                         | 4,132    | 2,152    |
|  | -----    | -----    |
| Total other expenses                   | 21,441   | 13,000   |
|  | -----    | -----    |
| Income before income tax               | 8,254    | 8,350    |
| Income tax expense                     | 2,596    | 2,871    |
|  | -----    | -----    |
| Net income                             | \$ 5,658 | \$ 5,479 |
|  | =====    | =====    |

Per Share Data

|                     |     |     |
|---------------------|-----|-----|
| Basic Net Income    | .34 | .41 |
| Diluted Net Income  | .34 | .41 |
| Cash Dividends Paid | .23 | .22 |

CONSOLIDATED BALANCE SHEETS

(in thousands)

|  | March 31,<br>2003 | December 31,<br>2002 | September 30,<br>2002 | June<br>20 |
|--|-------------------|----------------------|-----------------------|------------|
| <b>Assets</b>                                    |                   |                      |                       |            |
| Cash and due from banks                          | \$ 81,789         | \$ 87,638            | \$ 73,223             | \$ 9       |
| Federal funds sold                               | 54,925            | 31,400               | 8,750                 | 4          |
|  | -----             | -----                | -----                 | -----      |
| Cash and cash equivalents                        | 136,714           | 119,038              | 81,973                | 13         |
| Interest-bearing time deposits                   | 5,170             | 3,568                | 10,222                | 1          |
| Investment securities                            | 333,692           | 342,062              | 345,452               | 36         |
| Mortgage loans held for sale                     | 13,558            | 21,545               | 14,089                |            |
| Loans  | 2,291,178         | 2,004,377            | 1,994,038             | 1,96       |
| Less: Allowance for loan losses                  | (29,733)          | (22,417)             | (22,147)              | (2         |
|  | -----             | -----                | -----                 | -----      |
| Net loans  | 2,261,445         | 1,981,960            | 1,971,891             | 1,94       |
| Premises and equipment                           | 38,861            | 38,645               | 39,179                | 3          |
| Federal Reserve and Federal Home Loan Bank stock | 13,912            | 11,409               | 11,097                | 1          |
| Interest receivable                              | 16,789            | 17,346               | 18,622                | 1          |
| Core deposit intangibles and goodwill            | 141,226           | 107,217              | 106,753               | 10         |
| Cash surrender value of life insurance           | 14,567            | 14,309               | 14,143                | 1          |
| Other assets                                     | 23,088            | 21,588               | 16,065                | 1          |
|  | -----             | -----                | -----                 | -----      |
| Total assets                                     | \$ 2,999,022      | \$ 2,678,687         | \$ 2,629,486          | \$ 2,66    |
|  | =====             | =====                | =====                 | =====      |
| <b>Liabilities</b>                               |                   |                      |                       |            |
| Deposits   |                   |                      |                       |            |
| Noninterest-bearing                              | \$ 289,835        | \$ 272,128           | \$ 246,410            | \$ 25      |
| Interest-bearing                                 | 1,996,836         | 1,764,560            | 1,773,325             | 1,79       |
|  | -----             | -----                | -----                 | -----      |

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|  |              |              |              |         |
|--|--------------|--------------|--------------|---------|
| Total deposits                             | 2,286,671    | 2,036,688    | 2,019,735    | 2,05    |
| Borrowings                                 | 388,821      | 356,927      | 328,933      | 33      |
| Interest payable                           | 5,694        | 6,019        | 6,813        |         |
| Other liabilities                          | 28,212       | 17,924       | 14,132       | 1       |
| Total liabilities                          | 2,709,398    | 2,417,558    | 2,369,613    | 2,41    |
| 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                     | 2,188        | 2,040        | 2,039        |         |
| Additional paid-in capital                 | 143,615      | 116,503      | 116,204      | 11      |
| Retained earnings                          | 139,743      | 138,110      | 135,266      | 13      |
| Accumulated other comprehensive income     | 4,078        | 4,476        | 6,364        |         |
| Total stockholders' equity                 | 289,624      | 261,129      | 259,873      | 25      |
| Total liabilities and stockholders' equity | \$ 2,999,022 | \$ 2,678,687 | \$ 2,629,486 | \$ 2,66 |

NON-PERFORMING ASSETS

| (In thousands)  | March 31,<br>2003 | December 31,<br>2002 | September 30,<br>2002 | June 30,<br>2002 | March<br>20 |
|---|-------------------|----------------------|-----------------------|------------------|-------------|
| 90 days past due  | \$ 3,552          | \$ 6,676             | \$ 9,786              | \$ 6,030         | \$ 4        |
| Non-accrual loans   | 19,747            | 14,134               | 13,285                | 10,911           | 8           |
| Other real estate   | 1,841             | 1,691                | 868                   | 898              |             |
| Total non-performing assets                                     | \$ 25,140         | \$ 22,501            | \$ 23,939             | \$ 17,839        | \$ 12       |
| Average total loans for the quarter                             | \$2,111,056       | \$ 2,066,616         | \$ 1,984,323          | \$1,951,648      | \$1,357     |
| Total non-performing assets as a percent of average total loans | 1.19%             | 1.09%                | 1.21%                 | .91%             | 0           |
| Restructured loans  | \$ 2,194          | \$ 2,508             | \$ 2,326              | \$ 2,771         | \$ 1        |

CONSOLIDATED STATEMENTS OF INCOME

| (in thousands, except share data) | Three Months Ended |                      |                       |                  |
|-----------------------------------|--------------------|----------------------|-----------------------|------------------|
|                                   | March 31,<br>2003  | December 31,<br>2002 | September 30,<br>2002 | June 30,<br>2002 |
| Interest Income                   |                    |                      |                       |                  |
| Loans receivable                  |                    |                      |                       |                  |
| Taxable                           | \$ 35,173          | \$ 34,775            | \$ 35,362             | \$ 34,875        |
| Tax exempt                        | 165                | 235                  | 169                   | 126              |
| Investment securities             |                    |                      |                       |                  |
| Taxable                           | 1,679              | 2,100                | 2,442                 | 2,641            |
| Tax exempt                        | 1,631              | 1,740                | 1,793                 | 1,670            |

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|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Federal funds sold  | 113      | 169      | 123      | 84       |
| Deposits with financial institutions                            | 22       | 38       | 53       | 84       |
| Federal Reserve and Federal Home Loan Bank stock                | 198      | 208      | 206      | 198      |
|   | -----    | -----    | -----    | -----    |
| Total interest income   | 38,981   | 39,265   | 40,148   | 39,678   |
|   | -----    | -----    | -----    | -----    |
| Interest expense  |          |          |          |          |
| Deposits  | 8,884    | 9,934    | 10,696   | 10,842   |
| Securities sold under repurchase agreements                     | 449      | 502      | 517      | 501      |
| Federal Home Loan Bank advances                                 | 2,273    | 2,359    | 2,283    | 2,101    |
| Trust preferred securities                                      | 1,206    | 1,181    | 1,181    | 962      |
| Other borrowings  | 159      | 154      | 143      | 190      |
|   | -----    | -----    | -----    | -----    |
| Total interest expense  | 12,971   | 14,130   | 14,820   | 14,596   |
|   | -----    | -----    | -----    | -----    |
| Net interest income   | 26,010   | 25,135   | 25,328   | 25,082   |
| Provision for loan losses                                       | 4,601    | 2,877    | 1,821    | 1,284    |
|   | -----    | -----    | -----    | -----    |
| Net interest income<br>after provision for loan losses          | 21,409   | 22,258   | 23,507   | 23,798   |
|   | -----    | -----    | -----    | -----    |
| Other income  |          |          |          |          |
| Fiduciary activities  | 1,697    | 1,487    | 1,651    | 1,751    |
| Service charges on deposit accounts                             | 2,784    | 2,695    | 2,626    | 2,563    |
| Other customer fees   | 1,088    | 993      | 957      | 1,064    |
| Net realized gains on sales of<br>available-for-sale securities | 371      | 169      | 162      | 290      |
| Commission income   | 754      | 586      | 557      | 518      |
| Other income  | 1,592    | 1,286    | 1,693    | 865      |
|   | -----    | -----    | -----    | -----    |
| Total other income  | 8,286    | 7,216    | 7,646    | 7,051    |
|   | -----    | -----    | -----    | -----    |
| Other expenses  |          |          |          |          |
| Salaries and employee benefits                                  | 11,777   | 10,849   | 10,606   | 10,422   |
| Net occupancy expenses  | 1,091    | 933      | 999      | 966      |
| Equipment expenses  | 1,844    | 1,861    | 1,880    | 1,892    |
| Marketing expense   | 434      | 416      | 415      | 356      |
| Deposit insurance expense                                       |          | 104      | 143      | 75       |
| Outside data processing fees                                    | 928      | 940      | 1,018    | 897      |
| Printing and office supplies                                    | 407      | 442      | 388      | 429      |
| Goodwill and core deposit amortization                          | 828      | 750      | 786      | 815      |
| Other expenses  | 4,132    | 3,591    | 2,952    | 3,086    |
|   | -----    | -----    | -----    | -----    |
| Total other expenses  | 21,441   | 19,886   | 19,187   | 18,938   |
|   | -----    | -----    | -----    | -----    |
| Income before income tax  | 8,254    | 9,588    | 11,966   | 11,911   |
| Income tax expense  | 2,596    | 2,998    | 4,139    | 3,971    |
|   | -----    | -----    | -----    | -----    |
| Net income  | \$ 5,658 | \$ 6,590 | \$ 7,827 | \$ 7,940 |
|   | =====    | =====    | =====    | =====    |
| Per Share Data(1)   |          |          |          |          |
| Basic Net Income  | \$ .34   | \$ .40   | \$ .49   | \$ .49   |
| Diluted Net Income  | .34      | .40      | .48      | .48      |
| Cash Dividends Paid   | .23      | .23      | .23      | .22      |

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



