

FIRST MERCHANTS CORP  
Form S-4  
September 24, 2008  
Table of Contents

As filed with the Securities and Exchange Commission on September 24, 2008

Registration Statement No. 333-

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM S-4**  
**REGISTRATION STATEMENT**  
*UNDER*  
*THE SECURITIES ACT OF 1933*

**FIRST MERCHANTS CORPORATION**

(Exact name of registrant as specified in its charter)

**INDIANA**  
(State or other jurisdiction of incorporation or organization)

**35-1544218**  
(I.R.S. Employer Identification No.)

**6021**

(Primary Standard Industrial Classification Code Number)

**200 East Jackson Street**

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Muncie, Indiana 47305

(765) 747-1500

(Address, including ZIP Code, and telephone number, including area code, of registrant's principal executive offices)

*With copies to:*

Mark K. Hardwick  
Executive Vice President and  
Chief Financial Officer  
First Merchants Corporation  
200 East Jackson Street  
Muncie, Indiana 47305  
(765) 747-1500

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Indianapolis, Indiana 46204  
(317) 684-5000

(Name, address, including ZIP Code, and telephone number, including area code, of agent for service)

**Approximate date of commencement of the proposed sale of the securities to the public:** As soon as practicable after the effective date of this Registration Statement and upon the effective time of the merger described in the accompanying Proxy Statement-Prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

**CALCULATION OF REGISTRATION FEE**

Title of each class of securities to be registered	Amount	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price (2)	Amount of
	to be registered (1)			registration
Common Stock, no par value	Up to 3,576,417 shares	\$20.57	\$73,558,839	fee (3) \$2,891

(1) This represents the maximum number of shares to be offered to Lincoln Bancorp shareholders.

(2)

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The maximum offering price is based on an estimate solely for the purpose of calculating the registration fee and has been calculated in accordance with Rule 457(f)(1) under the Securities Act of 1933, as amended, using the average of the high and low prices of the Lincoln Bancorp common shares as reported on the NASDAQ Global Market System on September 22, 2008 (\$14.46) for all 5,319,731 Lincoln Bancorp common shares to be exchanged in the merger. This amount less the minimum amount of cash to be paid by First Merchants Corporation in connection with the merger (\$3,364,471.74) is the maximum offering price. The proposed maximum offering price per share has been determined by dividing the proposed maximum offering price by the number of shares being registered.

- (3) The registration fee of \$2,891 for the securities registered hereby has been calculated pursuant to Rule 457(f) under the Securities Act of 1933, as amended, as \$73,558,839 multiplied by 0.0000393.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

**LINCOLN BANCORP**

**YOUR VOTE IS VERY IMPORTANT**

**PROSPECTUS OF FIRST MERCHANTS CORPORATION FOR UP TO**

**3,576,417 SHARES OF COMMON STOCK**

**AND**

**PROXY STATEMENT OF LINCOLN BANCORP**

Dear Shareholders of Lincoln Bancorp:

The Board of Directors of Lincoln Bancorp (**Lincoln**) and the Board of Directors of First Merchants Corporation (**First Merchants**) have agreed to merge Lincoln into First Merchants. This proposed strategic business combination will create a company with approximately 82 banking branches and combined assets of \$4.7 billion, \$3.6 billion in loans, \$3.5 billion in deposits and total shareholders' equity of \$405 million.

In the merger, each Lincoln common share that you own will be converted into the right to receive, at your election, either 0.7004 shares of First Merchants common stock, subject to possible upward or downward adjustment as provided in the Merger Agreement and described in this document, or \$15.76 in cash. The number of shares of First Merchants common stock and the amount of cash payable in connection with the merger is subject to various limitations and prorations. Under certain circumstances, an election to receive cash or First Merchants common stock may be converted, in whole or in part, into an election to receive the other type of consideration. First Merchants will also pay cash for any fractional share interests resulting from an exchange of your shares.

We cannot complete the merger unless the shareholders of Lincoln approve it. Lincoln will hold a special meeting of its shareholders to vote on adoption of the Merger Agreement. **Your vote is very important.** Whether or not you plan to attend the special shareholders meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote in favor of the merger. Not returning your card or not instructing your broker how to vote any shares held for you in street name will have the same effect as a vote against the merger.

The date, time and place of the special shareholders meeting is as follows:

, 2008, : .m., local time

Guilford Township Community Center, Hummel Park,

1500 S. Center Street, Plainfield, Indiana

This document provides you with detailed information about this meeting and the proposed merger. You can also obtain information about Lincoln and First Merchants from publicly available documents that our companies have filed with the Securities and Exchange Commission. First Merchants common stock is quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. Lincoln common stock is quoted and traded on the NASDAQ Global Market System under the symbol LNCB.

**We strongly support the merger of our companies. The Lincoln Board of Directors unanimously recommends that you vote in favor of the merger.**

Jerry R. Engle  
President and Chief Executive Officer  
LINCOLN BANCORP

Michael C. Rechin  
President and Chief Executive Officer  
FIRST MERCHANTS CORPORATION

**For a discussion of certain risk factors which you should consider in evaluating the merger, see Risk Factors**

**beginning on page 21. We encourage you to read this entire document carefully.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued pursuant to this proxy statement-prospectus or determined if this proxy statement-prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**These securities are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either of our companies, and they are not insured by the Federal Deposit Insurance Corporation, the bank insurance fund or any other federal or state governmental agency.**

**Proxy Statement-Prospectus dated , 2008,**

**and first mailed to shareholders on , 2008.**

Table of Contents

**LINCOLN BANCORP**

**905 Southfield Drive**

**Plainfield, Indiana 46168**

**NOTICE OF SPECIAL MEETING OF**

**SHAREHOLDERS TO BE HELD ON**

**, 2008**

To Our Shareholders:

We will hold a special meeting of the shareholders of Lincoln Bancorp on \_\_\_\_\_, \_\_\_\_\_, 2008, at \_\_\_\_\_ : \_\_\_\_\_ .m. local time, at the Guilford Township Community Center, Hummel Park, 1500 S. Center Street, Plainfield, Indiana.

The purposes of the special meeting are the following:

1. To consider and vote upon a proposal to adopt the Agreement of Reorganization and Merger dated September 2, 2008, between First Merchants Corporation and Lincoln Bancorp, and to approve the transactions contemplated thereby. Pursuant to the Merger Agreement, Lincoln Bancorp will merge into First Merchants Corporation. The merger is more fully described in this proxy statement-prospectus and the Merger Agreement is attached as Appendix A to this proxy statement-prospectus;
2. To adjourn or postpone the special meeting to permit further solicitation of proxies in the event that an insufficient number of shares is present in person or by proxy to approve the Merger Agreement; and
3. To transact such other business which may properly be presented at the special meeting or any adjournment or postponement of the special meeting.

We have fixed the close of business on \_\_\_\_\_, 2008, as the record date for determining those shareholders who are entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special meeting. Adoption of the Merger Agreement requires the affirmative vote of at least a majority of the outstanding Lincoln Bancorp common shares. **Your vote is very important.**

**The Lincoln Board of Directors unanimously recommends that you vote in favor of the merger.**

**Whether or not you plan to attend the special meeting in person, please complete, date, sign and return the enclosed proxy card in the enclosed envelope, which requires no postage if mailed in the United States. If you attend the special meeting, you may vote in person if you wish, even if you have previously returned your proxy card. Not returning your card or not instructing your broker how to vote any shares held for you in \_\_\_\_\_ street name \_\_\_\_\_ will have the same effect as a vote against the merger.**

By Order of the Board of Directors

Jerry R. Engle, Chairman of the Board  
President and Chief Executive Officer  
\_\_\_\_\_, 2008  
Plainfield, Indiana

**Table of Contents**

**ADDITIONAL INFORMATION**

This document incorporates important business and financial information about First Merchants Corporation (**First Merchants**) from other documents filed with the Securities and Exchange Commission that are not delivered with or included in this document. This information (including documents incorporated by reference) is available to you without charge upon your written or oral request. You may request these documents in writing or by telephone from First Merchants at the following address and telephone number:

First Merchants Corporation

200 East Jackson Street

Muncie, Indiana 47305

Attention: Cynthia G. Holaday,

Secretary

Telephone: (765) 747-1500

**To ensure timely delivery, shareholders must request the documents containing the information described above no later than five business days before the date they must make their investment decision. Accordingly, if you would like to make such a request, please do so by \_\_\_\_\_, 2008, in order to receive the requested information before the meeting.**

See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 138.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This document contains certain forward-looking statements with respect to the financial condition, results of operations, and business of First Merchants and Lincoln and of First Merchants following completion of the merger. These statements are based on the beliefs and assumptions of each company's management, and on information currently available to management. Forward-looking statements are generally preceded by, followed by, or include the words "will," "believes," "expects," "anticipates," "intends," "plans," "estimates," or similar expressions.

In particular, we have made statements in this document relating to the cost savings and revenue enhancements that are expected to be realized from the merger and the expected effect of the merger on First Merchants' financial performance. These forward-looking statements describe certain risks and uncertainties. Actual results may differ materially from those contemplated by such forward-looking statements due to, among others, the following factors:

expected cost savings from the merger that may not be fully realized;

deposit attrition, customer loss, or revenue loss following the merger may be greater than expected;

competitive pressure in the banking industry may increase significantly;

costs or difficulties related to the integration of the businesses of First Merchants and Lincoln may be greater than expected;

changes in the interest rate environment may reduce margins;

a lack of liquidity in the financial markets may impede the ability to make loans and sell them in the secondary market;

general economic conditions may decline, either nationally or regionally, resulting in, among other things, a deterioration in credit quality or a reduced demand for credit; and

changes may occur in the regulatory environment, business conditions, inflation rate and the securities market.

Management of First Merchants and Lincoln believe these forward-looking statements are reasonable. However, you should not place undue reliance on such forward-looking statements, which are based on current expectations. Further information on other factors that could affect the financial results of First Merchants after the merger is included in the Securities and Exchange Commission filings incorporated by reference in this document. See "WHERE YOU CAN FIND ADDITIONAL INFORMATION" on page 138.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions. The future results and shareholder values of First Merchants following completion of the merger may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond First Merchants' and Lincoln's ability to control or predict. For those statements, First Merchants and Lincoln claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.



**Table of Contents**

**TABLE OF CONTENTS**

	<b>PAGE</b>
<u>FORWARD-LOOKING STATEMENTS</u>	(precedes Table of Contents)
<u>QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SHAREHOLDERS MEETING</u>	1
<u>SUMMARY</u>	5
<u>The Companies</u>	5
<u>The Merger</u>	5
<u>Reasons for the Merger</u>	6
<u>Opinion of Lincoln’s Financial Advisor</u>	6
<u>What Lincoln Shareholders Will Receive</u>	7
<u>Conversion Ratio Adjustment</u>	7
<u>Recommendation to Shareholders</u>	7
<u>The Shareholders Meeting</u>	7
<u>Record Date; Votes Required</u>	8
<u>No Dissenters’ Rights</u>	8
<u>What We Need to Do to Complete the Merger</u>	8
<u>Regulatory Approvals</u>	9
<u>Conduct of Business Pending Merger</u>	9
<u>Agreements of First Merchants</u>	9
<u>Management and Operations After the Merger</u>	9
<u>Interests of Directors and Officers in the Merger That Are Different From Your Interests</u>	10
<u>Termination of the Merger</u>	11
<u>Certain U.S. Federal Income Tax Consequences</u>	12
<u>Accounting Treatment</u>	12
<u>Comparative Rights of First Merchants Shareholders and Lincoln Shareholders</u>	12
<u>Recent Developments</u>	13
<u>Comparative Market Price Information</u>	13
<u>Comparative Per Share Data</u>	14
<u>SELECTED HISTORICAL AND UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA</u>	16
<u>RISK FACTORS</u>	21
<u>THE LINCOLN SPECIAL MEETING</u>	25
<u>General Information</u>	25
<u>Matters To Be Considered</u>	25
<u>Votes Required</u>	25
<u>Proxies</u>	25
<u>Participants in Lincoln’s ESOP</u>	26
<u>Solicitation of Proxies</u>	26
<u>Recommendation of the Board of Directors</u>	27
<u>Proposal to Adjourn or Postpone Special Meeting</u>	27
<u>Other Matters</u>	27
<u>Security Ownership of Lincoln Management</u>	27
<u>THE MERGER</u>	30
<u>Description of the Merger</u>	30
<u>Background of the Merger</u>	30
<u>First Merchants’ Reasons for the Merger</u>	32
<u>Lincoln’s Reasons for the Merger</u>	32

**Table of Contents**

	<b>PAGE</b>
<u>Recommendation of the Board of Directors</u>	33
<u>Funding of the Merger</u>	33
<u>Effects of the Merger</u>	33
<u>Opinion of Lincoln's Financial Advisor</u>	34
<u>Exchange of Lincoln Common Shares</u>	44
<u>Conversion Ratio Adjustment</u>	46
<u>Rights of Dissenting Shareholders</u>	47
<u>Resale of First Merchants Common Stock by Lincoln Affiliates</u>	47
<u>Representations and Warranties</u>	47
<u>Conditions to Completion of the Merger</u>	48
<u>Termination; Waiver; Amendment</u>	50
<u>Restrictions Affecting Lincoln Prior to Completion of the Merger</u>	51
<u>Regulatory Approvals</u>	52
<u>Effective Date of the Merger</u>	53
<u>Fees and Expenses</u>	53
<u>Management After the Merger</u>	53
<u>Indemnification and Insurance</u>	54
<u>Treatment of Options to Acquire Lincoln Common Shares</u>	55
<u>Employee Benefit Plans</u>	55
<u>Interests of Certain Persons in the Merger</u>	56
<u>Voting Agreement</u>	58
<u>NASDAQ Global Select Market Listing</u>	58
<u>Accounting Treatment</u>	58
<u>Registration Statement</u>	58
<b><u>MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES</u></b>	59
<u>Tax Consequences of the Merger Generally</u>	59
<u>Tax Consequences to First Merchants, First Merchants Stockholders and Lincoln</u>	59
<u>Tax Consequences of the Merger to U.S. Holders of Lincoln Common Stock</u>	60
<u>Reporting Requirements</u>	61
<u>Backup Withholding</u>	61
<b><u>UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION</u></b>	63
<b><u>DESCRIPTION OF FIRST MERCHANTS</u></b>	73
<u>Business</u>	73
<u>Acquisition Policy and Pending Transactions</u>	73
<u>Incorporation of Certain Information by Reference</u>	74
<b><u>DESCRIPTION OF LINCOLN</u></b>	75
<u>Business</u>	75
<u>Properties</u>	100
<u>Legal Proceedings</u>	101
<u>Management's Discussion and Analysis of Financial Information and Results of Operations</u>	101
<u>Quantitative and Qualitative Disclosures about Market Risks</u>	121
<u>Information on Continuing Directors</u>	123
<b><u>COMPARISON OF COMMON STOCK</u></b>	127
<u>Governing Law</u>	127
<u>Authorized But Unissued Shares</u>	127
<u>Preemptive Rights</u>	128
<u>Dividend Rights</u>	128
<u>Voting Rights</u>	128

**Table of Contents**

	<b>PAGE</b>
<u>Articles of Incorporation and Bylaw Amendments</u>	129
<u>Special Meetings of Shareholders</u>	129
<u>Number of Directors and Term of Office</u>	130
<u>Nomination of Directors</u>	130
<u>Removal of Directors</u>	131
<u>Dissenters' Rights</u>	131
<u>Liquidation Rights</u>	132
<u>Redemption</u>	132
<u>Anti-Takeover Provisions</u>	132
<u>Director Liability</u>	134
<u>Indemnification of Directors, Officers and Employees</u>	134
<b><u>LEGAL MATTERS</u></b>	136
<b><u>EXPERTS</u></b>	136
<b><u>INDEMNIFICATION</u></b>	136
<b><u>SHAREHOLDER PROPOSALS</u></b>	137
<b><u>WHERE YOU CAN FIND ADDITIONAL INFORMATION</u></b>	138
<b><u>INDEX TO LINCOLN BANCORP FINANCIAL STATEMENTS</u></b>	F-1
<b>APPENDICES</b>	
<u>A. Agreement of Reorganization and Merger</u>	A-1
<u>B. Fairness Opinion of Sandler O'Neill &amp; Partners, L.P.</u>	B-1

**Table of Contents**

**QUESTIONS AND ANSWERS**

**ABOUT THE MERGER AND THE SHAREHOLDERS MEETING**

**Q: Why are Lincoln and First Merchants proposing to merge?**

**A:** We believe the merger is in the best interests of Lincoln and our shareholders. Lincoln and First Merchants believe that the merger will bring together two complementary institutions that share similar, community-oriented philosophies to create a strategically, operationally and financially strong company that is positioned for further growth. The merger will give the combined company greater scale, not only for serving existing customers more efficiently but also for future expansion. The combined institution is expected to be the sixth largest depository institution operating in the State of Indiana and the third largest based in the state. We believe the merger will enhance our capabilities to provide banking and financial services to our customers and strengthen the competitive position of the combined organization.

You should review the background and reasons for the merger described in greater detail at pages 30 and 32.

**Q: What will Lincoln shareholders receive in the merger?**

**A:** For each Lincoln common share you own before the merger, you will have the right to elect, on a share-by-share basis, to receive either:

0.7004 shares of First Merchants common stock (subject to adjustment as provided in the Merger Agreement), or

\$15.76 in cash.

Lincoln shareholders may elect to receive First Merchants common stock for some or all of their shares and/or cash for some or all of their shares. First Merchants will also pay cash in lieu of issuing fractional shares. The Merger Agreement provides that First Merchants is not required to issue more than 3,576,417 shares of its common stock or pay more than \$16,800,000 in cash to Lincoln shareholders. These limitations are designed to permit First Merchants to maximize and maintain its capital structure. If Lincoln shareholder elections require more than 3,576,417 shares of First Merchants common stock to be issued or cash payments of \$16,800,000 or more, your elections may be subject to proration as described under THE MERGER Exchange of Lincoln Common Shares on page 44. As a result of the proration, you may receive a lesser amount of cash and a greater amount of First Merchants common stock, or a lesser amount of First Merchants common stock and a greater amount of cash, than you elected.

Because the exchange ratio for the stock consideration is fixed, the value of the stock consideration will fluctuate with the market price of First Merchants common stock. Accordingly, at the time of the merger, the per share value of the stock consideration may be greater or less than the per share value of the cash consideration. As of September 2, 2008, the closing price for a share of First Merchants common stock was \$19.89 and for a Lincoln common share was \$10.35. As of \_\_\_\_\_, 2008, the closing price for a share of First Merchants common stock was \$ \_\_\_\_\_ and for a Lincoln common share was \$ \_\_\_\_\_. You should obtain current market prices for shares of First Merchants common stock and Lincoln common shares. First Merchants common stock is quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. Lincoln common shares are quoted and traded on the NASDAQ Global Market System under the symbol LNCB.

**Q: What risks should I consider before I vote on the merger?**

**A:** You should review RISK FACTORS beginning on page 21.

**Q: When is the merger expected to be completed?**

**A:** We are working to complete the merger as quickly as possible. We must first obtain the necessary regulatory approvals and the approval of Lincoln shareholders at the special shareholders meeting. We currently expect to complete the merger during the fourth quarter of 2008.

**Table of Contents**

**Q: What are the tax consequences of the merger to me?**

**A:** We have structured the merger so that First Merchants, Lincoln and Lincoln shareholders will not recognize any gain or loss for federal income tax purposes on the exchange of Lincoln shares for First Merchants shares in the merger. However, to the extent a Lincoln shareholder receives cash instead of First Merchants common stock, any gain such Lincoln shareholder realizes on the exchange will be taxed, but generally not in an amount in excess of the cash received. At the closing, each of Lincoln and First Merchants are to receive an opinion confirming these tax consequences. See MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES beginning on page 59. Your tax consequences will depend on your personal situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you.

**Q: Will I have dissenters rights?**

**A:** No. Lincoln shareholders are not entitled to dissenters rights under Indiana Code § 23-1-44, as amended, because the Lincoln common shares are traded on the NASDAQ Global Market System.

**Q: What do I need to do now?**

**A:** You should carefully read and consider the information contained in this document and any information incorporated by reference. Then, please fill out, sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares can be voted at the special shareholders meeting. If a returned proxy card is signed but does not specify a choice, your proxy will be voted **FOR** the merger proposal considered at the meeting and **FOR** adjournment or postponement of the special meeting to permit further solicitation of proxies in the event that an insufficient number of shares is present to approve the Merger Agreement. You should also complete your Election Form which will be forwarded to you in a separate mailing to specify the type of merger consideration you prefer (or provide instructions to your broker if you hold your shares in street name or to the trustee if you hold your shares through Lincoln's employee stock ownership plan).

**Q: What if I don't vote or I abstain from voting?**

**A:** If you do not vote or you abstain from voting, it will count as a **NO** vote on the merger.

**Q: If my shares are held by my broker in street name, will my broker vote my shares for me?**

**A:** You should follow the directions provided by your broker to vote your shares. Your broker will vote your shares only if you instruct your broker on how to vote. If you do not provide your broker with instructions on how to vote your shares held in street name, your broker will not be permitted to vote your shares, which will have the effect of a **NO** vote on the merger.

**Q: May I change my vote after I have mailed my signed proxy card?**

**A:** Yes. You may change your vote at any time before your proxy is voted at the meeting. You can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. If you choose either of these two methods, you must submit your notice of revocation or your new proxy card to Lincoln at or before the special meeting. You should submit your notice of revocation or new proxy card to Lincoln Bancorp, 905 Southfield Drive, Plainfield, Indiana 46168, Attention: John M. Baer. Third, you may attend the meeting and vote in person. Simply attending the meeting, however, will not

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revoke your proxy. You must request a ballot and vote the ballot at the meeting. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

**Table of Contents**

**Q: How do I elect the form of payment that I prefer?**

**A:** An Election Form will be forwarded to you through a separate mailing. You should complete the Election Form and send it in the envelope provided to the election agent, American Stock Transfer & Trust Company, LLC (**American Stock Transfer**). For you to make an effective election, your properly executed Election Form must be received by American Stock Transfer before 5:00 p.m. local time on \_\_\_\_\_, 2008, the election deadline. Please read the instructions on the Election Form prior to completing the form. If you hold your shares in street name with a broker, you should ask your broker for instructions on making your election and on tendering your Lincoln shares. Please read the instructions to the Election Form for information on completing the form. These instructions will also inform you what to do if your share certificates have been lost, stolen or destroyed. Please note that your proxy card and your Election Form must be returned to different addresses and must be mailed separately.

**If you do not return a completed, properly executed Election Form by the election deadline, then you will be considered to have elected to receive First Merchants common stock for all of your Lincoln common shares, except that if the proration described herein is required, your Lincoln shares may be converted to cash before those shareholders who completed, signed and returned an Election Form by the deadline.**

**Q: Which form of payment should I choose? Why?**

**A:** The form of payment you should elect will depend upon your personal financial and tax circumstances. We urge you to consult your financial or tax advisor if you have any questions about the form of payment you should elect.

**Q: Can I change my election?**

**A:** Yes. You can change your election by submitting a new Election Form to American Stock Transfer as provided in the Election Form. It must be received prior to the election deadline set forth on the Election Form. After the election deadline, no changes may be made.

**Q: Are shareholders guaranteed they will receive the form of merger consideration cash, common stock or a combination thereof they request on their Election Forms?**

**A:** No. There is a limit on the number of shares First Merchants is required to issue and a limit on the aggregate amount of cash First Merchants is required to pay in exchange for Lincoln's outstanding shares. Because First Merchants is not required to issue more than 3,576,417 shares of its common stock (a number which correlates to approximately 96% of Lincoln's outstanding common shares) or pay more than \$16,800,000 in cash to Lincoln shareholders (a value which correlates to approximately 20% of Lincoln's outstanding shares), it is possible that some shareholders may receive a form of consideration they did not elect. For example, if you elect to receive all or a portion of the consideration in cash and the holders of more than approximately 20% of the outstanding Lincoln common shares elect to receive cash, you may receive a portion of First Merchants common stock instead of the cash you elected. Please read a more complete description of the proration procedures under THE MERGER Exchange of Lincoln Common Shares on page 44.

**Q: Should I send in my stock certificate(s) now?**

**A:** No. After the merger is completed, Lincoln shareholders will receive written instructions from First Merchants for exchanging their stock certificates for the consideration to be received by them in the merger.

**Q: Whom should I contact if I have other questions about the Merger Agreement or the Merger?**



**A:** If you are a Lincoln shareholder and you have more questions about the Merger Agreement or the merger, you should contact Georgeson Shareholder Communications, Inc., the Information Agent for the merger, at (800) - . Banks and brokerage firms should also call Georgeson Shareholder Communications, Inc. at (800) - .

**Table of Contents**

Lincoln shareholders may also contact:

Lincoln Bancorp

905 Southfield Drive

Plainfield, Indiana 46168

Attention: John M. Baer,

Secretary and Treasurer

Telephone: (317) 839-6539

or

First Merchants Corporation

200 East Jackson Street

Muncie, Indiana 47305

Attention: Cynthia G. Holaday,

Secretary

Telephone: (765) 747-1500

**Table of Contents**

**SUMMARY**

*This summary highlights selected information from this proxy statement-prospectus. Because this is a summary, it does not contain all of the information that is important to you. You should carefully read this entire document, its appendices and the documents we have referred you to before you decide how to vote. See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 138 for a description of documents that we incorporate by reference into this document. Each item in this summary includes a page reference that directs you to a more complete description in this document of the topic discussed.*

***The Companies (pages 73 and 75)***

**First Merchants Corporation**

200 East Jackson Street

Muncie, Indiana 47305

(765) 747-1500

First Merchants is a multi-bank holding company and a financial holding company, incorporated under Indiana law and headquartered in Muncie, Indiana. First Merchants has four banking subsidiaries: First Merchants Bank, National Association; First Merchants Bank of Central Indiana, National Association; Lafayette Bank & Trust Company, National Association; and Commerce National Bank. Through these subsidiaries, First Merchants operates a general banking business. First Merchants also owns various non-bank subsidiaries that engage in the trust and asset management service business, title insurance and settlement services business, the reinsurance business and the full-service property casualty, personal and healthcare insurance business.

At June 30, 2008, on a consolidated basis, First Merchants had assets of approximately \$3.8 billion, deposits of approximately \$2.9 billion, and stockholders' equity of approximately \$347 million. First Merchants common stock is quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. See DESCRIPTION OF FIRST MERCHANTS on page 73.

**Lincoln Bancorp**

905 Southfield Drive

Plainfield, Indiana 46168

(317) 839-6539

Lincoln is a single bank holding company incorporated under Indiana law and headquartered in Plainfield, Indiana. Lincoln is the sole owner of Lincoln Bank, an Indiana state bank currently conducting its general banking business from 17 full-service offices located in Hendricks, Johnson, Morgan, Clinton, Montgomery, and Brown Counties, Indiana, with its main office located in Plainfield, Indiana.

At June 30, 2008, on a consolidated basis, Lincoln had assets of approximately \$870 million, deposits of approximately \$632 million, and shareholders' equity of approximately \$97 million. Lincoln common stock is quoted and traded on the NASDAQ Global Market System under the symbol LNCB. See DESCRIPTION OF LINCOLN on page 75.

***The Merger (page 30)***

*We have attached the Agreement of Reorganization and Merger (**Merger Agreement**) to this document as Appendix A. Please read the Merger Agreement. It is the legal document that governs the merger.*

Lincoln will merge with First Merchants and, thereafter, Lincoln will cease to exist. We hope to complete the merger during the fourth quarter of 2008. Subsequent to the merger and subject to prior regulatory approvals, Lincoln Bank will merge with and into First Merchants Bank of Central Indiana, National Association.



**Table of Contents**

***Reasons for the Merger (page 32)***

**First Merchants.** First Merchants' Board of Directors considered a number of financial and nonfinancial factors in making its decision to merge with Lincoln, including its respect for the ability and integrity of the Lincoln Board of Directors, management and staff. The Board believes that expanding First Merchants' operations in the markets in which Lincoln operates offers long-term strategic benefits to First Merchants. First Merchants also believes that several synergies exist between the banking businesses of the parties, making the transaction even more attractive.

**Lincoln.** In considering the merger with First Merchants, Lincoln's Board of Directors collected and evaluated a variety of economic, financial and market information regarding First Merchants and its subsidiaries, their respective businesses and First Merchants' reputation and future prospects. In the opinion of Lincoln's Board of Directors, favorable factors included:

the fact that the value of the merger consideration represented a premium over the \$10.35 closing price of Lincoln's common stock on September 2, 2008 (the last trading day before the merger was announced);

the increased level of competition within the banking sector generally and within the market areas served by Lincoln from other, larger financial institutions and non-bank competitors;

the current and prospective economic climate for smaller financial institutions generally and Lincoln specifically, including declining net interest margins for many financial institutions, slower deposit growth and the increasing cost of regulatory burdens;

the effect of the merger on Lincoln Bank's employees, including the prospect of continued employment and enhanced employment opportunities with a much larger and more diversified financial organization;

the effect of the merger on Lincoln Bank's customers and community, including First Merchants' community banking orientation and its compatibility with Lincoln;

more diverse financial products and services for Lincoln customers and an enhanced competitive position in the markets in which Lincoln operates;

the desire to provide shareholders with the prospects for greater future appreciation on their investments in Lincoln common stock than Lincoln could likely achieve independently;

the greater liquidity of First Merchants common stock, which is traded on the NASDAQ Global Select Market System;

the higher level of dividends paid by First Merchants on its common stock than Lincoln would be likely to achieve in the near future;

the potential tax advantage to Lincoln shareholders of accepting stock or stock and cash; and

the opinion delivered by Sandler O'Neill & Partners, L.P. (**Sandler**) that the merger consideration is fair, from a financial point of view, to the shareholders of Lincoln.

***Opinion of Lincoln's Financial Advisor (page 34)***

## Edgar Filing: FIRST MERCHANTS CORP - Form S-4

The Board of Directors of Lincoln received the written opinion of Sandler dated September 2, 2008, stating that the merger consideration to be received by Lincoln shareholders is fair from a financial point of view. We have attached a copy of the fairness opinion to this document as Appendix B. Lincoln shareholders should read the fairness opinion in its entirety.

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**Table of Contents**

***What Lincoln Shareholders Will Receive (page 44)***

As a Lincoln shareholder, each of your Lincoln common shares will be converted into the right to receive, at your election, either (i) 0.7004 shares of First Merchants common stock, subject to possible upward or downward adjustment of the conversion ratio as provided in the Merger Agreement, or (ii) \$15.76 in cash. You may elect to receive a combination of First Merchants common stock for some of your Lincoln shares and cash for some of your Lincoln shares. The number of shares of First Merchants common stock and the amount of cash payable in connection with the merger is subject to various limitations and proration. Under certain circumstances, an election to receive stock or cash may be converted into an election to receive the other type of consideration. If you fail to make an election, you will be considered to have elected to receive First Merchants common stock for your Lincoln shares, but if it is necessary to convert some stock elections to cash elections under the proration provisions of the Merger Agreement, Lincoln shares for which no election was made will be the first to be changed from receiving stock to receiving cash. Cash will be paid in lieu of issuing any fractional shares of First Merchants common stock.

Because the conversion ratio is fixed within certain parameters and because the market price of common stock of First Merchants will fluctuate, the market value of the stock of First Merchants you will receive in the merger is not fixed. See SUMMARY Comparative Market Price Information on page 13.

***Conversion Ratio Adjustment (page 46)***

As mentioned above, the 0.7004 conversion ratio is subject to possible upward or downward adjustment, if a chain of certain events occurs. The first of those events is that the average of the closing price of First Merchants common stock as reported in Bloomberg, L.P. for the 20 NASDAQ trading days preceding the 5<sup>th</sup> calendar day prior to the effective date of the merger must be either less than \$16.50 or greater than \$30.00. This calculation is defined in the Merger Agreement as the First Merchants Average Price. Since this calculation will be made just prior to the effective date of the merger, it is not possible to determine the First Merchants Average Price as of the date of this proxy statement-prospectus. The Merger Agreement may be terminated by Lincoln if the First Merchants Average Price falls below \$16.50 or by First Merchants if the First Merchants Average Price increases above \$30.00. The second event that must occur in order for the conversion ratio to be adjusted is either Lincoln or First Merchants must exercise its right to terminate the Merger Agreement based on the First Merchants Average Price. Finally, if either party exercises its right to terminate the Merger Agreement based on the First Merchants Average Price, then the other party has the right to adjust the conversion ratio according to a formula to avoid termination of the Merger Agreement. For a more detailed discussion of how the conversion ratio can be adjusted, see THE MERGER Conversion Ratio Adjustment.

***Recommendation to Shareholders (page 33)***

The Board of Directors of Lincoln believes that the merger is in your best interests and unanimously recommends that you vote **FOR** the proposal to adopt the Merger Agreement. In reaching its decision, the Lincoln Board of Directors considered a number of factors, which are described in the section titled The Merger Lincoln's Reasons for the Merger. Because of the wide variety of factors considered, the Lincoln Board of Directors did not believe it practicable, nor did it attempt, to quantify or otherwise assign relative weight to the specific factors it considered in reaching its decision.

***The Shareholders Meeting (page 25)***

The special meeting of Lincoln shareholders will be held on \_\_\_\_\_, \_\_\_\_\_, 2008, at \_\_\_\_\_: \_\_\_\_\_ .m. local time, at Guilford Township Community Center, Hummel Park, 1500 S. Center Street, Plainfield, Indiana. You will be asked at the special meeting to consider and vote upon the adoption of the

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**Table of Contents**

Merger Agreement and to act upon any other items of business that may be properly submitted to vote at the special meeting. In the event that an insufficient number of shares is present in person or by proxy at the special meeting to approve the merger, you may also be asked to vote to approve a proposal to adjourn or postpone the meeting to allow time for the solicitation of additional proxies.

***Record Date; Votes Required (page 25)***

You may vote at the Lincoln special meeting of shareholders if you owned common shares of Lincoln at the close of business on \_\_\_\_\_, 2008. You are entitled to cast one vote for each common share you owned on that date. The holders of at least a majority of the outstanding Lincoln common shares must vote in favor of adoption of the Merger Agreement. No approval by First Merchants shareholders is required to complete the merger. Approval of the proposal to adjourn or postpone the special meeting, if necessary, requires only that more votes be cast in favor of the proposal than are cast against it. Broker non-votes and abstentions from voting will not be treated as NO votes on this proposal (as they are with the approval of the Merger Agreement) and, therefore, will have no effect on the outcome. You can vote your shares by attending the special meeting or you can mark the enclosed proxy card with your vote, sign it and mail it in the enclosed return envelope.

As of September 18, 2008, Lincoln's executive officers, directors and their affiliates owned 319,718 shares or approximately 6.01% of the Lincoln common shares outstanding. Each member of the Board of Directors of Lincoln and certain executive officers of Lincoln and Lincoln Bank signed a voting agreement as of September 2, 2008, the date the Merger Agreement was executed, in which they agreed to cause all Lincoln common shares owned by them of record or beneficially to be voted in favor of the merger. As of \_\_\_\_\_, 2008, Lincoln's executive officers, directors and their affiliates owned \_\_\_\_\_ shares or approximately \_\_\_\_\_% of the Lincoln common shares outstanding.

***No Dissenters' Rights (page 47)***

Under Indiana Code § 23-1-44, dissenters' rights are not available to holders of shares quoted and traded on the NASDAQ Global Market System or a similar market. Because Lincoln's common shares are presently quoted and traded on the NASDAQ Global Market System, shareholders of Lincoln presently have no dissenters' rights in respect of their shares. See THE MERGER Rights of Dissenting Shareholders on page 47.

***What We Need to Do to Complete the Merger (page 48)***

Completion of the merger depends on a number of conditions being met. In addition to our compliance with the Merger Agreement, these conditions include among others:

adoption of the Merger Agreement by the shareholders of Lincoln;

approval of the merger by the Board of Governors of the Federal Reserve System and the expiration of any regulatory waiting period;

approval of the merger by the Indiana Department of Financial Institutions;

the receipt by Lincoln of an opinion of Bose McKinney & Evans LLP that the merger will be treated, for U.S. federal income tax purposes, as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and that no gain or loss will be recognized by Lincoln shareholders in the merger to the extent they receive shares of First Merchants common stock as consideration for their Lincoln common shares;

the receipt by First Merchants of an opinion of Bingham McHale LLP that the merger will be treated, for U.S. federal income tax purposes, as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended;



other customary conditions and obligations of the parties set forth in the Merger Agreement.

**Table of Contents**

***Regulatory Approvals (page 52)***

The merger must be approved by the Board of Governors of the Federal Reserve System (**Federal Reserve**) and the Indiana Department of Financial Institutions (**DFI**). We have filed the required applications with the Federal Reserve and the DFI. We cannot assure you as to when or whether the approvals will be received.

***Conduct of Business Pending Merger (page 51)***

Under the Merger Agreement, Lincoln must carry on its business in the ordinary course and may not take certain extraordinary actions without first obtaining First Merchants' approval.

We have agreed that Lincoln will continue to pay quarterly dividends at no more than the current rate of \$0.14 per share until the merger closes. We will each cooperate to insure that Lincoln shareholders will receive only one quarterly dividend for the quarter in which the merger closes, and not one from both First Merchants and Lincoln.

***Agreements of First Merchants (pages 52, 53, 54 and 55)***

In the Merger Agreement, First Merchants has agreed to:

Proceed and use its best efforts to obtain any consents and approvals and use its best efforts to raise any additional capital that may be required in order to obtain regulatory approvals of the merger. See **THE MERGER Regulatory Approvals** on page 52.

Cover Lincoln and subsidiaries' employees, no later than the effective date of the Merger, under any tax-qualified retirement plan that First Merchants maintains for its employees, so long as such employees meet any applicable participation requirements, and provide for waiver of all restrictions and limitations for pre-existing conditions under First Merchants health plans. See **THE MERGER Employee Benefit Plans** on page 55.

Take the action necessary to cause Jerry R. Engle and another current Director of Lincoln as chosen by First Merchants to be nominated for a position on the First Merchants Board of Directors for a three-year term and allow current members of the Lincoln Bank Board of Directors to remain as directors of the merged bank. See **THE MERGER Management After the Merger** on page 53.

Provide, or allow for, director and officer liability insurance and indemnification. See **THE MERGER Indemnification and Insurance** on page 54.

***Management and Operations After the Merger (page 53)***

Lincoln's corporate existence will cease after the merger. Accordingly, directors and officers of Lincoln will not serve in such capacities after the effective date of the merger. Upon completion of the merger, the current officers and directors of First Merchants will continue to serve in such capacities. In addition, Jerry R. Engle, who currently serves as Chairman of the Board and President and Chief Executive Officer of Lincoln, and another director of Lincoln chosen by First Merchants will be nominated for election to the Board of Directors of First Merchants to each serve for a three-year term following the merger. A condition of the completion of the merger is the effectiveness of new employment agreements between First Merchants and Jerry R. Engle and John B. Ditmars. In addition, First Merchants has agreed to allow current members of the Lincoln Bank Board of Directors to remain as directors of the merged bank if they choose to do so.

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**Table of Contents**

***Interests of Directors and Officers in the Merger That Are Different From Your Interests (page 56)***

You should be aware that some of Lincoln's and Lincoln Bank's directors and executive officers may have interests in the merger that are different from, or in addition to, their interests as shareholders. Both Lincoln's Board of Directors and First Merchants' Board of Directors were aware of these interests and took them into account in approving the merger. These interests are as follows:

In the Merger Agreement, First Merchants has agreed that it will cause Jerry R. Engle, who currently serves as Chairman of the Board and President and Chief Executive Officer of Lincoln and President and Chief Executive Officer of Lincoln Bank, and another current director of Lincoln as chosen by First Merchants, to be nominated for election to the First Merchants Board of Directors for a three-year term at the first annual meeting of First Merchants' shareholders following the merger. Mr. Engle will not be separately compensated for his services as a director of First Merchants. If the First Merchants Board meets after the merger but before the next annual meeting of First Merchants' shareholders, the Board must appoint each of Mr. Engle and such other person as chosen by First Merchants as a director to serve until the next annual meeting of First Merchants' shareholders and then nominate each individual for election to a three-year term as a director at such annual meeting. See THE MERGER Management After the Merger, page 53.

First Merchants has indicated its intention to offer two year employment or other agreements to at least two current officers of Lincoln (Jerry R. Engle and John Ditmars), to be effective following the effective time of the merger, and the closing of the merger is conditioned upon the signing of those agreements. In addition, the Merger Agreement provides that the officers and directors of Lincoln Bank immediately prior to the merger will remain the officers and directors of Lincoln Bank after the merger until they resign or until their successors are duly elected and qualified. Lincoln Bank directors who desire to continue to serve in that capacity shall serve for at least the remainder of the term to which they have been elected as a director of the merged bank.

Directors and officers of Lincoln and Lincoln Bank held stock options that entitled them to purchase, in the aggregate, up to 561,622 shares of Lincoln's common stock as of September 2, 2008. Options for 69,400 of these shares are not currently exercisable. The Merger Agreement provides that Lincoln must use reasonable efforts to cause each option to acquire Lincoln common shares to become exercisable and be exercised prior to the merger. The exercise prices of these options range from \$7.32 to \$19.40 per share and, therefore, not all of them may have any value as of the effective time of the merger. Under the Merger Agreement, the value of these options is tied to the market value of First Merchants' common stock. Assuming a \$19.49 market value for First Merchants common stock (the equivalent of a \$13.65 market value for Lincoln's common stock), options for approximately 271,826 shares would be in the money. However, assuming all of such options are exercised, the directors and officers holding these options will receive, prior to tax withholdings but net of approximately \$3.0 million in exercise prices, a net aggregate of 190,387 shares of First Merchants common stock or \$4.3 million in cash at the effective time of the merger, depending on their election.

As of September 2, 2008, certain of the directors and executive officers of Lincoln and Lincoln Bank had a right to receive, in the aggregate, 15,251 shares of Lincoln's common stock under Lincoln's Recognition and Retention Plan. In addition, there are 17,637 unallocated shares and approximately \$185,000 in cash under the plan that may be allocated prior to consummation of the merger to executive officers and directors of Lincoln and Lincoln Bank. Under the Merger Agreement, all of the allocated shares will vest before closing, and assuming none of such shares are otherwise forfeited before the effective date of the merger, the directors and executive officers holding these shares will receive, prior to tax withholdings and depending on their elections, an aggregate of 10,681 shares of First Merchants common stock or approximately \$240,000 in cash at the effective time of the merger. The ultimate holders of the currently unallocated shares will receive, prior to tax withholdings and depending on their elections, an aggregate of 12,352 shares of First Merchants common stock or approximately \$278,000 in cash at the effective time of the merger.

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**Table of Contents**

As of September 2, 2008, certain of the directors of Lincoln and Lincoln Bank had a right to receive, in the aggregate, approximately \$1.1 million in future cash payments under Lincoln's Unfunded Deferred Compensation Plan. As a result of the change-in-control provisions in the plan, these directors will have a right to receive this amount within 30 days after the effective time of the merger. In addition, the directors of Lincoln are participants in a nonqualified supplemental pension plan, the benefits under which become fully vested upon termination of the plan or upon the occurrence of a change in control. Under the Merger Agreement, this plan is to be frozen at or before the effective time of the merger. Assuming benefit accruals under the plan cease as of December 31, 2008 and assuming the plan is terminated and all of such participants elect to receive lump sum distributions on January 2, 2009 equal to the then present value of their accrued pension benefits under the plan, these participants would receive cash distributions on January 2, 2009 in the aggregate amount of approximately \$1.4 million.

Certain executive officers of Lincoln and Lincoln Bank have change in control agreements or employment agreements that provide for the executive to receive, following a change in control, a multiple of the executive's compensation prior to the change in control, subject to certain limitations. Under these agreements, 11 of such executive officers would be entitled to receive an aggregate of approximately \$3.1 million.

First Merchants has agreed to offer Mr. Engle, Mr. Ditmars and certain other Lincoln executives an aggregate of 32,000 shares of restricted First Merchants common stock or options to acquire 120,000 shares of First Merchants common stock, or a combination of both, following the merger. Approximately 40% of these shares or options will be split evenly between Mr. Engle and Mr. Ditmars with the balance to be distributed among certain other Lincoln executives.

First Merchants has agreed that for a period of six years after the effective time of the merger, it will succeed to Lincoln's obligations with respect to indemnification or exculpation now existing in favor of the directors and officers of Lincoln and Lincoln Bank as provided in Lincoln's articles of incorporation and by-laws. First Merchants has also agreed to maintain directors' and officers' liability insurance in force for the directors and officers of Lincoln for a period of three years following the effective time of the merger, subject to certain conditions in the Merger Agreement.

For additional information regarding these interests in the proposed merger, see **THE MERGER** Interests of Certain Persons in the Merger beginning on page 56.

***Termination of the Merger (page 50)***

We can mutually agree to terminate the Merger Agreement before we complete the merger. In addition, either Lincoln or First Merchants acting alone can terminate the Merger Agreement under the circumstances described on page 50.

Lincoln has agreed to pay First Merchants the amount of \$3,200,000 in liquidated damages if:

Lincoln's Board of Directors terminates the Merger Agreement in the exercise of its fiduciary duties after receipt of an unsolicited acquisition proposal from a third party;

First Merchants terminates the Merger Agreement because Lincoln's Board of Directors withdraws or modifies its recommendation to Lincoln's shareholders to vote for the merger following receipt of a written proposal for an acquisition from a third party; or

First Merchants terminates the Merger Agreement because Lincoln fails to give First Merchants written notice that it intends to furnish information to or enter into discussions or negotiations with a third party relating to a proposed acquisition of Lincoln, or if Lincoln, within 20 days after giving such



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**Table of Contents**

written notice to First Merchants of Lincoln's intent to furnish information to or enter into discussions or negotiations with another person or entity, does not terminate all discussions, negotiations and information exchanges related to such acquisition proposal. First Merchants has agreed to pay Lincoln the amount of \$2,000,000 in liquidated damages if First Merchants terminates the Merger Agreement because the merger has not been consummated before January 1, 2009.

First Merchants has agreed to pay Lincoln the amount of \$3,200,000 in liquidated damages if Lincoln terminates the Merger Agreement because First Merchants enters into a definitive agreement in which it is the target company or the company to be acquired which would result in a change of control of First Merchants or require approval pursuant to the Bank Holding Company Act of 1956, as amended.

***Certain U.S. Federal Income Tax Consequences (page 59)***

It is a condition to the closing of the merger that Bose, McKinney & Evans LLP and Bingham McHale LLP deliver opinions, effective as of the date of the merger, to Lincoln and First Merchants, respectively, substantially to the effect that:

the merger will be treated for United States tax purposes as a reorganization within the meaning of Section 368 of the Internal Revenue Code; and

First Merchants and Lincoln will be treated as a party to the reorganization within the meaning of Section 368(b) of the Internal Revenue Code.

These opinions will not, however, bind the Internal Revenue Service which could take a different view.

**Determining the actual tax consequences of the merger to you can be complicated. You are urged to consult with your own tax advisors with respect to the tax consequences of the merger to you.**

For a more detailed description of certain federal income tax consequences of the merger to Lincoln shareholders, see MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES on page 59.

***Accounting Treatment (page 58)***

The merger will be accounted for as a purchase transaction for accounting and financial reporting purposes. As a result, Lincoln's assets, including identified intangible assets, and liabilities will be recorded by First Merchants on its books at their fair market values and added to those of First Merchants. Any excess payment by First Merchants over the fair market value of the net assets and identifiable intangibles of Lincoln will be recorded as goodwill on the financial statements of First Merchants. Conversely, any excess of the fair value of the net assets acquired over the payment made by First Merchants will be reflected as a reduction of certain long-lived assets.

***Comparative Rights of First Merchants Shareholders and Lincoln Shareholders (page 127)***

The rights of shareholders of First Merchants and Lincoln differ in some respects. The rights of holders of First Merchants common stock are governed by First Merchants' Articles of Incorporation and By-Laws. Your rights as holders of Lincoln common shares are governed by Lincoln's Articles of Incorporation and By-Laws. Upon completion of the merger, Lincoln shareholders who receive First Merchants common stock will take such stock subject to First Merchants' Articles of Incorporation and By-Laws.

See COMPARISON OF COMMON STOCK on page 127 to learn more about the material differences between the rights of holders of First Merchants common stock and holders of Lincoln common shares.

**Table of Contents**

**Recent Developments (page 99)**

On September 3, 2008, the date Lincoln and First Merchants announced the signing of the Merger Agreement, Lincoln determined that goodwill with a carrying amount of \$23.9 million would need to be evaluated for impairment in accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142). This evaluation requires an extensive fair value determination of Lincoln’s assets and liabilities to determine an estimate of the implied fair value of goodwill. Impairment will be recognized as a noncash expense as part of Lincoln’s results of operations for the three month and nine month periods ending September 30, 2008. As noted in the announcement of the Merger Agreement, the merger transaction value is estimated between \$74 million and \$77 million depending on the elections of Lincoln’s shareholders. Assuming the evaluation performed under SFAS 142 results in an implied fair value of the organization excluding goodwill to approximate the transaction value, the indicated range of goodwill impairment would be between \$19 million and \$22 million. However, the actual results of the impairment evaluation could differ materially from these amounts.

This charge, once determined, will have no effect on Lincoln’s cash flow or the regulatory capital or regulatory capital ratios of Lincoln or Lincoln Bank. Regulatory capital measurements used to assess the strength of individual banks, as well as the safety and soundness of the entire banking system, exclude goodwill as a component of capital.

**Comparative Market Price Information**

Shares of First Merchants common stock are quoted and traded on the NASDAQ Global Select Market System under the symbol FRME. Lincoln common shares are quoted and traded on the NASDAQ Global Market System under the symbol LNCB. The following table presents quotation information for First Merchants common stock on the NASDAQ Global Select Market System and for Lincoln common stock on the NASDAQ Global Market System on September 2, 2008, the business day before the merger was publicly announced, and \_\_\_\_\_, 2008, the last practicable trading day for which information was available prior to the date of this proxy statement-prospectus.

	First Merchants Common Stock			Lincoln Common Shares		
	High	Low	Close	High	Low	Close
September 2, 2008	\$ 20.80	\$ 19.32	\$ 19.89	\$ 10.35	\$ 9.92	\$ 10.35
_____, 2008	\$	\$	\$	\$	\$	\$

The market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately \$75 million (or \$14.01 per Lincoln common share) based on 5,319,731 Lincoln common shares outstanding, First Merchants’ closing stock price of \$19.89 on September 2, 2008, the business day before the merger was publicly announced, and the maximum number of Lincoln common shares being exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The assumption of 5,319,731 Lincoln common shares outstanding was calculated under the assumption all outstanding stock options are exchanged for cash. Using this same First Merchants’ closing stock price and number of outstanding Lincoln common shares, but assuming that 80% of Lincoln’s common shares are exchanged for First Merchants common stock and 20% of Lincoln’s common shares are exchanged for cash in the merger, the market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately \$76 million (or \$14.30 per Lincoln common share).

The market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately \$ \_\_\_\_\_ million (or \$ \_\_\_\_\_ per Lincoln common share) based on \_\_\_\_\_ Lincoln common shares outstanding, First Merchants’ closing stock price of \$ \_\_\_\_\_ on \_\_\_\_\_, 2008, the last practicable trading day for which information was available prior to the date of this proxy statement-prospectus, and the

**Table of Contents**

maximum number of Lincoln common shares being exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The assumption of Lincoln common shares outstanding was calculated by adding the outstanding stock options and the outstanding common shares as of , 2008. Using this same First Merchants closing stock price and number of outstanding Lincoln common shares, but assuming that 80% of Lincoln s common shares are exchanged for First Merchants common stock and 20% of Lincoln s common shares are exchanged for cash in the merger, the market value of the aggregate consideration that Lincoln shareholders will receive in the merger is approximately \$ million (or \$ per Lincoln common share).

Also set forth below for each of the closing prices of First Merchants common stock on September 2, 2008, and , 2008, is the equivalent pro forma price of Lincoln common shares, which we determined by multiplying the applicable price of First Merchants common stock by the number of shares of First Merchants common stock we are issuing for a Lincoln common share in the merger, which is the conversion ratio of 0.7004. The equivalent pro forma price of Lincoln common shares shows the implied value to be received in the merger by Lincoln shareholders who receive First Merchants common stock in exchange for a Lincoln common share on these dates.

	<b>First Merchants Common Stock</b>	<b>Lincoln Common Shares</b>	<b>Lincoln Equivalent Pro Forma</b>
September 2, 2008	\$ 19.89	\$ 10.35	\$ 13.93
, 2008	\$	\$	\$

We urge you to obtain current market quotations for First Merchants common stock and Lincoln common shares. We expect that the market price of First Merchants common stock will fluctuate between the date of this document and the date on which the merger is completed and thereafter. Because the market price of First Merchants common stock is subject to fluctuation, the value of the shares of First Merchants common stock that Lincoln shareholders will receive in the merger may increase or decrease prior to and after the merger, while the conversion ratio is fixed within certain parameters. Lincoln shareholders who receive cash will receive a fixed amount of \$15.76 per share.

**Comparative Per Share Data**

The following table shows historical information about our companies earnings per share, dividends per share and book value per share, and similar information reflecting the merger, which we refer to as pro forma information. In presenting the comparative pro forma information, we have assumed that we were merged through the periods shown in the table. The pro forma information reflects the purchase method of accounting. The information is presented under two separate assumptions relating to the level of Lincoln common shares which are exchanged for First Merchants common stock in the merger. The financial information presented under Alternative A was compiled assuming the maximum number of Lincoln common shares are exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The financial information presented under Alternative B was compiled assuming 80% of the outstanding Lincoln common shares are exchanged for shares of First Merchants common stock and 20% of the outstanding Lincoln common shares are exchanged for cash in the merger. For a more detailed description of these assumptions and how we derived the First Merchants and Lincoln pro forma data, see Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 20 and UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL INFORMATION on page 63.



**Table of Contents**

The information listed as equivalent pro forma was obtained by multiplying the pro forma amounts by the conversion ratio of 0.7004. This information is presented to reflect the value of shares of First Merchants common stock that Lincoln shareholders will receive in the merger for each share of Lincoln common stock exchanged.

We expect that we will incur reorganization and restructuring expenses as a result of combining our companies. We also anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses and the opportunity to earn more revenue. The pro forma information, while helpful in illustrating the financial characteristics of the new company under two sets of assumptions, does not take into account these expected expenses or these anticipated financial benefits, and does not attempt to predict or suggest future results. It also does not necessarily reflect what the historical results of the merged company would have been had our companies been merged during the periods presented.

The information in the following table is based on historical financial information of Lincoln and of First Merchants which are included in each company's respective prior Securities and Exchange Commission filings. The historical financial information of First Merchants has been incorporated into this document by reference. Certain historical financial information for Lincoln is included in this document. Additional historical financial information of Lincoln has been incorporated into this document by reference. See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 138 for a description of documents that we incorporate by reference into this document and how to obtain copies of them.

**FIRST MERCHANTS AND LINCOLN****HISTORICAL AND PRO FORMA PER SHARE DATA**

	Historical	First Merchants Pro Forma		Historical	Lincoln Equivalent Pro Forma	
		Alternative A (1)	Alternative B (2)		Alternative A (1)(3)	Alternative B (2)(4)
<b>Net income per share</b>						
Six months ended June 30, 2008						
Basic	\$ 0.82	\$ 0.73	\$ 0.75	\$ 0.23	\$ 0.51	\$ 0.53
Diluted	\$ 0.81	\$ 0.73	\$ 0.74	\$ 0.23	\$ 0.51	\$ 0.52
Twelve months ended December 31, 2007						
Basic	\$ 1.73	\$ 1.54	\$ 1.55	\$ 0.35	\$ 1.08	\$ 1.09
Diluted	\$ 1.73	\$ 1.53	\$ 1.55	\$ 0.34	\$ 1.07	\$ 1.08
<b>Cash dividends per share</b>						
Six months ended June 30, 2008						
	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.28	\$ 0.32	\$ 0.32
Twelve months ended December 31, 2007						
	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.56	\$ 0.64	\$ 0.64
<b>Book value per share</b>						
At June 30, 2008						
	\$ 19.23	\$ 16.05	\$ 16.51	\$ 18.16	\$ 11.24	\$ 11.56
At December 31, 2007						
	\$ 18.88	\$ 19.11	\$ 19.10	\$ 18.63	\$ 13.38	\$ 13.38

- (1) See Note (1) in Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 20.
- (2) See Note (2) in Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 20.
- (3) Calculated by multiplying the First Merchants Pro Forma Alternative A combined per share data by the assumed conversion ratio of 0.7004.
- (4) Calculated by multiplying the First Merchants Pro Forma Alternative B combined per share data by the assumed conversion ratio of 0.7004.

**Table of Contents**

**SELECTED HISTORICAL AND UNAUDITED PRO FORMA**

**CONSOLIDATED FINANCIAL DATA**

The following tables set forth certain summary historical consolidated financial data for First Merchants and Lincoln. First Merchants' and Lincoln's balance sheet data and income statement data as of and for the five years ended December 31, 2007 are taken from each of their respective audited consolidated financial statements. First Merchants' and Lincoln's balance sheet data and income statement data as of and for the six months ended June 30, 2008 and 2007 are taken from their respective unaudited consolidated financial statements. Results for the six months ended June 30, 2008 do not necessarily indicate results for the entire year.

The following tables also set forth certain summary unaudited pro forma consolidated financial information for First Merchants and Lincoln reflecting the merger. The income statement information presented gives effect to the merger as if it occurred on the first day of each period presented. The balance sheet information presented gives effect to the merger as if it occurred on June 30, 2008. The information is presented under two separate assumptions relating to the level of Lincoln common shares which are exchanged for First Merchants common stock in the merger. The financial information presented under Alternative A was compiled assuming the maximum number of Lincoln common shares are exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The financial information presented under Alternative B was compiled assuming 80% of the outstanding Lincoln common shares are exchanged for shares of First Merchants common stock and 20% of the outstanding Lincoln common shares are exchanged for cash in the merger. For a more detailed description of these assumptions, see Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 20.

The pro forma information reflects the purchase method of accounting, with Lincoln's assets and liabilities recorded at their estimated fair values as of June 30, 2008. The actual fair value adjustments to the assets and the liabilities of Lincoln will be made on the basis of appraisals and evaluations that will be made as of the date the merger is completed. Thus, the actual fair value adjustments may differ significantly from those reflected in these pro forma financial statements. In the opinion of First Merchants' management, the estimates used in the preparation of these pro forma financial statements are reasonable under the circumstances.

We expect that we will incur reorganization and restructuring expenses as a result of combining our companies. We also anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses and the opportunity to earn more revenue. The pro forma information, while helpful in illustrating the financial characteristics of the new company under two sets of assumptions, does not take into account these expected expenses or these anticipated financial benefits, and does not attempt to predict or suggest future results.

This selected financial data is only a summary and you should read it in conjunction with First Merchants' consolidated financial statements and related notes incorporated into this document by reference and Lincoln's consolidated financial statements and related notes included in this document, and in conjunction with the Unaudited Pro Forma Combined Consolidated Financial Information appearing on page 17 in this document. See WHERE YOU CAN FIND ADDITIONAL INFORMATION on page 138 for a description of documents that we incorporate by reference into this document and how to obtain copies of such documents.

**Table of Contents****FIRST MERCHANTS****FIVE YEAR SUMMARY OF SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

(Dollars In Thousands, Except Per Share Amounts)

	For the Six Months Ended June 30		For the Years Ended December 31				
	2008	2007	2007	2006	2005	2004	2003
<b>Summary of Operations</b>							
Interest income	\$ 110,759	\$ 112,249	\$ 230,733	\$ 208,606	\$ 177,209	\$ 156,974	\$ 155,530
Interest expense	47,777	57,559	117,613	98,511	66,080	51,585	52,388
Net interest income	62,982	54,690	113,120	110,095	111,129	105,389	103,142
Provision for loan losses	10,893	3,247	8,507	6,258	8,354	5,705	9,477
Net interest income after provision	52,089	51,443	104,613	103,837	102,775	99,684	93,665
Noninterest income	20,861	19,570	40,551	34,613	34,717	34,554	35,902
Noninterest expense	52,677	51,933	102,182	96,057	93,957	91,642	91,279
Net income before income tax	20,273	19,080	42,982	42,393	43,535	42,596	38,288
Income tax expense	5,605	5,101	11,343	12,195	13,296	13,185	10,717
<b>Net Income</b>	<b>\$ 14,668</b>	<b>\$ 13,979</b>	<b>\$ 31,639</b>	<b>\$ 30,198</b>	<b>\$ 30,239</b>	<b>\$ 29,411</b>	<b>\$ 27,571</b>
<b>Per Share Data (1)</b>							
Net income							
Basic	\$ 0.82	\$ 0.76	\$ 1.73	\$ 1.64	\$ 1.64	\$ 1.59	\$ 1.51
Diluted	\$ 0.81	\$ 0.76	\$ 1.73	\$ 1.64	\$ 1.63	\$ 1.58	\$ 1.50
Cash dividends (2)	\$ 0.46	\$ 0.46	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.92	\$ 0.90
<b>Balances End of Period</b>							
Total assets	\$ 3,822,460	\$ 3,669,515	\$ 3,782,087	\$ 3,554,870	\$ 3,237,079	\$ 3,191,668	\$ 3,076,812
Total loans	3,021,830	2,808,911	2,880,578	2,698,014	2,462,337	2,431,418	2,356,546
Total deposits	2,863,635	2,719,601	2,884,121	2,750,538	2,382,576	2,408,150	2,362,101
Fed funds purchased	151,356	125,650	52,350	56,150	50,000	32,550	
Securities sold under repurchase agreements	90,872	91,038	106,497	42,750	106,415	87,472	71,095
Federal home loan bank advances	228,196	268,680	294,101	242,408	247,865	223,663	212,779
Total subordinated debentures, revolving credit lines, term loans	115,826	102,206	115,826	99,456	103,956	97,206	97,782
Stockholders equity	347,392	327,380	339,936	327,325	313,396	314,603	303,965
<b>Selected Ratios</b>							
Return on average assets	0.78%	0.78%	0.87%	0.90%	0.95%	0.95%	0.93%
Return on average equity	8.44%	8.50%	9.56%	9.45%	9.58%	9.49%	9.39%

(1) Restated for all stock dividends and splits.

(2) Dividends per share are for First Merchants only, not restated for pooling transactions.



**Table of Contents****LINCOLN****FIVE YEAR SUMMARY OF SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

(Dollars In Thousands, Except Per Share Amounts)

	For the Six Months Ended June 30		For the Years Ended December 31				
	2008	2007	2007	2006	2005	2004	2003
<b>Summary of Operations</b>							
Interest income	\$ 24,191	\$ 26,709	\$ 53,694	\$ 51,218	\$ 43,882	\$ 34,328	\$ 30,128
Interest expense	12,286	16,012	31,908	29,007	21,008	15,528	14,474
Net interest income	11,905	10,697	21,786	22,211	22,874	18,800	15,654
Provision for loan losses	1,806	307	957	884	2,642	655	753
Net interest income after provision	10,099	10,390	20,829	21,327	20,232	18,145	14,901
Noninterest income	3,799	1,704	5,023	5,429	5,067	3,963	3,431
Noninterest expense	12,800	12,132	24,492	23,043	24,140	17,396	13,568
Net income before income tax	1,098	(38)	1,360	3,713	1,159	4,712	4,764
Income tax expense (benefit)	(46)	(416)	(389)	813	(40)	1,057	1,175
<b>Net Income</b>	<b>\$ 1,144</b>	<b>\$ 378</b>	<b>\$ 1,749</b>	<b>\$ 2,900</b>	<b>\$ 1,199</b>	<b>\$ 3,655</b>	<b>\$ 3,589</b>
<b>Per Share Data (1)</b>							
Net income							
Basic	\$ 0.23	\$ 0.07	\$ 0.35	\$ 0.58	\$ 0.24	\$ 0.84	\$ 0.91
Diluted	\$ 0.23	\$ 0.07	\$ 0.34	\$ 0.56	\$ 0.23	\$ 0.81	\$ 0.88
Cash dividends (2)	\$ 0.28	\$ 0.28	\$ 0.56	\$ 0.56	\$ 0.56	\$ 0.53	\$ 0.49
<b>Balances End of Period</b>							
Total assets	\$ 869,898	\$ 898,953	\$ 889,314	\$ 883,543	\$ 844,454	\$ 808,967	\$ 591,685
Total loans	638,256	614,337	642,416	635,412	600,389	572,884	441,204
Total deposits	631,991	699,488	656,405	655,664	600,572	516,329	321,839
Fed funds purchased							
Securities sold under repurchase agreements	13,283	15,674	16,767	16,864	10,064	6,500	
Federal home loan bank advances	119,512	77,051	108,052	103,608	127,072	174,829	184,693
Total subordinated debentures, revolving credit lines, term loans			1,125			3,000	
Stockholders' equity	96,599	98,068	98,986	99,300	99,940	101,755	79,227
<b>Selected Ratios</b>							
Return on average assets	0.26%	0.08%	0.20%	0.33%	0.14%	0.53%	0.64%
Return on average equity	2.31%	0.76%	1.76%	2.89%	1.18%	4.08%	4.53%

**Table of Contents****FIRST MERCHANTS****UNAUDITED PRO FORMA SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA**

(Dollars In Thousands, Except Per Share Amounts)

	For The Six Months Ended June 30, 2008		For The Year Ended December 31, 2007	
	Alternative A (1)	Alternative B (2)	Alternative A (1)	Alternative B (2)
<b>Summary of Operations</b>				
Interest income	\$ 134,880	\$ 134,880	\$ 284,288	\$ 284,288
Interest expense	59,890	60,163	149,175	149,721
Net interest income	74,991	74,717	135,113	134,566
Provision for loan losses	12,699	12,699	9,464	9,464
Net interest income after provision	62,292	62,018	125,649	125,102
Noninterest income	24,660	24,660	45,574	45,574
Noninterest expense	65,536	65,604	126,627	127,050
Net income before income tax	21,415	21,074	44,596	43,626
Income tax expense	5,577	5,440	11,056	10,668
<b>Net income</b>	<b>\$ 15,839</b>	<b>\$ 15,634</b>	<b>\$ 33,541</b>	<b>\$ 32,959</b>
<b>Per Share Data</b>				
Net income				
Basic	\$ 0.73	\$ 0.75	\$ 1.54	\$ 1.55
Diluted	\$ 0.73	\$ 0.74	\$ 1.53	\$ 1.55
Cash dividends declared	\$ 0.46	\$ 0.46	\$ 0.92	\$ 0.92
Book value at end of period	\$ 19.27	\$ 19.27		
<b>Balances End of Period</b>				
Total assets	\$ 4,677,179	\$ 4,678,977		
Earning assets	4,219,611	4,204,392		
Investment securities	541,661	541,661		
Loans, net	3,621,201	3,621,201		
Total deposits	3,498,142	3,498,142		
Borrowings	722,308	718,944		
Stockholders' equity	417,097	405,459		
Allowance for loan losses	39,789	39,789		

Notes to Unaudited Pro Forma Summary of Selected Financial Data appear on the following page.

**Table of Contents****NOTES TO UNAUDITED PRO FORMA SUMMARY OF SELECTED****CONSOLIDATED FINANCIAL DATA**

(Dollars in Thousands, Except Per Share Amounts)

## (1) Alternative A Issuance of 3,576,417 shares of First Merchants common stock:

Assumes the maximum number of Lincoln common shares being exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The average of the closing prices of First Merchants common stock on August 29, September 2, 3, 4 and 5, 2008, the two days before public announcement of the merger, the day of such public announcement, and the two days after such public announcement, was \$19.49. Such amount is less than or equal to \$30.00 per share and greater than or equal to \$16.50 per share. Accordingly, it has been assumed for the purposes of this pro forma consolidated financial data that there will be no adjustment to the conversion ratio and 0.7004 shares of First Merchants common stock will be issued for each share of Lincoln common stock subject to a stock election. Whether the conversion ratio is actually adjusted will be determined at the time of closing of the merger pursuant to the adjustment mechanism described in greater detail in THE MERGER Conversion Ratio Adjustment, on page 46. Using the assumptions outlined above, Lincoln shareholders would receive an aggregate of \$3,364,258 in cash payments. Based on such assumptions and a \$19.49 per share price for First Merchants common stock, the purchase price is computed as follows:

Common stock (3,576,417 shares at stated value of \$0.125 per share)	\$ 447
Capital surplus (3,576,417 shares at \$19.365 per share)	69,258
Total stock issued (3,576,417 shares at \$19.49 per share)	69,705
Transaction costs (estimated)	500
Cash price	3,364
 Total purchase price	 \$ 73,569

## (2) Alternative B Issuance of 2,979,320 shares of First Merchants common stock:

Assumes 4,253,741 Lincoln common shares (80%) become subject to stock elections and 1,065,990 Lincoln common shares (20%) become subject to cash elections. The average of the closing prices of First Merchants common stock on August 29, September 2, 3, 4 and 5, 2008, the two days before public announcement of the merger, the day of such public announcement, and the two days after such public announcement, was \$19.49. Such amount is less than or equal to \$30.00 per share and greater than or equal to \$16.50 per share. Accordingly, it has been assumed that there would be no adjustment to the conversion ratio and 0.7004 shares of First Merchants common stock would be issued for each Lincoln common share subject to a stock election and \$15.76 cash is issued for each Lincoln common share subject to a cash election. Whether the conversion ratio is actually adjusted will be determined at the time of closing of the merger pursuant to the adjustment mechanism described in greater detail in THE MERGER Conversion Ratio Adjustment, on page 46. Assuming 80% of the outstanding Lincoln common shares become subject to elections to receive First Merchants common stock and a \$19.49 per share price for First Merchants common stock, the purchase price is computed as follows:

Common stock (2,979,320 shares at stated value of \$0.125 per share)	\$ 372
Capital surplus (2,979,320 shares at \$19.365 per share)	57,695
Total stock issued (2,979,320 shares at \$19.49 per share)	58,067
Cash price:	
1,065,990 Lincoln common shares at \$15.76 per share	16,800
Transaction costs (estimated)	500
 Total purchase price	 \$ 75,367





**Table of Contents**

**RISK FACTORS**

*In determining whether to vote to adopt the Merger Agreement and the merger, along with the other information contained in this prospectus, you should carefully consider the following risk factors as well as those listed under the heading "Risk Factors" contained in First Merchants Annual Report on Form 10-K for the year ended December 31, 2007, which is incorporated by reference into this prospectus.*

**The integration of Lincoln's business with First Merchants' business may be difficult.**

Even though First Merchants has acquired other financial services businesses in the past, the success of the merger with Lincoln will depend on a number of factors, including, but not limited to, the merged company's ability to:

integrate Lincoln's operations with the operations of First Merchants;

maintain existing relationships with First Merchants' depositors and the depositors of Lincoln to minimize withdrawals of deposits subsequent to the acquisition;

maintain and enhance existing relationships with borrowers from First Merchants and Lincoln;

achieve projected net income of Lincoln and expected cost savings and revenue enhancements from the merged company;

control the incremental non-interest expense to maintain overall operating efficiencies;

retain and attract key and qualified management, lending and other banking personnel; and

compete effectively in the communities served by First Merchants and Lincoln, and in nearby communities.

The merged company's failure to successfully integrate Lincoln with First Merchants may adversely affect its financial condition and results of operations.

**The First Merchants common stock and cash received by Lincoln shareholders may differ from their elections.**

The Merger Agreement provides that Lincoln shareholders may elect to receive all First Merchants common stock for their shares, all cash for their shares or a combination of First Merchants common stock for a portion of their shares and cash for a portion of their shares. Although Lincoln shareholders will have the opportunity to elect the form of merger consideration they prefer to receive, the Merger Agreement provides that First Merchants is not required to issue more than 3,576,417 shares of its common stock or pay more than \$16,800,000 in cash to Lincoln shareholders in connection with the merger. As a result, you may not receive all of the stock or cash merger consideration you elect. This may result in adverse financial or tax consequences to you. You will not know the mix of stock and cash consideration you will receive until after we complete the merger.

If it is necessary to reduce the amount of stock or cash elections under the Merger Agreement, the cash elections will be reduced on a pro rata basis only to the extent necessary to reduce the aggregate cash payment to less than \$16,800,000, and the stock elections will be reduced by first converting all non-electing shares to cash elections and then reducing stock elections on a pro rata basis only to the extent necessary to reduce the aggregate shares being issued to less than 3,576,417, as applicable. You should also be aware that The Lincoln Bank Employee Stock Ownership Plan and 401(k) Saving Plan and Trust Agreement (**Lincoln ESOP**) may be exempt from this adjustment of its election if its

trustee(s) determine that the adjustment will violate certain ERISA requirements.

**The value of merger consideration for those Lincoln shareholders who receive First Merchants common stock will fluctuate.** If the merger is completed, Lincoln shareholders who do not receive \$15.76 in cash per share for their Lincoln common shares will receive a number of shares of First Merchants common stock based on a fixed

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**Table of Contents**

exchange ratio of 0.7004 shares of First Merchants common stock for each Lincoln common share, subject to the possibility of an adjustment upward or downward to the conversion ratio as provided in the Merger Agreement. Because the market value of First Merchants common stock may fluctuate, the value of the consideration you receive for your shares may also fluctuate. The market value of First Merchants common stock could fluctuate for any number of reasons, including those specific to First Merchants and those that influence trading prices of equity securities generally. As a result, you will not know the exact value of the shares of First Merchants common stock you would receive at the time you must make your election. The value of the First Merchants common stock on the closing date of the merger may be greater or less than the market price of First Merchants common stock on the record date, on the date of this proxy statement-prospectus, on the date of the special meeting or on the date you submit your election. Moreover, the fairness opinion of Sandler is dated as of September 2, 2008. Lincoln does not intend to obtain any further update of the Sandler fairness opinion. Changes in the operations and prospects of First Merchants and Lincoln, general market and economic conditions and other factors which are both within and outside of the control of First Merchants and Lincoln, on which the opinion of Sandler is based, may alter the relative value of the companies. Therefore, the Sandler opinion does not address the fairness of the merger consideration at the time the merger will be completed.

We urge you to obtain current market quotations for First Merchants common stock and Lincoln common shares because the value of the shares you receive may be more or less than the value of such shares as of the date of this document.

**The merged company will have increased its leverage and reduced its borrowing capacity.**

To fund the cash paid to Lincoln shareholders in the merger, First Merchants expects to incur a maximum \$17 million of additional indebtedness through increased borrowing on its existing line of credit. Increased indebtedness may reduce the merged company's flexibility to respond to changing business and economic conditions or fund the capital expenditure or working capital needs of its subsidiaries. In addition, covenants the merged company makes in connection with the financing may limit the merged company's ability to incur additional indebtedness, and the leverage may cause potential lenders to be unwilling to loan funds to the merged company in the future. To the extent permitted by the merged company's regulators, it will require greater dividends from its subsidiaries than those historically received in order to satisfy its debt service requirements. If its subsidiaries pay dividends to the merged company, they will have less capital to address their capital expenditures and working capital needs.

**The merged company's allowance for loan losses may not be adequate to cover actual loan losses.**

The merged company's loan customers may not repay their loans according to their terms, and the customers' collateral securing the payment of their loans may be insufficient to assure repayment. Approximately 59% of the merged company's loans are comprised of commercial real estate and commercial lines of credit and term and development loans, which can result in higher loan loss experience than residential loans in economic downturns. The underwriting, review and monitoring that will be performed by the merged company's officers and directors cannot eliminate all of the risks related to these loans.

Each of First Merchants and Lincoln make various assumptions and judgments about the collectability of loan portfolios and provide allowances for potential losses based on a number of factors. If the assumptions are wrong or the facts and circumstances subsequently change, the allowance for loan losses may not be sufficient to cover the merged company's loan losses. The merged company may have to increase the allowance in the future. Increases in the merged company's allowance for loan losses would decrease its net income.

**Changes in interest rates may reduce the merged company's net interest income.**

Like other financial institutions, the merged company's net interest income is its primary revenue source. Net interest income is the difference between interest earned on loans and investments and interest expense incurred on deposits and other borrowings. The merged company's net interest income will be affected by changes in market rates of interest, the interest rate sensitivity of its assets and liabilities, prepayments on its loans and investments and limits on increases in the rates of interest charged on its residential real estate loans.

**Table of Contents**

The merged company will not be able to predict or control changes in market rates of interest. Market rates of interest are affected by regional and local economic conditions, as well as monetary policies of the Federal Reserve Board. The following factors also may affect market interest rates:

inflation;

slow or stagnant economic growth or recession;

unemployment;

money supply;

international disorders;

instability in domestic and foreign financial markets; and

others factors beyond the merged company's control.

Each of First Merchants and Lincoln has policies and procedures designed to manage the risks from changes in market interest rates; however, despite risk management, changes in interest rates could adversely affect the merged company's results of operations and financial condition.

**Changes in economic conditions and the geographic concentration of the merged company's markets could adversely affect the merged company's financial condition.**

The merged company's success will depend to a great extent upon the general economic conditions of the Central Indiana and Central Ohio areas. Unlike larger banks that are more geographically diversified, the merged company will provide banking and financial services to customers primarily in the Central Indiana and Central Ohio areas. Favorable economic conditions may not exist in the merged company's markets.

An economic slowdown could have the following consequences:

loan delinquencies may increase;

problem assets and foreclosures may increase;

demand for the products and services of Lincoln and First Merchants may decline; and

collateral for loans made by Lincoln and First Merchants may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with existing loans.

**Anti-takeover defenses may delay or prevent future mergers.**

Provisions contained in First Merchants' Articles of Incorporation and By-Laws and certain provisions of Indiana law could make it more difficult for a third party to acquire First Merchants, even if doing so might be beneficial to First Merchants shareholders. See "COMPARISON OF COMMON STOCK Anti-Takeover Provisions" on page 132. These provisions could limit the price that some investors might be willing to pay in the future for shares of First Merchants common stock and may have the effect of delaying or preventing a change in control.

**If the merger is not completed, Lincoln will have incurred substantial expenses without realizing the expected benefits.**

Lincoln has incurred substantial expenses in connection with the transactions described in this proxy statement-prospectus. The completion of the merger depends on the satisfaction of several conditions. We cannot guarantee that these conditions will be met. Lincoln expects to incur approximately \$ [redacted] in merger related expenses, which include legal, accounting and financial advisory expenses and which excludes the investment banker's commission on the sale and any termination fees, if applicable. These expenses could have a material adverse impact on the financial condition of Lincoln because it would not have realized the expected benefits of the merger. There can be no assurance that the merger will be completed.

**Table of Contents**

**The termination fee and the restrictions on solicitation contained in the Merger Agreement may discourage other companies from trying to acquire Lincoln.**

Until the completion of the merger, with some exceptions, Lincoln is prohibited from soliciting, initiating, encouraging or participating in any discussion of or otherwise considering any inquiries or proposals that may lead to an acquisition proposal, such as a merger or other business combination transaction, with any person other than First Merchants. In addition, Lincoln has agreed to pay a termination fee and expenses of \$3,200,000 to First Merchants if the Lincoln Board of Directors does not recommend approval of the Merger Agreement to the Lincoln shareholders. These provisions could discourage other companies from trying to acquire Lincoln even though such other companies might be willing to offer greater value to Lincoln's shareholders than First Merchants has offered in the Merger Agreement. The payment of the termination fee also could have a material adverse effect on Lincoln's financial condition.

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**Table of Contents**

**THE LINCOLN SPECIAL MEETING**

**Special Meeting of Shareholders of**

**Lincoln Bancorp**

***General Information***

We are furnishing this document to the shareholders of Lincoln in connection with the solicitation by the Board of Directors of Lincoln of proxies for use at the Lincoln special meeting of shareholders to be held on \_\_\_\_\_, 2008, at \_\_\_\_\_:\_\_\_\_\_.m., local time, at Guilford Township Community Center, Hummel Park, 1500 S. Center Street, Plainfield, Indiana. This document is first being mailed to Lincoln shareholders on \_\_\_\_\_, 2008, and includes the notice of Lincoln special meeting, and is accompanied by a form of proxy. The Election Form will be sent to you through a separate mailing.

***Matters To Be Considered***

The purposes of the special meeting are for you to consider and vote upon adoption of the Merger Agreement, by and between First Merchants and Lincoln, to consider and vote upon a proposal to adjourn or postpone the meeting to permit further solicitation of proxies, and to consider and vote upon any other matters that properly come before the special meeting or any adjournment or postponement of the special meeting. Pursuant to the Merger Agreement, Lincoln will merge into First Merchants. The Merger Agreement is attached to this document as Appendix A and is incorporated in this document by this reference. For a description of the Merger Agreement, see THE MERGER, beginning on page 30.

***Votes Required***

Adoption of the Merger Agreement requires the affirmative vote of at least a majority of the outstanding Lincoln common shares. Lincoln has fixed \_\_\_\_\_, 2008, as the record date for determining those Lincoln shareholders entitled to notice of, and to vote at, the special meeting. Accordingly, if you were a Lincoln shareholder of record at the close of business on \_\_\_\_\_, 2008, you will be entitled to notice of and to vote at the special meeting. If you are not the record holder of your shares and instead hold your shares in a street name through a bank, broker or other record holder, that person will vote your shares in accordance with the instructions you provide them on the enclosed proxy. Each Lincoln common share you own on the record date entitles you to one vote on each matter presented at the special meeting. At the close of business on the record date of \_\_\_\_\_, 2008, there were approximately \_\_\_\_\_ Lincoln common shares outstanding held by approximately \_\_\_\_\_ shareholders.

As of the record date, Lincoln's executive officers, directors and their affiliates had voting power with respect to an aggregate of \_\_\_\_\_ shares or approximately \_\_\_\_\_% of the Lincoln common shares outstanding. Each member of the Board of Directors of Lincoln as of September 2, 2008, the date the Merger Agreement was executed, signed a voting agreement with First Merchants to cause all Lincoln common shares owned by them of record or beneficially to be voted in favor of the merger. See THE MERGER Voting Agreement on page 58. As of the record date, the members of the Lincoln Board of Directors and their affiliates had power to vote an aggregate of \_\_\_\_\_ Lincoln common shares outstanding. In addition, we also currently expect that the executive officers of Lincoln will vote all of their shares in favor of the proposal to adopt the Merger Agreement.

***Proxies***

If you are a Lincoln shareholder, you should have received a proxy card for use at the Lincoln special meeting with this proxy statement-prospectus. The accompanying proxy card is for your use at the special meeting if you are unable or do not wish to attend the special meeting in person. The shares represented by proxies properly signed and returned will be voted at the special meeting as instructed by the Lincoln shareholders giving the proxies. Proxy cards that are properly signed and returned but do not have voting

## Table of Contents

instructions will be voted **FOR** adoption of the Merger Agreement and **FOR** adjournment or postponement of the special meeting to permit further solicitation of proxies in the event that an insufficient number of shares is present to approve the Merger Agreement.

If you deliver a properly signed proxy card, you may revoke your proxy at any time before it is exercised by:

delivering to the Secretary of Lincoln at or prior to the special meeting a written notice of revocation addressed to John M. Baer, Lincoln Bancorp, 905 Southfield Drive, Plainfield, Indiana 46168; or

delivering to Lincoln at or prior to the special meeting a properly executed proxy having a later date; or

voting in person by ballot at the special shareholders meeting.

Therefore, your right to attend the special meeting and vote in person will not be affected by executing a proxy. If your shares are held in the name of your broker, bank or other nominee, and you wish to vote in person, you must bring an account statement and authorization from your nominee so that you may vote your shares in person or by proxy at the special meeting. In addition, to be effective, Lincoln must receive the revocation before the proxy is exercised.

**Because adoption of the Merger Agreement requires the affirmative vote of at least a majority of the outstanding Lincoln common shares, abstentions and broker non-votes will have the same effect as voting against adoption of the Merger Agreement. Accordingly, your Board of Directors urges all Lincoln shareholders to complete, date and sign the accompanying proxy and return it promptly in the enclosed postage-paid envelope. You should not send stock certificates with your proxy card.**

### *Participants in Lincoln's ESOP*

If you participate in the Employee Stock Ownership Plan portion of Lincoln's 401(k) plan, you will receive a voting instruction form that reflects all shares you may vote under the employee stock ownership plan. Under its terms, all shares held in the employee stock ownership plan will be voted by the employee stock ownership plan trustee, but each participant in the employee stock ownership plan may direct the trustee how to vote the shares of Lincoln common stock allocated to his or her employee stock ownership plan account. Unallocated shares of Lincoln common stock held by the employee stock ownership plan trust and allocated shares for which no timely voting instructions are received will be voted by the trustee in the same proportion as shares for which the trustee has received voting instructions, subject to the exercise of its fiduciary duties. The deadline for returning your voting instructions to the trustee is \_\_\_\_\_, 2008.

### *Solicitation of Proxies*

Lincoln will bear the entire cost of soliciting proxies from Lincoln shareholders. In addition, Lincoln will bear the cost of printing and mailing this document. Lincoln will request that banks, brokers and other record holders send proxies and proxy material to the beneficial owners of stock held by them and secure their voting instructions, if necessary. Lincoln will reimburse these banks, brokers and other record holders for their reasonable expenses. In addition to solicitation of proxies by mail, proxies may be solicited personally or by telephone by directors, officers and certain employees of Lincoln, who will not be specially compensated for such soliciting. In addition, Georgeson Shareholder Communications, Inc. has been engaged to assist with the solicitation of proxies and the return of election forms and will receive fees estimated at \$ \_\_\_\_\_ plus reimbursement of out-of-pocket expenses. Lincoln will also make arrangements with brokerage firms, fiduciaries and other custodians who hold shares of record to forward solicitation materials to the beneficial owners of these shares. Lincoln will reimburse these brokerage firms, fiduciaries and other custodians for their reasonable out-of-pocket expenses in connection with this solicitation.



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**Table of Contents**

In soliciting proxies, no one has any authority to make any representations and warranties about the merger or the Merger Agreement in addition to or contrary to the provisions stated in this document. No statement regarding the merger or the Merger Agreement should be relied upon except as expressly stated in this document.

***Recommendation of the Board of Directors***

Lincoln's Board of Directors has unanimously approved the Merger Agreement and the merger. Lincoln's Board believes that the merger is fair to and in the best interests of Lincoln and its shareholders. The Board unanimously recommends that the Lincoln shareholders vote **FOR** the Merger Agreement. See "THE MERGER Lincoln's Reasons for the Merger" on page 32 and "THE MERGER Recommendation of the Board of Directors" on page 33.

***Proposal to Adjourn or Postpone the Special Meeting***

In addition to the proposal to approve the merger, you are also being asked to approve a proposal to adjourn or postpone the special meeting to permit further solicitation of proxies in the event that an insufficient number of shares is present in person or by proxy to approve the merger.

Pursuant to Indiana law, the holders of at least a majority of the outstanding shares of Lincoln's common stock are required to approve the merger. It is rare for a company to achieve 100% (or even 90%) shareholder participation at a meeting of shareholders, and only a majority of the holders of the outstanding shares of common stock of Lincoln are required to be represented at the special meeting, in person or by proxy, in order for a quorum to be present. In the event that shareholder participation at the special meeting is lower than expected, Lincoln would like the flexibility to adjourn or postpone the meeting in order to attempt to secure broader shareholder participation in the decision to merge the two companies.

Approval of the proposal to adjourn or postpone the special meeting to allow extra time to solicit proxies (Proposal 2 on your proxy card) requires more votes to be cast in favor of the proposal than are cast against it. Abstentions and broker non-votes will not be treated as "NO" votes (as they are with respect to the merger) and, therefore, will have no effect on this proposal.

Lincoln's Board of Directors recommends that you vote **FOR** this proposal.

***Other Matters***

The special meeting of Lincoln shareholders has been called for the purposes set forth in the Notice to Lincoln shareholders included in this document. Your Board of Directors is unaware of any other matter for action by shareholders at the special meeting other than the proposal to adopt the Merger Agreement. However, the enclosed proxy will give discretionary authority to the persons named in the proxy with respect to matters which are not known to your Board of Directors as of the date hereof and which may properly come before the special meeting. It is the intention of the persons named in the proxy to vote with respect to such matters in accordance with the recommendations of the management of Lincoln.

***Security Ownership of Lincoln Management***

The following table shows, as of September 18, 2008, the number and percentage of shares of common stock held by Lincoln's directors, executive officers, holders of more than five percent of Lincoln's common stock, and directors and executive officers as a group.

The information provided in the table is based on our records, information filed with the U.S. Securities and Exchange Commission, and information provided to us, except where otherwise noted.

The number of shares beneficially owned by each individual is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose, including the ability to

**Table of Contents**

vote such shares at the special meeting. Under these rules, beneficial ownership includes any shares as to which the individual has the right to acquire within 60 days after September 18, 2008 through the exercise of any stock option or other right. Unless otherwise indicated, each person has sole voting and investment power (or shares these powers with his or her spouse) with respect to the shares set forth in the following table.

**Security Ownership**

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Lester N. Bergum	52,977(1)	*
Dennis W. Dawes	26,690(2)	*
Jerry R. Engle	142,541(3)	2.63%
W. Thomas Harmon	77,197(4)	1.45%
Jerry R. Holifield	62,483(5)	1.17%
David E. Mansfield	41,480(6)	*
R. J. McConnell	44,861(7)	*
Patrick A. Sherman	36,000(8)	*
John M. Baer	130,870(9)	2.43%
J. Douglas Bennett	8,475(10)	*
John B. Ditmars	77,241(11)	1.44%
Bryan Mills	10,247(12)	*
Jonathan D. Slaughter	18,478(13)	*
Fiserve, Inc., as trustee under the Lincoln Bancorp Employee Stock Ownership and 401(k) Plan and Trust	465,045(14)	8.74%
All directors and executive officers as a group (13 persons)	729,540(15)	12.73%

\* Less than 1% of the class.

- (1) Includes 19,694 shares held jointly by Mr. Bergum and his spouse, options for 20,000 shares granted under Lincoln's option plans, and 893 shares held under the Recognition and Retention Plan. Does not include options for 2,000 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.
- (2) Includes options for 23,500 shares granted under Lincoln's option plans, and 893 shares held under the Recognition and Retention Plan. Does not include options for 2,000 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.
- (3) Includes 34,603 shares held jointly by Mr. Engle and his spouse, all of which are held in a brokerage account securing a margin loan to Mr. Engle, 99,875 shares subject to options granted under Lincoln's option plans, 3,000 shares held under the Lincoln Bank Recognition and Retention Plan and Trust, and 3,696 shares allocated to Mr. Engle's account under the 401(k) Plan as of December 31, 2007. Does not include options for 16,000 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.
- (4) Includes 20,000 shares granted under Lincoln's option plans and 893 shares held under the Recognition and Retention Plan. Includes 15,401 shares held in trust for the benefit of his spouse, as to which Mr. Harmon serves as trustee, and 14,130 shares held in his wife's trust for Mr. Harmon's benefit, as to which his wife serves as trustee. Does not include options for 2,000 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.
- (5) Includes 15,297 shares held jointly by Mr. Holifield and his spouse, options for 30,000 shares granted under Lincoln's option plans, and 893 shares held under the Recognition and Retention Plan. Does not include options for 2,000 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.
- (6) Includes 11,107 shares held in a trust for the benefit of Mr. Mansfield's children, as to which Mr. Mansfield and his spouse serve as trustees, options for 29,480 shares granted under Lincoln's option plans, and 893 shares held under the Lincoln Bank Recognition and Retention Plan (**Recognition and Retention Plan**).

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**Table of Contents**

- Does not include options for 2,000 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.
- (7) Includes 6,087 shares held in a trust for the benefit of Mr. McConnell, 3,774 shares held jointly with his spouse, all of which are pledged to secure a bank loan to Mr. McConnell, 3,000 shares held under the Recognition and Retention Plan, and options for 30,000 shares granted under Lincoln's option plans. Does not include options for 2,000 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.
- (8) Includes 30,000 shares granted under Lincoln's option plans and 3,000 shares held under the Recognition and Retention Plan. Does not include options for 2,000 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.
- (9) Includes 24,891 shares held jointly by Mr. Baer and his spouse, 15,391 of which are pledged to secure a bank loan to Mr. Baer, options for 60,092 shares granted under Lincoln's option plans, and 16,987 shares allocated to Mr. Baer's account under the 401(k) Plan as of December 31, 2007. Does not include options for 2,250 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.
- (10) Includes 2,000 shares subject to options granted under Lincoln's stock option plans. Does not include options for 5,250 shares which are not exercisable within 60 days of September 18, 2008.
- (11) Includes 6,016 shares held jointly by Mr. Ditmars and his spouse, 984 shares held in a trust of which Mr. Ditmars is a beneficiary, 57,625 shares subject to options granted under Lincoln's option plans, and 2,629 shares allocated to Mr. Ditmars' account under the 401(k) Plan as of December 31, 2007. Does not include options for 18,250 shares granted under those option plans which are not exercisable within 60 days of September 18, 2008.
- (12) Includes 2,250 shares subject to options granted under Lincoln's stock option plans and 81 shares held as custodian for Mr. Mills daughter. Does not include options for 2,250 shares which are not exercisable within 60 days of September 18, 2008.
- (13) Includes options for 5,000 shares granted under Lincoln's option plans and 3,014 shares allocated to Mr. Slaughter's account under the 401(k) Plan as of December 31, 2007. Does not include options for 2,250 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.
- (14) These shares are held by the Trustee of the Lincoln Bancorp Employee Stock Ownership and 401(k) Plan and Trust. The employees participating in that plan are entitled to instruct the Trustee how to vote shares held in their accounts under the plan. Unallocated shares held in a suspense account under the employee stock ownership portion of the plan are required under the plan terms to be voted by the Trustee in the same proportion as allocated shares are voted.
- (15) Includes 13,465 shares held under the Recognition and Retention Plan, options for 409,822 shares granted under Lincoln's option plans, and 28,792 shares allocated to the accounts of those persons under the 401(k) Plan as of December 31, 2007. Does not include options for 60,250 shares granted under Lincoln's option plans which are not exercisable within 60 days of September 18, 2008.

## **Table of Contents**

### **THE MERGER**

*At the special meeting, the shareholders of Lincoln will consider and vote upon adoption of the Merger Agreement. The following summary highlights some of the terms of the Merger Agreement. Because this is a summary of the Merger Agreement, it does not contain a description of all of the terms of the Merger Agreement and is qualified in its entirety by reference to the Merger Agreement. To understand the merger, you should read carefully the entire Merger Agreement, which is attached to this document as Appendix A and is incorporated herein by reference.*

#### ***Description of the Merger***

Under the terms of the Merger Agreement, Lincoln will merge with First Merchants and the separate corporate existence of Lincoln will cease. The Articles of Incorporation and By-Laws of First Merchants, as in effect prior to the merger, will continue to be the Articles of Incorporation and By-Laws of First Merchants after the merger.

#### ***Background of the Merger***

The Board of Directors and management of Lincoln have periodically explored and discussed strategic options potentially available to Lincoln in light of the growing competition and continuing consolidation in the banking and financial services industry and the increasing difficulty financial institutions such as Lincoln have in competing effectively with larger financial institutions. These strategic discussions have included, among other things, continuing as an independent institution, pursuing strategies for organic growth and acquiring, affiliating or merging with other financial institutions. On certain occasions, representatives of Lincoln have had informal exploratory discussions with representatives of other financial institutions concerning the possibility of a business combination. Until early 2008, the Lincoln Board of Directors had concluded that Lincoln's shareholders, customers and employees were best served by Lincoln remaining as an independent financial institution.

At its January 22, 2008 meeting, the Lincoln Board of Directors met with representatives of Sandler O'Neill & Partners, L.P. (**Sandler**) and determined to engage Sandler to render financial advisory and investment banking services in connection with the evaluation of strategic alternatives, including a possible combination with another financial institution. At this meeting, Lincoln and Sandler discussed the universe of potential buyers, compiled preliminary information on Lincoln and examined the financial impact of a potential business combination. By letter dated January 23, 2008, Lincoln retained Sandler.

In a series of meetings of the Lincoln Board of Directors held between January and April, 2008, the Board continued to consider the advantages and disadvantages of engaging in a business combination at the present time. Lincoln's Board and senior management also worked with Sandler to prepare a Confidential Information Memorandum to be used to determine the level of interest of other financial institutions in acquiring Lincoln.

In late April 2008, Sandler began contacting on behalf of Lincoln potential strategic partners, including First Merchants, and distributed confidentiality agreements to those who expressed an initial interest. Seven financial institutions executed confidentiality agreements. In early May 2008, Confidential Information Memoranda were distributed to the seven parties that executed confidentiality agreements. Each of the parties receiving Confidential Information Memoranda were asked to review the information provided in that document in conjunction with publicly available information regarding Lincoln in order to provide an initial, non-binding indication of interest by May 22, 2008.

On May 27, 2008, Sandler reviewed the results of the solicitation process with management and the Board of Directors of Lincoln. In that meeting, Sandler detailed each non-binding indication of interest submitted, the pro forma impact of a business combination with each institution that submitted a non-binding indication of interest, the general banking environment and the current merger and acquisition environment. Of the seven

**Table of Contents**

parties receiving Confidential Information Memoranda, three financial institutions submitted a written, non-binding indication of interest for an affiliation with Lincoln, subject to due diligence and negotiation of a definitive agreement. After reviewing these preliminary indications of interest with Sandler, the Board of Directors of Lincoln elected to invite those three institutions to interview with the Board of Directors of Lincoln. At a meeting on June 4, 2008, the Lincoln Board of Directors did interview the three institutions, and after consideration of each institution's indication of interest, organizational background, strategic objectives and potential approach to integration of a potential acquisition with Lincoln, the Board of Directors of Lincoln elected to invite two of the three financial institutions to conduct due diligence investigations of Lincoln.

During the period between June 16, 2008 and June 28, 2008 the two financial institutions conducted their due diligence reviews of Lincoln. First Merchants submitted a revised indication of interest on July 23, 2008.

On July 29, 2008, with the assistance of Sandler, the Lincoln Board of Directors reviewed the revised indication of interest from First Merchants. Sandler made a presentation summarizing the perceived advantages and disadvantages of the proposal and provided an update on prevailing market conditions for publicly-traded financial stocks. The Lincoln Board of Directors determined that a transaction with First Merchants might present the best strategic opportunity for Lincoln and its shareholders and directed management to proceed with negotiation of the terms set forth in First Merchants' indication of interest.

As negotiations progressed, Lincoln began conducting an on-site due diligence investigation of First Merchants on August 11, 2008. During the next several days, management of Lincoln, Sandler and legal counsel conducted additional due diligence reviews of First Merchants.

During the month of August, Lincoln, through its legal counsel and Sandler, negotiated a Merger Agreement with First Merchants and its legal counsel. During that period, the parties also prepared disclosure letters to accompany the Merger Agreement, conducted additional due diligence investigations and negotiated the voting agreement that First Merchants requested the directors and certain executive officers of Lincoln and Lincoln Bank to sign. The management of Lincoln provided the Board of Directors with an update on the status of the negotiations at its regularly scheduled board meeting on August 19, 2008.

On August 27, 2008, drafts of the Merger Agreement were sent by overnight delivery to the members of the Board of Directors of Lincoln for their initial review. At a meeting of the Board of Directors on August 29, 2008, legal counsel, together with Sandler, led the Board of Directors of Lincoln through a page-by-page, detailed review and discussion of the Merger Agreement, including additional changes from the drafts sent to the directors for their review, and outlined relevant outstanding issues. Following that meeting, members of the management teams of Lincoln and First Merchants and their respective legal counsel engaged in further negotiations on the outstanding issues.

On August 29, 2008, the First Merchants Board of Directors approved the terms of the Merger Agreement and authorized its executive officers to complete any further negotiations of the terms of the Merger Agreement within certain parameters.

On September 2, 2008, the Board of Directors of Lincoln held a special meeting with legal counsel and Sandler to receive an update on the events that had transpired to date and further review and discuss the finalized Merger Agreement and voting agreement. At that meeting, legal counsel reviewed the terms of the Merger Agreement and pointed out changes from the drafts previously reviewed by the Lincoln Board of Directors. Additionally, legal counsel discussed the directors' fiduciary duties under Indiana law. Also at that meeting, Sandler rendered its opinion to the Board of Directors of Lincoln that the consideration to be received under the terms of First Merchants' offer was fair to the shareholders of Lincoln from a financial point of view. Following review and discussion, the Board of Directors of Lincoln, by a unanimous vote, (1) determined that the Merger Agreement and the transactions contemplated under the Merger Agreement, including the merger, were in the best interests of Lincoln and its shareholders, (2) authorized management to execute and deliver the Merger Agreement, (3) recommended that the shareholders of Lincoln adopt and approve the Merger Agreement and the merger and (4) directed that the Merger Agreement and the merger be submitted to the shareholders at a special meeting. The directors and executive officers of Lincoln and Lincoln Bank also executed the proposed voting agreement.

**Table of Contents**

The Merger Agreement was finalized and executed by all parties following the Lincoln board meeting in the evening of September 2, 2008. On the morning of September 3, 2008, Lincoln and First Merchants issued a joint press release announcing the signing of the Merger Agreement.

***First Merchants Reasons for the Merger***

In reaching its decision to approve the Merger Agreement and the merger, the First Merchants Board of Directors considered a number of factors concerning First Merchants' benefits from the merger. Without assigning any relative or specific weights to the factors, the First Merchants Board considered the following material factors:

First Merchants' respect for the ability and integrity of the Lincoln Board of Directors, management, and staff, and their affiliates;

First Merchants' belief that expanding its operations offers important long-term strategic benefits to First Merchants;

Lincoln's community banking orientation and its compatibility with First Merchants and its subsidiaries;

management's view that the acquisition of Lincoln provides an attractive opportunity to enhance First Merchants' presence in Central Indiana and the greater Indianapolis market, which is consistent with its strategic objectives to expand in desirable markets;

the likelihood of a successful integration of Lincoln's business, operations and workforce with those of First Merchants and of successful operation of the combined company despite the challenges of this integration;

a review of (i) the business, operations, earnings, and financial condition including the capital levels and asset quality, of Lincoln on a historical, prospective, and pro forma basis in comparison to other financial institutions in the area, (ii) the demographic, economic, and financial characteristics of the market in which Lincoln operates, including existing competition, history of the market areas with respect to financial institutions, and average demand for credit, on a historical and prospective basis, and (iii) the results of First Merchants' due diligence review of Lincoln; and

a variety of factors affecting and relating to the overall strategic focus of First Merchants.

***Lincoln's Reasons for the Merger***

The Lincoln Board of Directors determined that the Merger Agreement and the merger consideration are in the best interests of Lincoln and its shareholders and recommends that Lincoln shareholders vote in favor of the approval of the Merger Agreement and the transactions contemplated by the Merger Agreement, including the merger.

In its deliberations and in making its determination, the Lincoln Board of Directors considered many factors including, without limitation, the following:

the fact that the value of the merger consideration represented a premium over the \$10.35 closing price of Lincoln's common stock on September 2, 2008 (the last trading day before the merger was announced);

the increased level of competition within the banking sector generally and within the market areas served by Lincoln from other, larger financial institutions and non-bank competitors;

the current and prospective economic climate for smaller financial institutions generally and Lincoln specifically, including declining net interest margins for many financial institutions, slower deposit growth and the increasing cost of regulatory burdens;

the effect of the merger on Lincoln Bank's employees, including the prospect of continued employment and enhanced employment opportunities with a much larger and more diversified financial organization;

**Table of Contents**

the effect of the merger on Lincoln Bank's customers and community, including First Merchants' community banking orientation and its compatibility with Lincoln;

more diverse financial products and services for Lincoln customers and an enhanced competitive position in the markets in which Lincoln operates;

the desire to provide shareholders with the prospects for greater future appreciation on their investments in Lincoln common stock than Lincoln could likely achieve independently;

the greater liquidity of First Merchants common stock, which is traded on the NASDAQ Global Select Market System;

the higher level of dividends paid by First Merchants on its common stock than Lincoln would be likely to achieve in the near future;

the potential tax advantage to Lincoln shareholders of accepting stock or stock and cash; and

the opinion delivered by Sandler that the merger consideration is fair, from a financial point of view, to the shareholders of Lincoln. The Lincoln Board of Directors also identified several risks, uncertainties and disadvantages of the proposed transaction including, without limitation, the following:

the potential risks to Lincoln shareholders of accepting First Merchants stock for their Lincoln shares and thereby continuing to be subject to the uncertain market for financial institution stocks;

the possibility that by remaining independent Lincoln might obtain a higher price for shareholders at some time in the future;

the possible negative effects of the transaction on Lincoln's employees, customers and local community;

the possible disruption to Lincoln's business that might result from the announcement of the transaction, the distractions of its management's attention from the day-to-day operation of Lincoln's business and certain restrictions in the Merger Agreement on Lincoln's operations pending the completion of the merger; and

the liquidated damages to be paid by Lincoln if the Merger Agreement were terminated under certain circumstances.

The foregoing discussion of the information and factors considered by Lincoln is not intended to be exhaustive. In reaching its determination to enter into the Merger Agreement, Lincoln did not assign any relative or specific weights to the foregoing factors.

***Recommendation of the Board of Directors***

**Lincoln's Board of Directors has carefully considered and unanimously approved the Merger Agreement and unanimously recommends to Lincoln shareholders that you vote FOR the adoption of the Merger Agreement.**

***Funding of the Merger***



## Edgar Filing: FIRST MERCHANTS CORP - Form S-4

First Merchants will need cash in the amount of approximately \$4 million to \$17 million, depending on Lincoln shareholder elections, to fund the cash consideration portion of the merger consideration. First Merchants proposes to obtain the necessary funds to acquire the common stock of Lincoln through borrowings under its existing line of credit with Bank of America and from internal cash sources.

### *Effects of the Merger*

The respective Boards of Directors of First Merchants and Lincoln believe that, over the long-term, the merger will be beneficial to First Merchants shareholders, including the current shareholders of Lincoln who will

## Table of Contents

become First Merchants shareholders if the merger is completed. The First Merchants Board of Directors believes that one of the potential benefits of the merger is the cost savings that may be realized by combining the two companies, which savings are expected to enhance First Merchant s earnings.

First Merchants expects to reduce expenses by combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which will enable First Merchants to achieve economies of scale in these areas. Promptly following the completion of the merger, which is expected to occur during the fourth quarter of 2008, First Merchants plans to begin the process of eliminating redundant functions, and eliminating duplicative expenses. The amount of any cost savings First Merchants may realize in 2009 will depend upon how quickly and efficiently First Merchants is able to implement the processes outlined above during the year.

First Merchants believes that it will achieve cost savings based on the assumption that it will be able to:

reduce data processing costs;

reduce staff;

achieve economies of scale in advertising and marketing budgets;

reduce legal and accounting fees; and

achieve other savings through reduction or elimination of miscellaneous items such as insurance premiums, travel and automobile expense, and investor relations expenses.

First Merchants has based these assumptions on its present assessment of where savings could be realized based upon the present independent operations of the two companies. Actual savings in some or all of these areas could be higher or lower than is currently expected.

First Merchants also believes that the merger will be beneficial to the customers of Lincoln as a result of the additional products and services offered by First Merchants and its subsidiary banks and because of the increased lending capability.

### *Opinion of Lincoln s Financial Advisor*

As described above, the opinion of Sandler was among the many factors taken into consideration by the Lincoln Board of Directors in making its determination to approve the merger.

By letter dated January 23, 2008, Lincoln retained Sandler to act as its financial advisor in connection with a possible business combination. Sandler is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler acted as financial advisor to Lincoln in connection with the proposed transaction and participated in certain of the negotiations leading to the execution of the Merger Agreement on September 2, 2008. At the September 2, 2008 meeting at which the Lincoln Board of Directors considered and approved the Merger Agreement, Sandler delivered to the Lincoln Board of Directors its oral opinion, later confirmed in writing, that, as of such date, the merger consideration was fair to the holders of Lincoln common stock, from a financial point of view. **The full text of Sandler s opinion is attached as Appendix B to this proxy statement-prospectus. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the full text of the opinion. Lincoln s shareholders are urged to read the entire opinion carefully in connection with their consideration of the proposed merger.**



**Table of Contents**

**Sandler's opinion speaks only as of the date of the opinion. The opinion was directed to the Lincoln Board of Directors and is directed only to the fairness of the merger consideration to the holders of Lincoln common stock from a financial point of view. The opinion does not address the underlying business decision of Lincoln to engage in the merger or any other aspect of the merger and is not a recommendation to any Lincoln shareholder as to how such shareholder should vote at the special meeting with respect to the merger or any other matter.**

In connection with rendering its September 2, 2008 opinion, Sandler reviewed and considered, among other things:

- (i) the Merger Agreement;
- (ii) certain publicly available financial statements and other historical financial information of Lincoln that Sandler deemed relevant;
- (iii) certain publicly available financial statements and other historical financial information of First Merchants that Sandler deemed relevant;
- (iv) internal financial projections for Lincoln for the year ending December 31, 2008 and an estimated growth rate for the years thereafter as prepared by and reviewed with management of Lincoln;
- (v) internal earnings estimates for First Merchants for the years ending December 31, 2008 and December 31, 2009 as discussed with senior management of First Merchants and an estimated long-term growth rate for the years thereafter as reviewed with senior management of First Merchants;
- (vi) the pro forma financial impact of the merger on First Merchants based on assumptions relating to transaction expenses, purchase accounting adjustments and cost savings determined by the senior managements of Lincoln and First Merchants;
- (vii) the publicly reported historical price and trading activity for Lincoln's and First Merchants' respective common stock, including a comparison of certain financial and stock market information for Lincoln and First Merchants with similar publicly available information for certain other companies the securities of which are publicly traded;
- (viii) the financial terms of certain recent business combinations in the commercial banking and savings institution industry, to the extent publicly available;
- (ix) the current market environment generally and the banking environment in particular; and
- (x) such other information, financial studies, analyses and investigations and financial, economic and market criteria that Sandler considered relevant.

Sandler also discussed with certain members of senior management of Lincoln the business, financial condition, results of operations and prospects of Lincoln and held similar discussions with certain members of senior management of First Merchants regarding the business, financial condition, results of operations and prospects of First Merchants.

In performing its review, Sandler relied upon the accuracy and completeness of all the financial and other information that was available to them from public sources, that was provided to Sandler by Lincoln and First Merchants or their respective representatives or that was otherwise

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reviewed by Sandler, and Sandler has assumed such accuracy and completeness for purposes of rendering this opinion. Sandler further relied on the assurances of the respective managements of Lincoln and First Merchants that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Sandler has not been asked to and has not undertaken an independent verification of any of such information and Sandler does not assume any responsibility or liability for the accuracy or completeness thereof. Sandler did not make an independent evaluation or appraisal of the specific assets, the collateral securing the assets or the liabilities (contingent or otherwise) of Lincoln and First Merchants or any of their respective subsidiaries, or the collectibility of any such assets, nor has Sandler been furnished with any such evaluations or appraisals. Sandler did not make an

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**Table of Contents**

independent evaluation of the adequacy of the allowance for loan losses of Lincoln and First Merchants nor has Sandler reviewed any individual credit files relating to Lincoln and First Merchants. Sandler has assumed, with Lincoln's consent, that the respective allowances for loan losses for both Lincoln and First Merchants are adequate to cover such losses and will be adequate on a pro forma basis for the combined entity.

In preparing its analyses, Sandler received internal estimates for Lincoln and First Merchants from the respective managements of Lincoln and First Merchants. The projections of transaction costs, purchase accounting adjustments and expected cost savings used by Sandler in its analyses were prepared by and/or reviewed with the managements of Lincoln and First Merchants and were confirmed to Sandler that they reflected the best currently available estimates and judgments of such management of the future financial performance of Lincoln and First Merchants, respectively, and Sandler assumed that such performance would be achieved. Sandler expresses no opinion as to such estimates or the assumptions on which they are based. Sandler has also assumed that there has been no material change in Lincoln's and First Merchants' assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to Sandler. Sandler has assumed in all respects material to its analysis that Lincoln and First Merchants will remain as going concerns for all periods relevant to its analyses, that all of the representations and warranties contained in the Merger Agreement and all related agreements are true and correct, that each party to the agreements will perform all of the covenants required to be performed by such party under the agreements, that the conditions precedent in the agreements are not waived and that the merger will qualify as a tax-free reorganization for federal income tax purposes. Finally, with Lincoln's consent, Sandler relied upon the advice Lincoln has received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger and the other transactions contemplated by the Merger Agreement.

Sandler's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to them of the date of its opinion. Events occurring after the date of its opinion could materially affect its opinion. Sandler has not undertaken to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after the date of its opinion. Sandler expressed no opinion as to what the value of First Merchants' common stock will be when issued to Lincoln's shareholders pursuant to the Merger Agreement or the prices at which Lincoln's and First Merchants' common stock may trade at any time. Sandler's opinion was approved by its fairness opinion committee and the opinion does not address in any way the fairness of the amount or nature of the compensation to be received in the merger by Lincoln's officers, directors, or employees, or class of such persons, relative to the compensation to be received in the merger by any other shareholders of Lincoln.

In rendering its September 2, 2008 opinion, Sandler performed a variety of financial analyses. The following is a summary of the material analyses performed by Sandler, but is not a complete description of all the analyses underlying Sandler's opinion. The summary includes information presented in tabular format. **In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.** The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler's comparative analyses described below is identical to Lincoln or First Merchants and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Lincoln and First Merchants and the companies to which they are being compared.

In performing its analyses, Sandler also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond

**Table of Contents**

the control of Lincoln, First Merchants and Sandler. The analyses performed by Sandler are not necessarily indicative of actual values or future results, both of which may be significantly more or less favorable than suggested by such analyses. Sandler prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the Lincoln Board of Directors at its September 2, 2008 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Sandler's analyses do not necessarily reflect the value of Lincoln's common stock or the prices at which Lincoln's common stock may be sold at any time. The combined analyses of Sandler and the opinion provided were among a number of factors taken into consideration by the Lincoln Board of Directors in making its determination to adopt the plan of merger contained in the Merger Agreement and the analyses described below should not be viewed as determinative of the decision of the Lincoln Board of Directors or management with respect to the fairness of the merger.

In arriving at its opinion Sandler did not attribute any particular weight to any analysis or factor that it considered. Rather it made qualitative judgments as to the significance and relevance of each analysis and factor. Sandler did not form an opinion as to whether any individual analysis or factor (positive or negative) considered in isolation supported or failed to support its opinion; rather Sandler made its determination as to the fairness of the per share consideration on the basis of its experience and professional judgment after considering the results of all its analyses taken as a whole. Accordingly, Sandler believes that the analyses and the summary of the analyses must be considered as a whole and that selecting portions of the analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinions. The financial analyses summarized below include information presented in tabular format. The tables alone do not constitute complete descriptions of the financial analyses presented in such tables.

**Summary of Proposal.** Sandler reviewed the financial terms of the proposed transaction. Based on the right to elect a cash consideration of \$15.76 per share or a fixed exchange ratio of 0.7004 shares of First Merchants common stock for each share of Lincoln, subject to proration such that the cash portion will not exceed \$16,800,000, Sandler calculated a transaction value of \$13.96 per share. The calculation of transaction value was based on First Merchants' stock price of \$19.92 on August 29, 2008, and assumed Lincoln shareholders would elect to receive the maximum amount of cash. The transaction value was based on 5,319,731 Lincoln common shares outstanding and 527,722 options outstanding with a weighted-average exercise price of \$13.29. Based upon draft financial information for Lincoln as of and for the twelve month period ended June 30, 2008, Sandler calculated the following transaction ratios:

**Transaction Ratios**

Transaction Price/LTM 2008 Earnings per Share	27.9x
Transaction Price/Estimated FY 2008 Earnings per Share (1)	22.1x
Transaction Price/Tangible Book Value	104.9%
Core Deposit Premium (2)	0.8%
Premium over Current Market Price (3)	40.7%

- (1) Based on Lincoln management estimates.
- (2) Assumes CDs greater than \$100,000 are non-core deposits.
- (3) Based on Lincoln's stock price of \$9.92 as of August 29, 2008.

**Comparable Company Analysis.** Sandler used publicly available information for Lincoln and First Merchants to perform a comparison of selected financial and market trading information.

**Table of Contents**

Sandler used this financial information to compare selected financial and market trading information for Lincoln and a group of financial institutions selected by Sandler which consisted of publicly traded commercial banks and thrifts headquartered in the Midwest with total assets between \$750 million and \$1.2 billion (**Lincoln Peer Group**):

Ames National Corp.	HF Financial Corp.
Baylake Corp.	HopFed Bancorp Inc.
Blue Valley Ban Corp.	Indiana Community Bancorp
Community Bank Shares of Indiana	LNB Bancorp Inc.
Dearborn Bancorp Inc.	Monroe Bancorp
Farmers National Banc Corp.	Ohio Valley Banc Corp.
Farmers & Merchants Bancorp	O.A.K. Financial Corp.
First Banking Center Inc. (1)	Princeton National Bancorp
First Business Financial Services Inc.	Team Financial Inc.
First Financial Service Corp.	United Bancorp
First Mid-Illinois Bancshares	

(1) Financial data as of or for the twelve months ended March 31, 2008.

The analysis compared certain financial information for Lincoln and the median financial and market trading data for the Lincoln Peer Group as of and for the twelve months ended June 30, 2008, unless otherwise noted. The table below sets forth the data for Lincoln and the median data for the Lincoln Peer Group as of and for the twelve months ended June 30, 2008, with pricing data as of August 29, 2008.

**Comparable Group Analysis**

	<b>Lincoln</b>	<b>Comparable Group Median Result</b>
Total Assets ( <i>in millions</i> )	\$ 869.9	\$ 872.4
Total Equity ( <i>in millions</i> )	\$ 96.6	\$ 69.0
Tangible Equity/Tangible Assets	8.38%	6.77%
Return on Average Assets	0.29%	0.65%
Return on Average Equity	2.55%	8.12%
Non-Performing Assets/Total Assets	1.63%	1.43%
Reserves/Non-Performing Loans	61.1%	59.6%
Price/Tangible Book Value	74.6%	113.4%
Price/Last Twelve Months Earnings per Share	19.8x	11.5x
Price/Est. FY 2008 Earnings per Share (1)	15.7x	11.2x
Core Deposit Premium	-3.5%	1.7%
Price/52-Week High	55.1%	74.6%
Market Capitalization ( <i>in millions</i> )	\$ 52.8	\$ 64.2

(1) FY 2008 EPS is based on Lincoln's management estimates.

First Merchants Peer Group consisted of the following publicly traded commercial banks headquartered in the Midwest with total assets between \$3.0 billion and \$8.0 billion:

1 <sup>st</sup> Source Corp.	Integra Bank Corp.
AMCORE Financial Inc.	Irwin Financial Corp.
Capitol Bancorp Ltd.	Midwest Banc Holdings Inc.
Chemical Financial Corp.	Old National Bancorp



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First Busey Corp.  
First Financial Bancorp.  
Heartland Financial USA Inc.  
Independent Bank Corp.

Park National Corp.  
PrivateBancorp Inc.  
Republic Bancorp Inc.  
Taylor Capital Group Inc.

**Table of Contents**

The analysis compared publicly available financial and market trading information for First Merchants and the median data for the First Merchants Peer Group as of and for the twelve months ended June 30, 2008, unless otherwise noted. The table below sets forth the data for First Merchants and the median data for the First Merchants Peer Group as of and for the twelve months ended June 30, 2008, with pricing data as of August 29, 2008.

**Comparable Group Analysis**

	<b>First Merchants</b>	<b>Comparable Group Median Result</b>
Total Assets ( <i>in millions</i> )	\$ 3,822.5	\$ 4,001.6
Total Equity ( <i>in millions</i> )	\$ 347.4	\$ 350.3
Tangible Equity/Tangible Assets	5.73%	6.01%
Return on Average Assets	0.86%	0.44%
Return on Average Equity	9.50%	4.92%
Non-Performing Assets/Total Assets	1.35%	1.53%
Reserves/Non-Performing Loans	91.5%	83.6%
Price/Tangible Book Value	165.1%	153.4%
Price/Last Twelve Months Earnings per Share	10.8x	15.9x
Price/Est. FY 2008 Earnings per Share (1)	10.6x	15.7x
Core Deposit Premium	5.8%	7.4%
Price/52-Week High	64.3%	62.2%
Market Capitalization ( <i>in millions</i> )	\$ 349.4	\$ 418.9

(1) FY 2008 EPS is based on First Merchants' management estimates.

**Stock Trading History.** Sandler reviewed the history of the publicly reported trading prices of Lincoln's common stock for the one-year and three-year periods ended August 29, 2008. Sandler also reviewed the relationship between the movements in the price of Lincoln's common stock and the movements in the prices of the Nasdaq Bank Index, the indexed performance of the Lincoln Peer Group (detailed in the previous section) and First Merchants. The composition of the respective Lincoln Peer Group is discussed under the "Comparable Group Analysis" section above.

During the one-year period ended August 29, 2008, Lincoln's common stock underperformed all of the indices and First Merchants to which it was compared.

**Lincoln's One-Year Stock Performance**

	<b>Beginning Index Value August 29, 2007</b>	<b>Ending Index Value August 29, 2008</b>
Lincoln	100.00%	62.86%
Nasdaq Bank Index	100.00	76.84
Peer Group (1)	100.00	75.31
First Merchants	100.00	87.17

(1) Refers to the Lincoln Peer Group outlined in the "Comparable Group Analysis" section above.

During the three-year period ended August 29, 2008, Lincoln's common stock underperformed all of the indices and First Merchants to which it was compared.

**Table of Contents****Lincoln's Three-Year Stock Performance**

	Beginning Index Value August 29, 2005	Ending Index Value August 29, 2008
Lincoln	100.00%	56.72%
Nasdaq Bank Index	100.00	75.35
Peer Group (1)	100.00	66.21
First Merchants	100.00	74.19

(1) Refers to the Lincoln Peer Group outlined in the "Comparable Group Analysis" section above. Sandler also reviewed the history of the publicly reported trading prices of First Merchants' common stock for the one-year and three-year periods ended August 29, 2008. Sandler also reviewed the relationship between the movements in the price of First Merchants' common stock and the movements in the prices of the Nasdaq Bank Index, the indexed performance of the First Merchants Peer Group and Lincoln Bancorp. The composition of the respective First Merchants Peer Group is discussed under the "Comparable Group Analysis" section above.

During the one-year period ended August 29, 2008, First Merchants' common stock outperformed all of the indices to which it was compared.

**First Merchants' One-Year Stock Performance**

	Beginning Index Value August 29, 2007	Ending Index Value August 29, 2008
First Merchants	100.00%	87.17%
Nasdaq Bank Index	100.00	76.84
Peer Group (1)	100.00	78.70
Lincoln	100.00	62.86

(1) Refers to the First Merchants Peer Group outlined in the "Comparable Group Analysis" section above. During the three-year period ended August 29, 2008, First Merchants' common stock underperformed the Nasdaq Bank Index. First Merchants' common stock outperformed the First Merchants Peer Group and Lincoln Bancorp.

**First Merchants' Three-Year Stock Performance**

	Beginning Index Value August 29, 2005	Ending Index Value August 29, 2008
First Merchants	100.00%	74.19%
Nasdaq Bank Index	100.00	75.35
Peer Group (1)	100.00	63.94
Lincoln	100.00	56.72

(1) Refers to the First Merchants Peer Group outlined in the "Comparable Group Analysis" section above.

**Net Present Value Analysis.** Sandler performed an analysis that estimated the net present value per share of Lincoln's common stock under various circumstances. In the analysis, Sandler assumed Lincoln performed in accordance with the financial projections for December 31, 2008 through 2012 discussed with Lincoln management. To approximate the terminal value of Lincoln's common stock at December 31, 2012, Sandler applied price to earnings multiples of 8.0x to 18.0x and multiples of tangible book value ranging from 60% to 160%. The terminal values were then discounted to present values using different discount rates ranging from 12.0% to 16.0%, chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Lincoln's common stock. In addition, the net present value of Lincoln's common stock

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40

**Table of Contents**

December 31, 2012 was calculated using the same range of price to earnings multiples (8.0x to 18.0x) applied to a range of discounts and premiums to budget projections. The range applied to the budgeted net income was 25% under budget to 25% over budget, using a discount rate of 14.08% for tabular analysis.

As illustrated in the following tables, the analysis indicated an imputed range of values per share for Lincoln's common stock of \$6.38 to \$13.87 when applying the price to earnings multiples to the matched budget, \$6.99 to \$17.40 when applying multiples of tangible book value to the matched budget, and \$5.59 to \$15.56 when applying the price to earnings multiples to the 25% under budget to the 25% over budget range.

**Earnings Per Share Multiples**

<i>Discount Rate</i>	<b>8.0x</b>	<b>10.0x</b>	<b>12.0x</b>	<b>14.0x</b>	<b>16.0x</b>	<b>18.0x</b>
<b>12.00%</b>	\$ 7.31	\$ 8.62	\$ 9.93	\$ 11.24	\$ 12.55	\$ 13.87
<b>13.00%</b>	\$ 7.06	\$ 8.32	\$ 9.58	\$ 10.84	\$ 12.10	\$ 13.36
<b>14.00%</b>	\$ 6.82	\$ 8.03	\$ 9.24	\$ 10.45	\$ 11.67	\$ 12.88
<b>15.00%</b>	\$ 6.59	\$ 7.76	\$ 8.92	\$ 10.09	\$ 11.25	\$ 12.42
<b>16.00%</b>	\$ 6.38	\$ 7.50	\$ 8.62	\$ 9.74	\$ 10.86	\$ 11.98

**Earnings Per Share Multiples**

<i>Budget Variance</i>	<b>8.0x</b>	<b>10.0x</b>	<b>12.0x</b>	<b>14.0x</b>	<b>16.0x</b>	<b>18.0x</b>
<b>(25.0%)</b>	\$ 5.59	\$ 6.50	\$ 7.41	\$ 8.31	\$ 9.22	\$ 10.12
<b>(20.0%)</b>	\$ 5.84	\$ 6.80	\$ 7.77	\$ 8.73	\$ 9.70	\$ 10.67
<b>(15.0%)</b>	\$ 6.08	\$ 7.10	\$ 8.13	\$ 9.16	\$ 10.18	\$ 11.21
<b>(10.0%)</b>	\$ 6.32	\$ 7.41	\$ 8.49	\$ 9.58	\$ 10.67	\$ 11.75
<b>(5.0%)</b>	\$ 6.56	\$ 7.71	\$ 8.85	\$ 10.00	\$ 11.15	\$ 12.30
<b>0.0%</b>	\$ 6.80	\$ 8.01	\$ 9.22	\$ 10.42	\$ 11.63	\$ 12.84
<b>5.0%</b>	\$ 7.04	\$ 8.31	\$ 9.58	\$ 10.85	\$ 12.12	\$ 13.38
<b>10.0%</b>	\$ 7.29	\$ 8.61	\$ 9.94	\$ 11.27	\$ 12.60	\$ 13.93
<b>15.0%</b>	\$ 7.53	\$ 8.92	\$ 10.30	\$ 11.69	\$ 13.08	\$ 14.47
<b>20.0%</b>	\$ 7.77	\$ 9.22	\$ 10.67	\$ 12.12	\$ 13.56	\$ 15.01
<b>25.0%</b>	\$ 8.01	\$ 9.52	\$ 11.03	\$ 12.54	\$ 14.05	\$ 15.56

**Tangible Book Value Per Share Multiples**

<i>Discount Rate</i>	<b>60%</b>	<b>80%</b>	<b>100%</b>	<b>120%</b>	<b>140%</b>	<b>160%</b>
<b>12.00%</b>	\$ 8.03	\$ 9.90	\$ 11.77	\$ 13.65	\$ 15.52	\$ 17.40
<b>13.00%</b>	\$ 7.75	\$ 9.55	\$ 11.35	\$ 13.15	\$ 14.95	\$ 16.75
<b>14.00%</b>	\$ 7.48	\$ 9.22	\$ 10.95	\$ 12.68	\$ 14.41	\$ 16.14
<b>15.00%</b>	\$ 7.23	\$ 8.90	\$ 10.56	\$ 12.22	\$ 13.89	\$ 15.55
<b>16.00%</b>	\$ 6.99	\$ 8.59	\$ 10.19	\$ 11.79	\$ 13.39	\$ 14.99

Sandler also performed an analysis that estimated the net present value per share of First Merchants' common stock under various circumstances. In the analysis, Sandler assumed First Merchants performed in accordance with the financial projections for December 31, 2008 through 2012 provided by First Merchants management. To approximate the terminal value of First Merchants' common stock at December 31, 2012, Sandler applied price to earnings multiples of 12.0x to 18.0x and multiples of tangible book value ranging from 120% to 200%. The terminal values were then discounted to present values using different discount rates ranging from 12.0% to 16.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of First Merchants' common stock. In addition, the net present value of First Merchants' common stock at December 31, 2012 was calculated using the same range of price to earnings multiples (12.0x to 18.0x) applied to a range of discounts and premiums to budget projections. The range applied to the budgeted net income was 25% under budget to 25% over budget, using a discount rate of 14.08% for tabular analysis.



**Table of Contents**

As illustrated in the following tables, the analysis indicated an imputed range of values per share for First Merchants common stock of \$18.25 to \$30.13 when applying the price/earnings multiples to the matched budget, \$14.50 to \$25.36 when applying multiples of tangible book value to the matched budget, and \$15.44 to \$34.04 when applying the price/earnings multiples to the 25% under budget to the 25% over budget range.

**Earnings Per Share Multiples**

<i>Discount Rate</i>	<b>12.0x</b>	<b>13.0x</b>	<b>14.0x</b>	<b>15.0x</b>	<b>16.0x</b>	<b>17.0x</b>	<b>18.0x</b>
<b>12.00%</b>	\$ 21.14	\$ 22.64	\$ 24.14	\$ 25.64	\$ 27.13	\$ 28.63	\$ 30.13
<b>13.00%</b>	\$ 20.37	\$ 21.81	\$ 23.24	\$ 24.68	\$ 26.12	\$ 27.56	\$ 29.00
<b>14.00%</b>	\$ 19.63	\$ 21.01	\$ 22.39	\$ 23.77	\$ 25.16	\$ 26.54	\$ 27.92
<b>15.00%</b>	\$ 18.92	\$ 20.25	\$ 21.58	\$ 22.91	\$ 24.24	\$ 25.57	\$ 26.90
<b>16.00%</b>	\$ 18.25	\$ 19.53	\$ 20.80	\$ 22.08	\$ 23.36	\$ 24.64	\$ 25.92

**Earnings Per Share Multiples**

<i>Budget Variance</i>	<b>12.0x</b>	<b>13.0x</b>	<b>14.0x</b>	<b>15.0x</b>	<b>16.0x</b>	<b>17.0x</b>	<b>18.0x</b>
<b>(25.0%)</b>	\$ 15.44	\$ 16.47	\$ 17.50	\$ 18.54	\$ 19.57	\$ 20.60	\$ 21.64
<b>(20.0%)</b>	\$ 16.26	\$ 17.36	\$ 18.47	\$ 19.57	\$ 20.67	\$ 21.77	\$ 22.88
<b>(15.0%)</b>	\$ 17.09	\$ 18.26	\$ 19.43	\$ 20.60	\$ 21.77	\$ 22.95	\$ 24.12
<b>(10.0%)</b>	\$ 17.92	\$ 19.16	\$ 20.40	\$ 21.64	\$ 22.88	\$ 24.12	\$ 25.36
<b>(5.0%)</b>	\$ 18.74	\$ 20.05	\$ 21.36	\$ 22.67	\$ 23.98	\$ 25.29	\$ 26.60
<b>0.0%</b>	\$ 19.57	\$ 20.95	\$ 22.33	\$ 23.70	\$ 25.08	\$ 26.46	\$ 27.84
<b>5.0%</b>	\$ 20.40	\$ 21.84	\$ 23.29	\$ 24.74	\$ 26.18	\$ 27.63	\$ 29.08
<b>10.0%</b>	\$ 21.22	\$ 22.74	\$ 24.26	\$ 25.77	\$ 27.29	\$ 28.80	\$ 30.32
<b>15.0%</b>	\$ 22.05	\$ 23.64	\$ 25.22	\$ 26.80	\$ 28.39	\$ 29.97	\$ 31.56
<b>20.0%</b>	\$ 22.88	\$ 24.53	\$ 26.18	\$ 27.84	\$ 29.49	\$ 31.15	\$ 32.80
<b>25.0%</b>	\$ 23.70	\$ 25.43	\$ 27.15	\$ 28.87	\$ 30.59	\$ 32.32	\$ 34.04

**Tangible Book Value Per Share Multiples**

<i>Discount Rate</i>	<b>120%</b>	<b>140%</b>	<b>160%</b>	<b>180%</b>	<b>200%</b>
<b>12.00%</b>	\$ 16.76	\$ 18.91	\$ 21.06	\$ 23.21	\$ 25.36
<b>13.00%</b>	\$ 16.15	\$ 18.22	\$ 20.28	\$ 22.35	\$ 24.42
<b>14.00%</b>	\$ 15.58	\$ 17.56	\$ 19.55	\$ 21.53	\$ 23.52
<b>15.00%</b>	\$ 15.03	\$ 16.94	\$ 18.85	\$ 20.75	\$ 22.66
<b>16.00%</b>	\$ 14.50	\$ 16.34	\$ 18.18	\$ 20.01	\$ 21.85

In connection with its analyses, Sandler considered and discussed with the Lincoln Board of Directors how the present value analyses would be affected by changes in the underlying assumptions, including variations with respect to net income. Sandler noted that the terminal value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

**Analysis of Selected Merger Transactions.** Sandler reviewed 10 merger transactions announced in the Midwest from October 1, 2007 through August 29, 2008 involving commercial banks and savings institutions as acquired institutions with announced transaction values greater than \$20 million and less than \$200 million. Sandler also reviewed 7 merger transactions announced Nationwide from October 1, 2007 through August 29, 2008 involving commercial banks and savings institutions as acquired institutions with announced transaction

**Table of Contents**

values greater than \$10 million and less than \$200 million, sellers' return on average assets between 0.00% and 0.80%, sellers' return on average equity between 0.00% and 8.00%, and sellers' non-performing assets (NPAs)/ total assets greater than 1.00%. Sandler reviewed the following multiples: transaction price to last twelve months' earnings per share, transaction price to tangible book value, core deposit premium and premium to market. As illustrated in the following table, Sandler compared the proposed merger multiples to the median multiples of the aforementioned groups of comparable transactions.

**Comparable Transaction Multiples**

	<b>First Merchants/ Lincoln</b>	<b>Median Midwest Group Multiple (1)</b>	<b>Median Nationwide Group Multiple (2)</b>
Transaction Price/Last Twelve Months' Earnings per Share	27.9x	24.6x	21.6x
Transaction Price/2008 Estimated Earnings per Share	22.1x		
Transaction Price/Tangible Book Value	104.9%	152.2%	147.3%
Core Deposit Premium (3)	0.8%	8.0%	7.0%
Premium to Current Market (4)	40.7%	37.1%	32.9%

- (1) Based on the median of 10 Midwest commercial bank and savings institution transactions since October 1, 2007 with a deal value between \$20 million and \$200 million.
- (2) Based on the median of 7 Nationwide commercial bank and savings institution transactions since October 1, 2007 with a deal value between \$10 million and \$200 million, sellers' ROAA between 0.00% and 0.80%, sellers' ROAE between 0.00% and 8.00% and sellers' NPAs/Assets greater than 1.00%.
- (3) Assumes CDs > \$100,000 are non-core deposits. Tangible book premium/core deposits calculated by dividing the excess of the aggregate transaction value of \$74.8 million over tangible book value by core deposits.
- (4) Based on Lincoln's stock price of \$9.29 on August 29, 2008.

**Pro Forma Merger Analysis.** Sandler analyzed certain potential pro forma effects of the merger, assuming the following: (i) the merger closes in the 4<sup>th</sup> quarter of 2008; (ii) 5% to 20% of Lincoln's shares are exchanged for \$15.76 per share in cash and 80% to 95% of Lincoln's shares are exchanged for common stock; (iii) options for Lincoln's stock will be exchanged for cash or stock; (iv) Lincoln and First Merchants financial projections for 2008 through 2012 as provided by and reviewed with the senior management of both Lincoln and First Merchants; (v) the purchase accounting adjustments, transaction costs and charges associated with the merger and cost savings determined by the senior management of First Merchants. The analyses indicated that for the year ending December 31, 2010 (the first full year of fully phased-in operations), the merger would be accretive to First Merchants' projected earnings per share, at December 31, 2008 (the assumed closing date of the merger), the merger would be accretive to First Merchants' tangible book value per share, and at December 31, 2009 the merger would be accretive to Lincoln's projected dividend per share. The actual results achieved by the combined company may vary from projected results and the variations may be material.

**Miscellaneous.** Lincoln has agreed to pay Sandler a transaction fee in connection with the merger; of which \$150,000 became due upon the signing of a definitive agreement. Sandler also received a fee of \$150,000 in connection with the delivery of this opinion, which shall be credited against the transaction fee. The balance of the transaction fee is contingent, and payable, upon closing of the merger. Lincoln has also agreed to reimburse certain of Sandler's reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Sandler and its affiliates and their respective partners, directors, officers, employees, agents, and controlling persons against certain expenses and liabilities, including liabilities under the securities laws.

In the ordinary course of its respective broker and dealer businesses, Sandler may purchase securities from and sell securities to Lincoln and First Merchants and their affiliates. Sandler may also actively trade the debt and/or equity securities of Lincoln or their affiliates for their own accounts and for the accounts of their customers and, accordingly, may at any time hold a long or short position in such securities.



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**Table of Contents**

***Exchange of Lincoln Common Shares***

As of the effective date of the merger, you will be entitled to receive for each outstanding Lincoln common share you own, at your election, either (i) 0.7004 shares of First Merchants common stock (**Share Option**), or (ii) \$15.76 in cash (**Cash Option**). You may elect to receive a combination of First Merchants common stock for some of your Lincoln shares and cash for some of your Lincoln shares. The 0.7004 conversion ratio is subject to upward or downward adjustment under certain circumstances. See THE MERGER Conversion Ratio Adjustment on page 46.

You should obtain current market quotations for First Merchants common stock and Lincoln common shares. We expect that the market price of First Merchants common stock will fluctuate between the date of this document and the date of the merger and thereafter. Because the number of shares of First Merchants common stock which you may elect to receive in exchange for each of your Lincoln shares is fixed, subject to upward or downward adjustment as described below, and the market price of First Merchants common stock may fluctuate, the value of the shares of First Merchants common stock that you may elect to receive in the merger may increase or decrease prior to and after the merger.

If First Merchants changes the number of outstanding shares of First Merchants common stock before the merger through any stock split, stock dividend, recapitalization or similar transaction, then First Merchants will proportionately adjust the 0.7004 conversion ratio.

An Election Form is being mailed to you through a separate mailing. You must elect either the Share Option or the Cash Option with respect to each of the Lincoln common shares you own by completing the Election Form. You may elect a combination of the Share Option or the Cash Option for your Lincoln common shares. To be effective, American Stock Transfer & Trust Company, LLC (**American Stock Transfer**), must receive a properly completed Election Form by 5:00 p.m. local time on \_\_\_\_\_, 2008.

**If a properly completed Election Form is not timely received for your Lincoln shares, you will be treated as if you elected the Share Option for all shares you own, subject to certain circumstances in which the shares will be treated as if you elected the Cash Option.**

In the event the Share Option and Cash Option elections submitted by Lincoln shareholders would entitle Lincoln shareholders to receive in the aggregate 3,576,417 or less shares of First Merchants common stock and \$16,800,000 or less in cash, all valid Share Options elections and Cash Option elections of Lincoln shareholders will be honored. In the event: (i) the Share Option elections would entitle Lincoln shareholders to receive in the aggregate more than 3,576,417 shares of its common stock; (ii) the Cash Option elections would entitle Lincoln shareholders to receive more than \$16,800,000 in cash or (iii) the merger would not satisfy the continuity of interest rule applicable to tax-free reorganizations under the Internal Revenue Code of 1986, as amended (**Continuity of Interest Rule**), due to the amount of stock or cash that would be issuable in connection with the merger, certain of the Cash Option elections of the Lincoln shareholders may be converted into Share Option elections or certain of the Share Option elections of the Lincoln shareholders may be converted into Cash Option elections, as applicable.

In the event the Cash Option elections would entitle Lincoln shareholders to receive more than \$16,800,000 in cash, the Cash Option elections will be converted to Share Option elections on a pro rata basis based on the number of Cash Option elections made by each shareholder (including the Lincoln ESOP only in limited circumstances as described below), but only to the extent necessary so that the total remaining number of Lincoln common shares covered by the Cash Option elections is such that the merger will result in cash payments of less than \$16,800,000 in the aggregate and will satisfy the Continuity of Interest Rule. As a result of such provisions, certain Lincoln shareholders may receive less cash and more First Merchants common stock for their shares than they elected based on the choices made by the other Lincoln shareholders.

## Table of Contents

In the event the Share Option elections would entitle Lincoln shareholders to receive more than 3,576,417 shares of First Merchants common stock, all shares as to which no valid election was made (and which absent proration would be treated the same as Share Option elections) will be converted to Cash Option elections on a pro rata basis and, after all such shares are converted, the Share Option elections will be converted to Cash Option elections on a pro rata basis based on the number of Share Option elections made by each shareholder (including the Lincoln ESOP only in limited circumstances as described below), but only to the extent necessary so that the total remaining number of Lincoln common shares covered by the Share Option elections (and the non-elections, to the extent they are not all converted to Cash Option elections) is such that the merger will result in approximately 3,576,417 shares of First Merchants common stock being issued in connection with the merger and will satisfy the Continuity of Interest Rule. As a result of such provisions, certain Lincoln shareholders may receive less First Merchants common stock and more cash for their shares than they elected, and non-electing shareholders may receive a portion of their payment in cash, based on the choices made by the other Lincoln shareholders.

Shares held by the Lincoln ESOP are subject to the adjustments described above, but only to the extent that no less than Adequate Consideration (as defined in section 3(18) of Employee Retirement Income Security Act of 1974, as amended and the regulations promulgated thereunder).

First Merchants will not issue fractional shares of First Merchants common stock to Lincoln shareholders. Each Lincoln shareholder who otherwise would be entitled to a fractional interest in a First Merchants share as a result of the conversion ratio will be paid a cash amount for the fractional interest. The amount of cash Lincoln shareholders will receive for any fractional interest will be calculated by multiplying the fractional interest by the average of the closing price of the common stock of First Merchants as reported in Bloomberg, L.P., for the 20 NASDAQ trading days preceding the 5<sup>th</sup> calendar day prior to the effective date of the merger (**First Merchants Average Price**).

If you hold your Lincoln common shares in street name through a bank or broker, your bank or broker is responsible for ensuring that the certificate or certificates representing your shares are properly surrendered and that the appropriate amount of cash or number of First Merchants shares are credited to your account. However, you must complete and return the Election Form (or a substitute form provided by your bank or broker) to your bank or broker in order to make a valid election for your shares.

After completion of the merger, your stock certificates previously representing Lincoln common shares will represent only the right for you to receive shares of First Merchants common stock and/or cash, as applicable. Prior to the surrender of Lincoln stock certificates for exchange subsequent to completion of the merger, the holders of such shares entitled to receive shares of First Merchants common stock will not be entitled to receive payment of dividends or other distributions declared on such shares of First Merchants common stock. However, upon the subsequent exchange of such certificates, First Merchants will pay, without interest, any accumulated dividends or distributions previously declared and withheld on the shares of First Merchants common stock. On the effective date of the merger, the stock transfer books of Lincoln will be closed and no transfer of Lincoln common shares will be made thereafter. If, after the effective date of the merger, you present certificates representing Lincoln common shares for registration or transfer, the certificates will be cancelled and exchanged for shares of First Merchants common stock and/or cash, as applicable.

Following completion of the merger, First Merchants will mail a letter of transmittal to each Lincoln shareholder. This transmittal letter will contain instructions on how to surrender your certificates representing Lincoln common shares. **You should not return your Lincoln stock certificates with the enclosed proxy or the Election Form, but should retain them until you receive a letter of transmittal from First Merchants.**

First Merchants will distribute stock certificates representing shares of First Merchants common stock and/or cash payments to each former shareholder of Lincoln within 15 business days after the later of (i) the effective

**Table of Contents**

date of the merger or (ii) the date the shareholder delivers his/her/its Lincoln stock certificates to American Stock Transfer accompanied by a properly completed and executed letter of transmittal. Delivery of Lincoln shares for conversion will not be taken until after completion of the merger. American Stock Transfer will act as conversion agent in the merger.

If your certificate for your Lincoln common shares has been lost, stolen or destroyed, First Merchants will issue the First Merchants common stock and/or make any cash payments to you after First Merchants receives from you an agreement to indemnify First Merchants against loss from such lost, stolen or destroyed certificate and an affidavit evidencing the loss, theft or destruction of your certificates.

***Conversion Ratio Adjustment***

If the First Merchants Average Price (as defined in the preceding section) is less than or greater than certain target prices set forth in the Merger Agreement, then First Merchants and Lincoln have the right to terminate the Merger Agreement. See THE MERGER Termination; Waiver; Amendment on page 50. If either party exercises its right of termination, the other party then has the right to adjust the conversion ratio. If adjusted, the new conversion ratio will be determined by taking the target price triggering the adjustment times the existing conversion ratio of 0.7004, divided by the First Merchants Average Price. Provided below are a description of the target prices triggering a possible termination of the Merger Agreement or adjustment in the conversion ratio, followed by a scenario detailing how the conversion ratio may be adjusted. The scenarios are provided only as examples to assist you in understanding the conversion ratio adjustment provisions.

First, if the First Merchants Average Price is less than \$16.50, then Lincoln may terminate the Merger Agreement. If the Lincoln Board of Directors exercises its right to terminate the Merger Agreement, it must give written notice to First Merchants of its election to terminate the merger within 48 hours after the 5th calendar day prior to the closing date of the merger. Within 3 business days after the receipt of such notice, First Merchants may elect to increase the conversion ratio to a number equal to \$16.50 times the existing conversion ratio of 0.7004, divided by the First Merchants Average Price. If First Merchants elects to adjust the conversion ratio, the Merger Agreement will remain in effect with the adjusted conversion ratio and will not be terminated. If First Merchants does not elect to adjust the conversion ratio within 3 business days following Lincoln's notice, then the Merger Agreement will terminate.

SCENARIO 1: If the First Merchants Average Price is \$15.00 (which is less than \$16.50) and the Lincoln Board of Directors elects to terminate the Merger Agreement by providing the required notice, then, at First Merchants' election, the conversion ratio would be adjusted as follows by First Merchants and Lincoln:

$$\frac{16.50 \times 0.7004}{15.00} = 0.7704$$

Thus, the adjusted conversion ratio would be 0.7704 to 1, which would impact the number of shares of First Merchants common stock you would receive under the Share Option. The amount of cash to be received under the Cash Option would not be changed. Thus, under this scenario, after adjustment, you would be entitled to receive for each outstanding Lincoln common share you own at your election, either (i) 0.7704 shares of First Merchants common stock under the Share Option, or (ii) \$15.76 in cash under the Cash Option.

Second, if the First Merchants Average Price is greater than \$30.00, then First Merchants may terminate the Merger Agreement. If First Merchants' Board exercises its right to terminate the Merger Agreement, it must give written notice to Lincoln of its election to terminate the merger within 48 hours after the 5<sup>th</sup> calendar day prior to the closing date of the merger. Within 3 business days after the receipt of such notice, Lincoln may elect to decrease the conversion ratio to a number equal to \$30.00 times the existing conversion ratio of 0.7004, divided by the First Merchants Average Price. If Lincoln elects to adjust the conversion ratio, the Merger Agreement will

**Table of Contents**

remain in effect with the adjusted conversion ratio and will not be terminated. If Lincoln does not elect to adjust the conversion ratio within 3 business days following First Merchant s notice, then the Merger Agreement will terminate.

SCENARIO 2: If the First Merchants Average Price is \$31.50 (which is greater than \$30.00) and First Merchants Board elects to terminate the Merger Agreement by providing the required notice, then, at Lincoln s election, the conversion ratio would be adjusted as follows by First Merchants and Lincoln:

$$\frac{30.00 \times 0.7004}{\$31.50} = 0.6670$$

Thus, the adjusted conversion ratio would be 0.6670 to 1, which would impact the number of shares of First Merchants common stock you would receive under the Share Option. The amount of cash to be received under the Cash Option would not be changed. Thus, under this scenario, after adjustment, you would be entitled to receive for each outstanding Lincoln common share you own at your election, either (i) 0.6670 shares of First Merchants common stock under the Share Option, or (ii) \$15.76 in cash under the Cash Option.

The scenarios set forth above are provided as examples only and do not reflect what the actual First Merchants Average Price will be. The scenarios have been included in this document to help you understand how the conversion ratio adjustment works at various arbitrarily chosen prices. First Merchants and Lincoln will determine if an adjustment to the conversion ratio will be made in the 5 days preceding completion of the merger.

***Rights of Dissenting Shareholders***

Lincoln shareholders are not entitled to dissenters rights under Indiana Code § 23-1-44, as amended, because the Lincoln common shares are traded on the NASDAQ Global Market System.

***Resale of First Merchants Common Stock by Lincoln Affiliates***

Shares of First Merchants common stock to be issued to Lincoln shareholders in the merger have been registered under the Securities Act of 1933, as amended (**Securities Act**). These shares may be traded freely and without restriction by those Lincoln shareholders not considered to be affiliates of First Merchants under the Securities Act. At the present time, the only persons who are anticipated to be affiliates of First Merchants after the merger are Mr. Engle and the second individual director of Lincoln who joins the Board of Directors of First Merchants.

***Representations and Warranties***

The Merger Agreement contains some customary representations and warranties made both by Lincoln and First Merchants, including representations and warranties relating to:

due organization and existence;

corporate power and authorization to enter into the transactions contemplated by the Merger Agreement;

capitalization;

governmental filings, notices, authorizations, consents and approvals required in connection with the transactions contemplated by the Merger Agreement;

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third party filings, notices, authorizations, consents and approvals required in connection with the transactions contemplated by the Merger Agreement;

**Table of Contents**

corporate books and records;

compliance with law;

accuracy of statements made as part of representations and warranties in the Merger Agreement;

litigation and pending proceedings;

financial statements;

absence of certain material changes or events;

absence of undisclosed liabilities;

absence of default under material contracts and agreements;

loans and investments;

employee benefits plans and plan compliance;

taxes, returns and reports;

subsidiaries;

title to assets;

certain obligations to employees;

properties owned and leased;

shareholder rights plans;

indemnification agreements;

deposit insurance with the Federal Deposit Insurance Corporation;

reports to regulatory agencies;

environmental matters;

compliance with the securities laws and filings with the Securities and Exchange Commission; and

brokerage fees.

The representations and warranties in the Merger Agreement will not survive the effective date of the merger or the termination of the Merger Agreement. After the effective date of the merger or termination of the Merger Agreement, neither Lincoln and the officers and directors of Lincoln and its subsidiaries nor First Merchants and its officers and directors will have any liability for any of their representations and warranties made in the Merger Agreement unless a breach of a representation or warranty is willful or in the case of fraud.

***Conditions to Completion of the Merger***

First Merchants and Lincoln's obligations to complete the merger are subject to the satisfaction of the following conditions, among other things, at or prior to the effective date of the merger:

the adoption of the Merger Agreement by the shareholders of Lincoln;

the registration statement relating to the issuance of First Merchants common stock being declared effective by the SEC and First Merchants receiving any state securities and blue sky approvals required for the offer and sale of First Merchants common stock to Lincoln shareholders;

notification to the NASDAQ Global Select Market System regarding the shares of First Merchants common stock to be issued to the Lincoln shareholders in connection with the merger;

**Table of Contents**

the receipt of the approval of the Board of Governors of the Federal Reserve System and the Indiana Department of Financial Institutions of the merger and the expiration of any regulatory waiting period prior to consummation of the merger;

there being no order, decree or injunction of any court or agency in effect which enjoins or prohibits the consummation of the merger; and

the receipt of all consents and approvals of persons other than governmental and regulatory authorities that are required for consummation of the merger.

The obligation of First Merchants to consummate the merger is also subject to fulfillment of other conditions, including the following:

the receipt of an opinion of First Merchants' counsel, Bingham McHale LLP, that the merger will be treated as a reorganization for the purposes of Section 368 of the Internal Revenue Code of 1986, as amended;

the representations and warranties of Lincoln set forth in the Merger Agreement being true and correct as of the effective date of the merger or any inaccuracies in any such representations and warranties of Lincoln set forth in the Merger Agreement not having a material adverse effect on the financial position, results of operations or business of Lincoln and its subsidiaries taken as a whole;

the performance in all material respects by Lincoln of all obligations required by the Merger Agreement to be performed by it at or prior to the effective date of the merger;

the receipt by First Merchants of an officer's certificate, a legal opinion and various closing documents;

the exercise of all of the outstanding stock options of Lincoln, no stock options being outstanding and all stock option plans of Lincoln having been terminated;

Lincoln having no more than 5,319,731 shares of common stock issued and outstanding as of the effective date of the merger, not including any Lincoln shares issued in connection with the exercise of options previously issued and outstanding;

Jerry R. Engle and John B. Ditmars having entered into executive employment agreements with First Merchants Bank of Central Indiana, National Association on the effective date of the merger; and

First Merchants having delivered a legal opinion of its counsel, Bingham McHale LLP, to Lincoln.

The obligation of Lincoln to consummate the merger is also subject to the fulfillment of other conditions, including the following:

the receipt of an opinion of Lincoln's counsel, Bose McKinney & Evans LLP, that the merger will be treated as a reorganization for purposes of Section 368 of the Internal Revenue Code of 1986, as amended, and that no gain or loss will be recognized by Lincoln shareholders to the extent they receive shares of First Merchants common stock as consideration for Lincoln common shares;



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the representations and warranties of First Merchants set forth in the Merger Agreement being true and correct as of the effective date of the merger or any inaccuracies in any such representations and warranties of First Merchants set forth in the Merger Agreement not having a material adverse effect on the financial position, results of operations or business of First Merchants and its subsidiaries taken as a whole;

the performance in all material respects by First Merchants of all obligations required to be performed by it under the Merger Agreement at or prior to the effective date of the merger;

the receipt by Lincoln of an officer's certificate, a legal opinion and various closing documents;

First Merchants Bank of Central Indiana, National Association having entered into executive employment agreements with Jerry R. Engle and John B. Ditmars prior to the effective date of the merger; and

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**Table of Contents**

Lincoln having delivered an opinion of its counsel, Bose McKinney & Evans LLP, to First Merchants, including an opinion that the Lincoln ESOP termination and distribution was conducted in accordance with all applicable plan documents, statutes, rules and regulations.

The conditions to completion of the merger are subject to waiver by the party benefiting from such condition. The conditions may also be altered by the written agreement of both parties. If these conditions are not satisfied or waived, First Merchants and/or Lincoln may terminate the Merger Agreement. See THE MERGER Termination; Waiver; Amendment, page 50, THE MERGER Resale of First Merchants Common Stock by Lincoln Affiliates, page 47, THE MERGER Regulatory Approvals, page 52, THE MERGER Interests of Certain Persons in the Merger, page 56, MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES, page 59, and Appendix A.

***Termination; Waiver; Amendment***

First Merchants and Lincoln may terminate the Merger Agreement at any time before the merger is completed, including after the Lincoln shareholders have adopted the Merger Agreement, if one of the events which gives the party the right to terminate occurs. The Merger Agreement may be terminated:

- 1) by mutual consent of First Merchants and Lincoln in writing, if the Board of Directors of each company approves termination of the Merger Agreement by a vote of a majority of its members;
- 2) by either First Merchants or Lincoln, if its respective Board of Directors determines by a majority vote that there has been a breach by the other of any of the covenants or any of the representations or warranties set forth in the Merger Agreement, which is not cured within 30 days following written notice given by the non-breaching party to the party committing the breach, provided the breach, individually or in the aggregate with other breaches, would result in a material adverse effect on the financial position, results of operations or business of the other party and its subsidiaries taken as a whole;
- 3) by either First Merchants or Lincoln, if its respective Board of Directors determines by a majority vote that there has been the occurrence of an event, fact or circumstance which has or may have a material adverse effect on the financial position, results of operations or business of the other party and its subsidiaries taken as a whole;
- 4) by either First Merchants or Lincoln, if the terminating party determines in its sole discretion that completion of the merger is inadvisable or impracticable due to the commencement of material litigation or proceedings against one of the parties;
- 5) by First Merchants, if the merger has not been completed before January 1, 2009 (provided that First Merchants is not then in material breach of the Merger Agreement);
- 6) by First Merchants, in the event that the average of the closing price of First Merchants common stock as reported in Bloomberg, L.P. for the 20 trading days preceding the 5<sup>th</sup> calendar day prior to the effective date of the merger is greater than \$30.00 and Lincoln does not elect to adjust the conversion ratio, as described in more detail in this document under THE MERGER Conversion Ratio Adjustment, page 46;
- 7) by Lincoln, in the event that the average of the closing price of First Merchants common stock as reported in Bloomberg, L.P. for the 20 trading days preceding the 5<sup>th</sup> calendar day prior to the effective date of the merger is less than \$16.50 and First Merchants does not elect to adjust the conversion ratio, as described in more detail in this document under THE MERGER Conversion Ratio Adjustment, page 46;
- 8)

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by First Merchants, if Lincoln fails to give First Merchants written notice that it intends to furnish information to or enter into discussions or negotiations with a third party relating to a proposed

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**Table of Contents**

acquisition of Lincoln or Lincoln Bank prior to engaging in discussions or negotiations, or if Lincoln, within 20 days after giving written notice to First Merchants of Lincoln's intent to furnish information to or enter into discussions or negotiations with another person or entity, does not terminate all discussions, negotiations and information exchanges related to such acquisition proposal and provide First Merchants with written notice of such termination;

- 9) by First Merchants, if Lincoln's Board of Directors withdraws or modifies its recommendation to Lincoln's shareholders to vote in favor of the merger following receipt of a written proposal for an acquisition from a third party;
- 10) by Lincoln, if Lincoln's Board of Directors determines, in the appropriate discharge of its fiduciary duties, that it must terminate the Merger Agreement following receipt of an unsolicited acquisition proposal from a third party;
- 11) by either First Merchants or Lincoln, if such party is unable to satisfy the conditions precedent to the merger by June 30, 2009 (provided that such party is not then in material breach of the Merger Agreement);
- 12) by Lincoln, if First Merchants enters into a definitive agreement in which it is the company to be acquired which would result in a change in control of First Merchants or require approval pursuant to the Bank Holding Company Act of 1956, as amended; or
- 13) by First Merchants or Lincoln if the merger is not consummated by June 30, 2009 (provided that the terminating party is not then in material breach of the Merger Agreement).

Upon termination for any of these reasons, the Merger Agreement will be void and of no further force or effect. However, if either First Merchants or Lincoln willfully breaches any of the provisions of the Merger Agreement, then the other party will be entitled to recover appropriate damages for the breach. Notwithstanding the foregoing, if First Merchants terminates the Merger Agreement after Lincoln takes the action described in items 8 or 9 above or if Lincoln terminates the Merger Agreement in accordance with item 10 above, Lincoln must pay First Merchants \$3,200,000 as liquidated damages. Further, if First Merchants terminates the Merger Agreement in accordance with item 5 above, First Merchants must pay Lincoln \$2,000,000 as liquidated damages. If Lincoln terminates the Merger Agreement in accordance with item 12 above, First Merchants must pay Lincoln \$3,200,000 as liquidated damages.

First Merchants and Lincoln can agree to amend the Merger Agreement and can waive their right to require the other party to adhere to the terms and conditions of the Merger Agreement, where the law allows. However, First Merchants and Lincoln cannot amend the Merger Agreement after the Lincoln shareholders adopt the Merger Agreement without their further approval if the amendment would decrease the merger consideration or have a material adverse effect on the Lincoln shareholders.

***Restrictions Affecting Lincoln Prior to Completion of the Merger***

The Merger Agreement contains a number of restrictions regarding the conduct of the business of Lincoln and its subsidiaries until the merger is completed. Among other items, Lincoln and its subsidiaries may not take or agree to take any of the following actions, without the prior written consent of First Merchants:

change their capital structure including redeeming any Lincoln common shares;

authorize any additional class of stock or issue or authorize the issuance of stock other than stock issued pursuant to the exercise of options currently outstanding;

declare or pay any dividends, authorize a stock split or make any other distribution to their shareholders, except that  
(i) Lincoln's subsidiaries may pay cash dividends to Lincoln to pay Lincoln's expenses of operation and payment of fees

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and expenses incurred in connection with the merger, and (ii) Lincoln may pay a cash dividend of no more than \$0.14 per share for any quarter in accordance with past practice;

**Table of Contents**

merge, combine, consolidate with or sell their assets or securities to any other person or entity or effect a share exchange or enter into any transaction not in the ordinary course of business;

incur any indebtedness for borrowed money or assume, guarantee, endorse or become responsible or liable for the obligations of any other individual or entity, except in the ordinary course of business consistent with past practice;

incur any liability or obligation, make any commitment, payment or disbursement, enter into any contract or agreement, or acquire or dispose of any property or asset having a fair market value in excess of \$100,000 (except for property acquired or disposed of in connection with foreclosures of mortgages, enforcement of security interests and loans in the ordinary course of business or acceptance of deposits and borrowings in the ordinary course of business);

subject any of their assets or properties to any mortgage, lien, or encumbrance;

promote or increase or decrease the rate of compensation or enter into any agreement to promote or increase or decrease the rate of compensation of any director, officer, or employee of Lincoln or its subsidiaries, except for promotions and increases in the ordinary course of business and in accordance with their past practices;

amend their Articles of Incorporation or By-Laws;

modify, amend or institute new employment practices or enter into, renew or extend any employment or severance agreement with any present or former directors, officers or employees of Lincoln or its subsidiaries;

give, dispose, sell, convey, assign, hypothecate, pledge, encumber or otherwise transfer or grant a security interest in any common stock of any of Lincoln's subsidiaries;

execute, create, institute, modify or amend any employee benefit plan or agreement for current or former directors, officers or employees of Lincoln or its subsidiaries, change the level of benefits or payments under any such employee benefit plan or agreement or increase or decrease any severance or termination pay benefits or any other fringe or employee benefits other than as required by law or regulatory authorities or as specifically provided in the Merger Agreement; or

fail to make additions to Lincoln Bank's reserve for loan losses, or any other reserve account, in the ordinary course of business and in accordance with sound banking practices and not inconsistent with generally accepted accounting principles applied on a consistent basis.

In addition, until the merger is consummated or the Merger Agreement is terminated, Lincoln and its subsidiaries shall carry on their business substantially in the same manner as previously conducted and use their reasonable best efforts to preserve their business organizations and existing business relationships intact.

***Regulatory Approvals***

The merger requires prior approval of the Board of Governors of the Federal Reserve System (**Federal Reserve**), under the Bank Holding Company Act of 1956, as amended and the Indiana Department of Financial Institutions (**DFI**) under the Indiana Financial Institutions Act. An application has been filed with the Federal Reserve and with the DFI. We cannot assure you as to when or whether the approvals will be received.

In reviewing the Federal Reserve application, the Federal Reserve considers various factors including:

the financial and managerial resources and future prospects of First Merchants and its subsidiaries;

the competitive effects of the merger; and

the effect of the merger on the convenience and needs of the community served by Lincoln Bank.

## **Table of Contents**

The Federal Reserve may not approve the merger if it finds that the effect of the merger substantially lessens competition, tends to create a monopoly or results in a restraint of trade, unless the Federal Reserve finds that the anti-competitive effects of the proposed merger are outweighed by the public interest and the probable effect of the merger in meeting the convenience and needs of the communities to be served.

After the Federal Reserve's approval is received, the merger cannot be completed for 30 days. During this 30 day waiting period, the United States Department of Justice has the authority to challenge the merger on antitrust grounds. With the approval of the Federal Reserve and the Department of Justice, the waiting period can be reduced to 15 days.

The approval of the Federal Reserve is not the opinion of such regulatory authority that the merger is favorable to the Lincoln shareholders from a financial point of view or that such regulatory authority has considered the adequacy of the terms of the merger. The approval in no way constitutes an endorsement or a recommendation of the merger by the Federal Reserve.

In reviewing the DFI application, the DFI considers various factors including:

1. the managerial and financial resources of First Merchants;
2. whether First Merchants' subsidiaries, First Merchants Bank, National Association, First Merchants Bank of Central Indiana, National Association, Lafayette Bank & Trust Company, National Association and Commerce National Bank are operated in a safe sound and prudent manner and have met, and propose to continue to meet, the credit needs of their communities; and
3. whether the interests of depositors, creditors, and the public generally are jeopardized by the merger.

### ***Effective Date of the Merger***

The merger will be consummated if the Merger Agreement is adopted by the Lincoln shareholders, all required consents and approvals are obtained and all other conditions to the merger are either satisfied or waived. The merger will become effective when Articles of Merger are filed with the Secretary of State of the State of Indiana or at such later date and time as may be specified in the Articles of Merger. The closing of the merger will occur in the month in which any applicable waiting period following the last approval of the merger expires or on such other date as agreed to by the parties, but not earlier than December 31, 2008 unless agreed otherwise by First Merchants and Lincoln. We currently anticipate that the merger will be completed during the fourth quarter of 2008. However, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals or in satisfying the conditions to completion of the merger. If the merger is not completed by January 1, 2009, First Merchants has the right to terminate the Merger Agreement upon payment of a \$2,000,000 termination fee to Lincoln.

### ***Fees and Expenses***

First Merchants and Lincoln will pay their own fees, costs, and expenses incurred in connection with the merger. For Lincoln, these costs will include the printing and postage expenses for this document in connection with the Lincoln special shareholders meeting and the fees and expenses of the Information Agent. In addition, Lincoln will pay for certain nonrefundable fees and costs of Lincoln's financial advisor, including the cost of the opinion of its financial advisor, whether or not the merger is consummated.

### ***Management After the Merger***

First Merchants will be the surviving corporation in the merger and Lincoln's separate corporate existence will cease. Accordingly, the directors and officers of Lincoln will no longer serve in such capacities after the completion of the merger.

Subsequent to the merger and subject to regulatory approvals, Lincoln Bank will be merged into First Merchants Bank of Central Indiana, National Association (**FMBCI**). The directors of Lincoln who so desire shall



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**Table of Contents**

be offered the opportunity to serve on the Board of Directors of First Merchants Bank of Central Indiana. However, Lincoln Bank's directors will be subject to First Merchants' policy of mandatory retirement at age 70, but the policy of mandatory retirement will not apply to any of Lincoln Bank's current directors until 24 months after completion of the merger. Thus, 24 months after the merger, all directors of Lincoln Bank age 70 or older will retire.

In addition, FMBCI has agreed to enter into, prior to the effective date of the merger, executive employment agreements with Jerry R. Engle, currently the Chairman of the Board and President and Chief Executive Officer of Lincoln and President and Chief Executive Officer of Lincoln Bank, and John B. Ditmars, currently the Executive Vice President of Lincoln and Executive Vice President and Chief Operating Officer of Lincoln Bank. These executive employment agreements will supersede their current employment agreements with Lincoln Bank. The form of these agreements are attached to the Merger Agreement. See "THE MERGER - Interests of Certain Persons in the Merger," page 56.

The directors of First Merchants immediately prior to the merger will continue to be the directors of First Merchants following the merger until they resign or until their respective successors are duly elected and qualified. In addition, Jerry R. Engle and another current Director of Lincoln as chosen by First Merchants, will either (i) be nominated for election as a member of the First Merchants Board of Directors for a three-year term at the first annual meeting of First Merchants' shareholders following the merger, or (ii) be appointed as a director at the First Merchants Board's first meeting following completion of the merger. As appointed directors, Mr. Engle and the second Lincoln director, would serve as directors of First Merchants until the next annual meeting of First Merchants shareholders and then be nominated for election to a three-year term as a director at such annual meeting. The option that will be chosen is the one that can be accomplished first and will depend on the timing of the merger's completion. The two individuals from the Board of Directors of Lincoln elected to the Board of Directors of First Merchants will be subject to First Merchants' policy of mandatory retirement at age 70, except that the policy of mandatory retirement will not apply to these individuals until 24 months after the effective date of the merger.

The officers of First Merchants immediately prior to the merger will continue to be the officers of First Merchants following the merger until they resign or until their successors are duly elected and qualified.

***Indemnification and Insurance***

First Merchants has agreed to indemnify and hold harmless each present and former director and officer of Lincoln and its subsidiaries for 6 years after the effective date of the merger in connection with any losses arising out of the fact that any such person is or was a director or officer of Lincoln or its subsidiaries at or prior to the effective date of the merger, including all indemnified liabilities based on, or arising out of, or pertaining to the merger or the transactions contemplated by the Merger Agreement, to the full extent permitted under Indiana law, and by First Merchants' or Lincoln's Articles of Incorporation or By-Laws as in effect on September 2, 2008 (whichever was more favorable to such officers and directors).

In addition, First Merchants has agreed to use its reasonable best efforts to include Lincoln's and Lincoln Bank's present and former directors and officers on its existing insurance, or to obtain directors' and officers' liability insurance "tail" policy coverage for Lincoln's and Lincoln Bank's present and former directors and executive officers, for a period of 3 years, which will provide the directors and officers with coverage on substantially similar terms as currently provided by Lincoln to such directors and officers for claims based on activity prior to the effective time of the merger. However, First Merchants has no obligation during the 3-year period to pay an aggregate amount in premiums which is more than 2 times the current annual amount spent by Lincoln to maintain its current directors' and officers' insurance coverage. If First Merchants is unable to obtain the coverage described above, First Merchants has agreed to use its reasonable best efforts to obtain as much comparable insurance as is available for the price.

## **Table of Contents**

After the merger, Lincoln and its subsidiaries' officers, directors and employees who become officers, directors or employees of First Merchants or its subsidiaries shall have the same directors and officers insurance coverage and indemnification protection that First Merchants provides to other officers, directors and employees of First Merchants or its subsidiaries.

### ***Treatment of Options to Acquire Lincoln Common Shares***

All stock option plans currently maintained by Lincoln will be amended so that all options issued thereunder will become immediately vested and exercisable prior to closing of the merger. The Merger Agreement provides that Lincoln will use reasonable efforts to cause each outstanding stock option to acquire Lincoln common shares to be exercised by the optionee on or immediately before the effective date of the merger. On or prior to the calendar day immediately preceding the effective date of the merger (**Option Deadline**), Lincoln shall take all action necessary to terminate all stock option plans of Lincoln outstanding as of the Option Deadline and shall use reasonable efforts to obtain necessary consents from optionees to permit such termination. No Lincoln stock options shall continue to be outstanding after the Option Deadline.

Instead, as of the Option Deadline, any outstanding Lincoln stock options that have not been previously exercised are to be terminated in return for either cash or common stock.

The cash amount shall be equal to the product of (the First Merchants Average Price times the Conversion Ratio) minus the exercise price of the applicable stock option times the number of Lincoln common shares issuable upon exercise of such stock option.)

An optionee must make an election to receive cash or common stock no later than two (2) days prior to the Option Deadline. If an election is not made by such time, a non-electing optionee shall be deemed to have elected to receive cash. In addition, if the cash amount, as calculated above, is negative, a non-electing optionee shall be entitled to nothing upon termination of the previously unexercised Lincoln stock option.

### ***Employee Benefit Plans***

#### **General**

Following the effective date of the merger, employees of Lincoln's subsidiaries will receive employee benefits that in the aggregate are substantially similar to the employee benefits provided to First Merchants employees on the effective date of the merger. The service of an employee of Lincoln or its subsidiaries with Lincoln or its subsidiaries will be treated as service with First Merchants for purposes of determining entry into and benefits in First Merchants employee benefit plans. However, service of an employee of Lincoln or its subsidiaries with Lincoln or its subsidiaries will not be treated as service with First Merchants for purposes of benefit accrual under First Merchants' defined benefit plan or under certain defined benefit provisions of First Merchants' 401(k) Plan.

#### **Coverage under First Merchants' Health Plan**

First Merchants will waive all restrictions and limitations for pre-existing conditions of employees of Lincoln's subsidiaries who become participants in First Merchants' health plan.

#### **Treatment of Tax-Qualified Retirement Plans**

In lieu of Lincoln's subsidiaries' current tax-qualified retirement plan, First Merchants will cover employees of Lincoln's subsidiaries under any tax-qualified retirement plans which First Merchants maintains for its employees no later than the effective date of the merger, provided that each such individual employee meets the applicable participation requirements of such plan.

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**Table of Contents**

**Employee Stock Ownership Plan**

Lincoln will freeze and terminate the Lincoln Bancorp Employee Stock Ownership and 401(k) Plan and Trust no later than the day prior to the effective date of the merger, and file the appropriate applications with the Internal Revenue Service. Upon the effective date of the merger, all shares of Lincoln common stock then held in the Lincoln ESOP will be converted into the merger consideration payable to holders of Lincoln common stock. If not previously repaid, any outstanding indebtedness of the Lincoln ESOP which is owed to Lincoln will be repaid (which outstanding principal balance was \$3,084,070) at June 30, 2008 by surrender of unallocated shares to Lincoln, and any assets remaining in the suspense account under the Lincoln ESOP will then be allocated to the respective participants' accounts.

The net assets of the Lincoln ESOP will be distributed to the participants and their beneficiaries, subject to the receipt of a favorable tax determination letter from the Internal Revenue Service on the termination of the Lincoln ESOP. If the Internal Revenue Service does not permit termination and distribution of the Lincoln ESOP, First Merchants, in its sole discretion, may decide to either merge the Lincoln ESOP into a First Merchants' tax-qualified retirement plan or maintain the frozen Lincoln ESOP for up to three years following the effective date of the merger. In no event shall First Merchants or Lincoln be required to make any contributions to the Lincoln ESOP following the effective date of the merger. However, prior to the merger Lincoln will continue to make employee elective contributions and matching contributions as required by the Lincoln ESOP.

**COBRA Coverage**

First Merchants will be responsible for providing COBRA continuation coverage to any qualified employee or former employee of Lincoln or its subsidiaries and to their respective qualified beneficiaries on and after the effective date of the merger, regardless of when the COBRA qualifying event occurred.

***Interests of Certain Persons in the Merger***

You should be aware that some of Lincoln's and Lincoln Bank's directors and executive officers may have interests in the merger that are different from, or in addition to, their interests as shareholders. Both Lincoln's Board of Directors and First Merchants' Board of Directors were aware of these interests and took them into account in approving the merger. These interests are as follows:

In the Merger Agreement, First Merchants has agreed that it will cause Jerry R. Engle, who currently serves as Chairman of the Board and President and Chief Executive Officer of Lincoln and President and Chief Executive Officer of Lincoln Bank, and another current director of Lincoln as chosen by First Merchants, to be nominated for election to the First Merchants Board of Directors for a three-year term at the first annual meeting of First Merchants' shareholders following the merger. Mr. Engle will not be separately compensated for his services as a director of First Merchants. If the First Merchants Board meets after the merger but before the next annual meeting of First Merchants' shareholders, the Board must appoint each of Mr. Engle and such other person as chosen by First Merchants as a director to serve until the next annual meeting of First Merchants' shareholders and then nominate each individual for election to a three-year term as a director at such annual meeting. See *THE MERGER Management After the Merger*, page 53.

First Merchants has indicated its intention to offer employment or other agreements to at least two current officers of Lincoln (Jerry R. Engle and John Ditmars), to be effective following the effective time of the merger. The execution of the new employment agreements with Mr. Engle and Mr. Ditmars is a condition that must be met prior to the completion of the merger. See *THE MERGER Management After the Merger*, page 53. In addition, the Merger Agreement provides that the officers and directors of Lincoln Bank immediately prior to the merger will remain the officers and directors of Lincoln Bank after the merger until they resign or until their successors are duly elected and qualified. Lincoln Bank directors who desire to continue to serve in that capacity shall serve for at least the remainder of the term to which they have been elected as a director of the merged bank.

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**Table of Contents**

Directors and officers of Lincoln and Lincoln Bank held stock options that entitled them to purchase, in the aggregate, up to 561,622 shares of Lincoln's common stock as of September 2, 2008. Options for 69,400 of these shares are not currently exercisable. The Merger Agreement provides that Lincoln must use reasonable efforts to cause each option to acquire Lincoln common shares to become exercisable and be exercised prior to the merger. The exercise prices of these options range from \$7.32 to \$19.40 per share and, therefore, not all of them may have any value as of the effective time of the merger. Under the Merger Agreement, the value of these options is tied to the market value of First Merchants' common stock. Assuming a \$19.49 market value for First Merchants common stock (the equivalent of a \$13.65 market value for Lincoln's common stock), options for approximately 271,826 shares would be in the money. However, assuming all of such options are exercised, the directors and officers holding these options will receive, prior to tax withholdings but net of approximately \$3.0 million in exercise prices, a net aggregate of 190,387 shares of First Merchants common stock or \$4.3 million in cash at the effective time of the merger, depending on their elections. See THE MERGER Treatment of Options to Acquire Lincoln Common Shares, page 55.

As of September 2, 2008, certain of the directors and executive officers of Lincoln and Lincoln Bank had a right to receive, in the aggregate, 15,251 shares of Lincoln's common stock under Lincoln's Recognition and Retention Plan. In addition, there are 17,637 unallocated shares and approximately \$185,000 in cash under the plan that may be allocated prior to consummation of the merger to executive officers and directors of Lincoln and Lincoln Bank. Under the Merger Agreement, all of the allocated shares will vest before closing, and assuming none of such shares are otherwise forfeited before the effective date of the merger, the directors and executive officers holding these shares will receive, prior to tax withholdings and depending on their elections, an aggregate of 10,681 shares of First Merchants common stock or approximately \$240,000 in cash at the effective time of the merger. The ultimate holders of the currently unallocated shares will receive, prior to tax withholdings and depending on their elections, an aggregate of 12,352 shares of First Merchants common stock or approximately \$278,000 in cash at the effective time of the merger.

As of September 2, 2008, certain of the directors of Lincoln and Lincoln Bank had a right to receive, in the aggregate, approximately \$1.1 million in future cash payments under Lincoln's Unfunded Deferred Compensation Plan. As a result of the change-in-control provisions in the plan, these directors will have a right to receive this amount within 30 days after the effective time of the merger. In addition, the directors of Lincoln are participants in a nonqualified supplemental pension plan, the benefits under which become fully vested upon termination of the plan or upon the occurrence of a change in control. Under the Merger Agreement, this plan is to be frozen at or before the effective time of the merger. Assuming benefit accruals under the plan cease as of December 31, 2008 and assuming the plan is terminated and all of such participants elect to receive lump sum distributions on January 2, 2009 equal to the then present value of their accrued pension benefits under the plan, these participants would receive cash distributions on January 2, 2009 in the aggregate amount of approximately \$1.4 million.

Certain executive officers of Lincoln and Lincoln Bank have change in control agreements or employment agreements that provide for the executive to receive, following a change in control, a multiple of the executive's compensation prior to the change in control, subject to certain limitations. Under these agreements, 11 of such executive officers would be entitled to receive an aggregate of approximately \$3.1 million.

First Merchants has agreed that upon the effective time of the merger it will issue (1) 6,400 restricted shares of First Merchants common stock or options to acquire 24,000 shares of First Merchants common stock, or a combination of both, to Mr. Engle, (2) 6,400 restricted shares of First Merchants common stock or options to acquire 24,000 shares of First Merchants common stock, or a combination of both, to Mr. Ditmars and (3) an aggregate of 19,200 restricted shares of First Merchants common stock or options to acquire an aggregate of 72,000 shares of First Merchants common stock, or a combination of both, to the remaining members of the senior management of Lincoln and Lincoln Bank, to be allocated by First Merchants after consultation with Mr. Engle and Mr. Ditmars.

## **Table of Contents**

First Merchants has agreed that for a period of six years after the effective time of the merger, it will succeed to Lincoln's obligations with respect to indemnification or exculpation now existing in favor of the directors and officers of Lincoln and Lincoln Bank as provided in Lincoln's articles of incorporation and by-laws. First Merchants has also agreed to maintain directors' and officers' liability insurance in force for the directors and officers of Lincoln for a period of three years following the effective time of the merger, subject to certain conditions in the Merger Agreement. See *THE MERGER* Indemnification and Insurance, page 54.

### ***Voting Agreement***

Each member of the Board of Directors of Lincoln and certain executive officers of Lincoln or Lincoln Bank have executed a voting agreement with First Merchants as of the date of the Merger Agreement whereby the directors and such officers have agreed to vote all of their Lincoln common shares and shares owned by certain affiliates over which they have voting control in favor of the merger with First Merchants.

### ***NASDAQ Global Select Market Listing***

First Merchants will file a notification with the NASDAQ Global Select Market System, regarding the issuance of First Merchants common stock in the merger. This notification must be filed for the merger to proceed. Following the merger, the First Merchants shares issued to Lincoln shareholders will be eligible for trading on the NASDAQ Global Select Market.

### ***Accounting Treatment***

The merger will be accounted for as a purchase transaction for accounting and financial reporting purposes. As a result, Lincoln's assets, including identified intangible assets, and liabilities will be recorded by First Merchants on its books at their fair market values and added to those of First Merchants. Any excess payment by First Merchants over the fair market value of the net assets and identifiable intangibles of Lincoln will be recorded as goodwill on the financial statements of First Merchants. Conversely, any excess of the fair value of the net assets acquired over the payment made by First Merchants will be reflected as a reduction of certain long-lived assets.

### ***Registration Statement***

First Merchants has filed a Registration Statement on Form S-4 with the Securities and Exchange Commission registering under the Securities Act the shares of First Merchants common stock to be issued pursuant to the merger. While First Merchants common stock is quoted and traded on the NASDAQ Global Select Market System, it is exempt from the statutory registration requirements of each state in the United States. Therefore, First Merchants has not taken any steps to register its stock under state laws.

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**Table of Contents**

**MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES**

*The following discussion summarizes certain material federal income tax consequences of the merger. The following represents general information only and is based on the Internal Revenue Code of 1986, as amended (Code), Treasury regulations, published positions of the Internal Revenue Service (IRS) and case law, all as currently in effect and which may be subject to change or differing interpretations, possibly with retroactive effect. This discussion is limited to U.S. holders (as defined below) who hold their shares of Lincoln stock as capital assets for U.S. federal income tax purposes (generally, assets held for investment).*

*This discussion does not address the federal income tax consequences of shareholders who are not U.S. holders, nor does it address all of the tax consequences relevant to certain U.S. holders such as, but not limited to, partnerships, financial institutions, insurance companies, tax-exempt organizations, dealers in securities or currencies, traders in securities that use a mark to market method of accounting, persons who hold Lincoln stock as part of a straddle, hedge, constructive sale or conversion transaction and persons who acquired their shares of Lincoln common stock through the exercise of an employee stock option or otherwise as compensation or through a tax-qualified plan. This discussion also does not address the tax consequences of the merger under state, local or foreign tax laws.*

For purposes of this section, the term U.S. holder means a beneficial owner of Lincoln common stock that for U.S. federal income tax purposes is a citizen or resident of the United States, a corporation or entity taxed as a corporation that was organized under the laws of the U.S. or any state or the District of Columbia, an estate that is subject to U.S. federal income tax or a trust taxable in the U.S.

***Tax Consequences of the Merger Generally***

First Merchants has requested the law firm of Bingham McHale LLP to render an opinion to First Merchants that the merger to be effected pursuant to the Merger Agreement constitutes a tax-free reorganization under the Code. Lincoln has requested the law firm of Bose McKinney & Evans LLP to render an opinion to Lincoln that the merger to be effected pursuant to the Merger Agreement constitutes a tax-free reorganization under the Code and that no gain or loss will be recognized by shareholders of Lincoln to the extent they receive shares of First Merchants common stock in the merger in exchange for their Lincoln shares, other than gain or loss to be recognized as to cash received in lieu of fractional share interests and cash received in exchange for Lincoln common shares. Under the Merger Agreement, receipt of these opinions with respect to the above consequences is a condition to completion of the merger for each of First Merchants and Lincoln.

These opinions will be subject to customary qualifications and assumptions, including that the merger will be completed according to the terms of the Merger Agreement. In rendering the tax opinions, each counsel may require and rely on representations of First Merchants and Lincoln to be delivered at the time of closing. If any of such assumptions or representations is or becomes inaccurate, the U.S. federal income tax consequences of the merger could be adversely affected. Neither of these tax opinions will be binding on the IRS. First Merchants and Lincoln do not intend to request any ruling from the IRS as to the U.S. federal income tax consequences of the merger. Consequently, no assurance can be given that the IRS will not assert, or that a court will not sustain, a position contrary to any of the tax consequences set forth below or any of the tax consequences described in the tax opinions.

The following discussion assumes that the merger qualifies as a tax-free reorganization within the meaning of Section 368(a) of the Code. Lincoln shareholders are urged to consult their tax advisors as to their specific tax consequences of the merger.

***Tax Consequences to First Merchants, First Merchants Stockholders and Lincoln***

No gain or loss will be recognized by First Merchants, First Merchants stockholders or Lincoln.

## **Table of Contents**

### ***Tax Consequences of the Merger to U.S. Holders of Lincoln Common Stock***

The U.S. federal income tax consequences of the merger to a U.S. holder will depend upon whether that holder receives cash, common stock or a mixture thereof. At the time an election is made by a U.S. holder, the mix of cash and shares will not be known, as such mix may be altered by the adjustment procedures described in the Merger Agreement. At the time a U.S. holder knows the amount of cash and shares of First Merchants Common Stock the holder will receive, the tax consequences can be determined, subject to the qualifications discussed above.

#### **Exchange of Lincoln Common Stock Solely for First Merchants Common Stock**

In general, a U.S. holder who receives only First Merchants common stock in exchange for Lincoln common shares will not recognize any gain or loss on the exchange for federal income tax purposes. However, gain or loss for federal income tax purposes will be recognized with respect to cash payments received by a U.S. Holder in lieu of fractional share interests resulting from the conversion ratio. See *Cash in Lieu of Fractional Shares of First Merchants Common Stock* below for a more detailed discussion of the tax consequences of the receipt of cash in lieu of fractional share interests of First Merchants common stock.

The basis of First Merchants common stock received by U.S. Holders in exchange for their Lincoln common stock will be equal to the holder's tax basis in the Lincoln common stock exchanged, decreased by any cash received, and increased by any gain recognized on the exchange.

In addition, the holding period of the First Merchants common stock received generally will include the holding period of Lincoln common stock surrendered in the exchange.

#### **Exchange of Lincoln Common Stock Solely for Cash**

A U.S. holder receiving all cash generally will recognize capital gain or loss measured by the difference between the amount of cash received and the adjusted tax basis of the Lincoln common shares surrendered. The resultant capital gain or loss will be long-term capital gain or loss if the U.S. holder held the shares of Lincoln common stock for more than one year at the effective date of the merger. Long-term capital gains of an individual generally are subject to a maximum U.S. federal income tax rate of 15%. Short-term capital gains of an individual generally are subject to a maximum U.S. federal income tax rate of 35%. The deductibility of capital losses is subject to limitations.

#### **Exchange of Lincoln Common Stock for a Combination of First Merchants Common Stock and Cash**

Generally, a U.S. holder who exchanges shares of Lincoln common stock for a combination of First Merchants common stock and cash will recognize gain, limited to the amount of cash received in the merger, less the cash received in lieu of a fractional share. However, if smaller in amount than the net cash received, a U.S. holder's gain will be limited to the excess of the amount of cash received plus the fair market value of First Merchants Stock over the holder's adjusted tax basis in the Lincoln stock surrendered. Loss cannot be recognized as a consequence of the exchange, and each block of Lincoln stock that is acquired at different times and prices must be evaluated for the potential to produce gain or loss, and losses associated with individual blocks of stock may not offset gains from other blocks of stock.

Generally, any gain that results will be long-term capital gain, if the Lincoln stock has been held for more than one year at the effective date of the merger. Long term capital gains of an individual are subject to a maximum tax rate of 15% and short term gains are subject to ordinary income tax rates, the maximum rate of which is 35%.

In certain instances, such as if a U.S. Holder actually or constructively owns First Merchants stock immediately after the merger, such gain may be treated as having the effect of a dividend to such holder, under the tests set forth in Section 302 of the Code, and such gain would be characterized as ordinary dividend income.

## **Table of Contents**

In general, the determination as to whether the receipt of cash has the effect of a distribution of a dividend depends upon whether and to what extent the transactions related to the merger will be deemed to reduce a holder's percentage ownership of First Merchants immediately following the merger. In making a determination as to whether or not the receipt of cash has the effect of a distribution of a dividend, certain constructive ownership rules must be taken into account. For purposes of this determination, a holder will be treated as if it first exchanged all of its Lincoln stock solely for First Merchants common stock, and then a portion of the First Merchants stock so received was immediately redeemed by First Merchants for the cash (excluding cash received instead of a fractional share of First Merchants common stock) that the holder actually received in the merger. The Internal Revenue Service has indicated that a reduction in the interest of a minority stockholder that owns a small number of shares in a publicly traded and widely held corporation and that exercises no control over corporate affairs would result in capital gain (as opposed to dividend) treatment.

Further, capital gains treatment should be available to any U.S. holder who receives both cash and First Merchants common stock in the merger if the percentage of First Merchants common stock actually and constructively owned by such U.S. holder immediately after the merger is less than 80% of the percentage of First Merchants common stock which such U.S. holder would have owned (actually and constructively) were such U.S. holder to have received solely First Merchants common stock in the merger. A holder is urged to consult its tax advisers about the possibility that all or a portion of any cash received in exchange for Lincoln stock will be treated as a dividend.

Generally, a U.S. holder's aggregate tax basis in the First Merchants common stock and cash received in lieu of a fractional share will equal the holder's tax basis in the Lincoln shares exchanged, increased by any income recognized, and decreased by the amount of any cash received. The holding period of First Merchants shares received generally will include the holding period of Lincoln shares exchanged.

Generally, any gain that results will be long-term capital gain, if the Lincoln stock has been held for more than one year at the effective date of the merger. Long term capital gains of an individual are subject to a maximum tax rate of 15% and short term gains are subject to ordinary income tax rates, the maximum rate of which is 35%.

### **Cash in Lieu of Fractional Shares of First Merchants Common Stock**

A U.S. Holder who receives cash in lieu of fractional shares of First Merchants will be taxed as having sold that fractional share. The resultant gain or loss will be measured by the difference between the amount of cash received for the fractional share over the portion of the basis of Lincoln stock allocable to that fractional share. Any resultant gain or loss will be capital in nature, and will be long or short term, depending on the period of time the exchanged Lincoln shares were held. See page 59 for additional information on capital gains and losses.

### ***Reporting Requirements***

U.S. Holders who are significant shareholders are required to file a statement with their United States federal income tax return setting forth their tax basis in the Lincoln common stock exchanged in the merger and the fair market value of the First Merchants common stock and the amount of cash received in the merger. A significant holder is U.S. Holder who, immediately before the merger, owned at least 5% of the outstanding stock of securities of Lincoln, with a tax basis of least \$1 million.

All other Lincoln shareholders will be required to retain permanent tax records of the tax basis of stock exchanged and the shares and cash received in the merger.

### ***Backup Withholding***

Cash payments made to Lincoln shareholders pursuant to the merger may, under certain circumstances, be subject to backup withholding at a rate of 28%. There is no withholding for Lincoln shareholders who provide



**Table of Contents**

American Stock Transfer, the conversion agent, with their correct United States federal taxpayer identification number and who certify that no loss of exemption from backup withholding has occurred on the Internal Revenue Service Form W-9 or its substitute. A Form W-9 will be included as part of the Election Form to be sent to you under separate mailing. Certain categories of Lincoln shareholders (for example, corporations and some foreign individuals) are not subject to backup withholding. In order for a foreign individual to qualify as an exempt recipient, such individual must generally provide American Stock Transfer, as the conversion agent, with a completed Internal Revenue Service Form W-8BEN or its substitute. Any amounts withheld from a Lincoln shareholder under the backup withholding rules are not an additional tax. Rather, any such amounts will be allowed as a credit or refund against such shareholder's United States federal income tax liability provided that the shareholder furnishes to the Internal Revenue Service all required information.

**The Internal Revenue Service has not verified the federal income tax consequences discussion set forth above. The foregoing is only a general description of the material federal income tax consequences of the merger and does not consider the facts and circumstances of any particular Lincoln shareholder. First Merchants and Lincoln urge you to consult with your own tax advisor with respect to the specific tax consequences to you of the merger, including the application and effect of existing and proposed federal, state, local, foreign and other tax laws.**

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**Table of Contents**

**UNAUDITED PRO FORMA COMBINED**

**CONSOLIDATED FINANCIAL INFORMATION**

The following is the unaudited pro forma combined financial information for First Merchants and for Lincoln giving effect to the merger. The information is presented under two separate assumptions relating to the level of Lincoln common shares which are exchanged for First Merchants common stock in the merger. The financial information presented under Alternative A was compiled assuming the maximum number of Lincoln common shares are exchanged for shares of First Merchants common stock (subject to the 3,576,417 limitation) and the balance for cash. The financial information presented under Alternative B was compiled assuming 80% of the outstanding Lincoln common shares are exchanged for shares of First Merchants common stock and 20% of the outstanding Lincoln common shares are exchanged for cash in the merger. For a more detailed description of these assumptions, see Notes to Unaudited Pro Forma Summary of Selected Consolidated Financial Data on page 20.

The balance sheet information presented gives effect to the merger as if it occurred on June 30, 2008. The income statement information presented gives effect to the merger as if it occurred on the first day of each period presented.

The pro forma combined figures are simply arithmetical combinations of First Merchants' and Lincoln's separate financial results in order to assist you in analyzing the future prospects of First Merchants. The pro forma combined figures illustrate the possible scope of the change in First Merchants' historical figures caused by the merger. You should not assume that First Merchants and Lincoln would have achieved the pro forma combined results if the merger had actually occurred during the periods presented.

The combined company expects to achieve merger benefits in the form of operating cost savings. The pro forma earnings, which do not reflect any potential savings that are expected to result from the consolidation of the operations of First Merchants and Lincoln, are not indicative of the results of future operations. No assurances can be given with respect to the ultimate level of expense savings. See FORWARD-LOOKING STATEMENTS and RISK FACTORS-The Integration Of Lincoln's Business With First Merchants' Business May Be Difficult, page 21.

The pro forma information reflects the purchase method of accounting, with Lincoln's assets and liabilities recorded at their estimated fair values as of June 30, 2008. The actual fair value adjustments to the assets and the liabilities of Lincoln will be made on the basis of appraisals and evaluations that will be made as of the date the merger is completed. Thus, the actual fair value adjustments may differ significantly from those reflected in these pro forma financial statements. In the opinion of First Merchants' management, the estimates used in the preparation of these pro forma financial statements are reasonable under the circumstances.

You should read the unaudited pro forma combined consolidated financial information in conjunction with the accompanying notes and with First Merchants' historical financial statements and related notes which are incorporated by reference in this document and Lincoln's historical financial statements and related notes which are included as part of this document.

**Table of Contents****UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED BALANCE SHEET****AS OF JUNE 30, 2008****ALTERNATIVE A MAXIMUM STOCK ISSUED****(In Thousands)**

	<b>First Merchants Corporation</b>	<b>Lincoln Bancorp</b>	<b>Pro forma Adjustments</b>	<b>Pro forma Combined</b>
<b>Assets</b>				
Cash and due from banks	\$ 80,996	\$ 3,712	\$ (3,364)(19) 3,364(20)	\$ 84,708
Interest-bearing deposits		13,512		13,512
Federal funds sold		1,707		1,707
Cash and cash equivalents	80,996	18,931		99,927
Interest-bearing time deposits	7,267			7,267
Investment securities				
Available for sale	397,068	133,337		530,405
Held to maturity	11,256			11,256
Total investment securities	408,324	133,337		541,661
Mortgage loans held for sale	3,234	3,456		6,690
Loans, net of allowance	2,986,999	626,607	905(3)	3,614,511
Premises and equipment	44,232	17,546	496(3) (3,852)(21)	58,422
Federal Reserve and FHLB stock	25,455	8,808		34,263
Interest Receivable	19,680	4,802		24,482
Core deposits intangible	11,562	1,928	(1,928)(8) 12,000(5) (3,082)(21)	20,480
Goodwill	124,668	23,907	(23,907)(8)	124,668
Cash surrender value of life insurance	72,948	21,461		94,409
Other real estate owned	17,243	767		18,010
Other assets	19,852	8,348	4,259(6) (70)(21)	32,389
Total assets	\$ 3,822,460	\$ 869,898	\$ (18,543)	\$ 4,677,179
<b>Liabilities</b>				
Deposits				
Noninterest-bearing	\$ 403,152	\$ 47,294		\$ 450,446
Interest-bearing	2,460,483	584,697	2,516(3)	3,047,696
Total deposits	2,863,635	631,991	2,516	3,498,142
Borrowings	586,250	132,795	(101)(3) 3,364(20)	722,308
Interest payable	6,658	1,792		8,450
Other liabilities	18,525	6,721	500(2) 1,400(1) 4,036(18)	31,182

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Total liabilities	3,475,068	773,299	8,351	4,260,082
<b>Stockholders equity</b>				
Cumulative Preferred Stock	125			125
Common stock	2,258	61,828	447(9)	2,705
			(61,828)(7)	
Additional paid in capital	140,258		69,258(9)	209,516
Retained earnings	209,059	39,886	(39,886)(7)	209,059
Unearned ESOP shares		(2,767)	2,767(7)	
Accumulated comprehensive income	(4,308)	(2,348)	2,348(7)	(4,308)
Total stockholders equity	347,392	96,599	(26,894)	417,097
Total liabilities and stockholders equity	\$ 3,822,460	\$ 869,898	\$ (18,543)	\$ 4,677,179

The accompanying notes are an integral part of the unaudited pro forma combined consolidated financial information.

**Table of Contents****UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED STATEMENT OF INCOME****For The Year Ended December 31, 2007****Alternative A Maximum Stock Issued****(In Thousands except Share and Per Share Amounts)**

	<b>First Merchants Corporation</b>	<b>Lincoln Bancorp</b>	<b>Pro forma Adjustments</b>	<b>Pro forma Combined</b>
<b>Interest Income</b>				
Loans receivable	\$ 208,388	\$ 44,220	\$ (139)(10)	\$ 252,469
Investment securities	20,292	8,690		28,982
Other	2,053	784		2,837
<b>Total interest income</b>	<b>230,733</b>	<b>53,694</b>	<b>(139)</b>	<b>284,288</b>
<b>Interest Expense</b>				
Deposits	89,921	27,039	(559)(10)	116,401
Fed funds purchased	3,589			3,589
Securities sold under repurchase agreements	3,856	621		4,477
Borrowings	20,247	4,248	76(10)	24,708
			137(12)	
<b>Total interest expense</b>	<b>117,613</b>	<b>31,908</b>	<b>(346)</b>	<b>149,175</b>
<b>Net Interest Income</b>	<b>113,120</b>	<b>21,786</b>	<b>207</b>	<b>135,113</b>
Provision for loan losses	8,507	957		9,464
<b>Net interest income after provision for loan losses</b>	<b>104,613</b>	<b>20,829</b>	<b>207</b>	<b>125,649</b>
<b>Other Income</b>				
Service charges on deposit accounts	12,421	2,474		14,895
Fiduciary activities	8,372			8,372
Other customer fees	6,479	922		7,401
Commission income	5,113			5,113
Earnings on cash surrender value of life insurance	3,651	849		4,500
Net gains and fees on sales of loans	2,438	(693)		1,745
Net realized gains (losses) on sales of available-for-sale securities		(25)		(25)
Other income	2,077	1,496		3,573
<b>Total other income</b>	<b>40,551</b>	<b>5,023</b>		<b>45,574</b>
<b>Other expenses</b>				
Salaries and employee benefits	58,843	12,295	208(16)	70,358
			(988)(17)	
Net occupancy expenses	6,647	2,368	(84)(13)	8,931
Equipment expenses	6,769	1,658		8,427
Marketing	2,205	1,122		3,327
Outside data processing fees	3,831	2,570		6,401
Printing and office supplies	1,410	187		1,597
Core deposit amortization	3,159	521	1,338(11)	4,497
			(521)(14)	
Write off of unamortized underwriting expense	1,771			1,771
Other expenses	17,547	3,771		21,318

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Total other expenses	102,182	24,492	(47)	126,627
<b>Income before income tax</b>	<b>42,982</b>	<b>1,360</b>	<b>254</b>	<b>44,596</b>
Income tax expense (benefit)	11,343	(389)	102(15)	11,056
<b>Net Income</b>	<b>\$ 31,639</b>	<b>\$ 1,749</b>	<b>\$ 153</b>	<b>\$ 33,541</b>

**Per Share Data**

Basic earnings per common share	\$ 1.73			\$ 1.54
Diluted earnings per common share	\$ 1.73			\$ 1.53
Average common shares-basic	18,250		3,576	21,826
Average common shares-diluted	18,314		3,576	21,890

The accompanying notes are an integral part of the unaudited pro forma combined consolidated financial information.

**Table of Contents****UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED STATEMENT OF INCOME****For The Six Months Ended June 30, 2008****Alternative A Maximum Stock Issued****(In Thousands except Share and Per Share Amounts)**

	<b>First Merchants Corporation</b>	<b>Lincoln Bancorp</b>	<b>Pro forma Adjustments</b>	<b>Pro forma Combined</b>
<b>Interest Income</b>				
Loans receivable	\$ 100,467	\$ 20,336	\$ (70)(10)	\$ 120,733
Investment securities	9,161	3,574		12,735
Other	1,131	281		1,412
<b>Total interest income</b>	<b>110,759</b>	<b>24,191</b>	<b>(70)</b>	<b>134,880</b>
<b>Interest Expense</b>				
Deposits	35,730	9,773	(280)(10)	45,223
Fed funds purchased	1,246			1,246
Securities sold under repurchase agreements	1,448	123		1,571
Borrowings	9,353	2,390	38(10)	11,849
			68(12)	
<b>Total interest expense</b>	<b>47,777</b>	<b>12,286</b>	<b>(173)</b>	<b>59,890</b>
<b>Net Interest Income</b>	<b>62,982</b>	<b>11,905</b>	<b>104</b>	<b>74,991</b>
Provision for loan losses	10,893	1,806		12,699
<b>Net interest income after provision for loan losses</b>	<b>52,089</b>	<b>10,099</b>	<b>104</b>	<b>62,292</b>
<b>Other Income</b>				
Service charges on deposit accounts	6,088	1,337		7,425
Fiduciary activities	4,268			4,268
Other customer fees	3,446	560		4,006
Commission income	3,096			3,096
Earnings on cash surrender value of life insurance	1,344	409		1,753
Net gains and fees on sales of loans	1,311	790		2,101
Net realized gains on sales of available-for-sale securities	86	70		156
Other income	1,222	633		1,855
<b>Total other income</b>	<b>20,861</b>	<b>3,799</b>		<b>24,660</b>
<b>Other expenses</b>				
Salaries and employee benefits	31,796	6,629	104(16)	38,143
			(386)(17)	
Net occupancy expenses	3,555	1,257	(42)(13)	4,770
Equipment expenses	3,297	822		4,119
Marketing	1,096	468		1,564
Outside data processing fees	1,891	1,373		3,264
Printing and office supplies	572	119		691
Core deposit amortization	1,598	241	624(11)	2,222
			(241)(14)	
Write off of unamortized underwriting expense				
<b>Other expenses</b>	<b>8,872</b>	<b>1,891</b>		<b>10,763</b>

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Total other expenses	52,677	12,800	59	65,536
<b>Income before income tax</b>	<b>20,273</b>	<b>1,098</b>	<b>44</b>	<b>21,415</b>
Income tax expense (benefit)	5,605	(46)	18(15)	5,577
<b>Net Income</b>	<b>\$ 14,668</b>	<b>\$ 1,144</b>	<b>\$ 27</b>	<b>\$ 15,839</b>

**Per Share Data**

Basic earnings per common share	\$ 0.82			\$ 0.73
Diluted earnings per common share	\$ 0.81			\$ 0.73
Average common shares-basic	17,995		3,576	21,571
Average common shares-diluted	18,107		3,576	21,683

The accompanying notes are an integral part of the unaudited pro forma combined consolidated financial information.



**Table of Contents****UNAUDITED PRO FORMA COMBINED CONSOLIDATED CONDENSED BALANCE SHEET****AS OF JUNE 30, 2008****ALTERNATIVE B 80% STOCK ISSUED****(In Thousands)**

	<b>First Merchants Corporation</b>	<b>Lincoln Bancorp</b>	<b>Pro forma Adjustments</b>	<b>Pro forma Combined</b>
<b>Assets</b>				
Cash and due from banks	\$ 80,996	\$ 3,712	\$ (16,800)(19) 16,800(20)	\$ 84,708
Interest-bearing deposits		13,512		13,512
Federal funds sold		1,707		1,707
Cash and cash equivalents	80,996	18,931		99,927
Interest-bearing time deposits	7,267			7,267
Investment securities				
Available for sale	397,068	133,337		530,405
Held to maturity	11,256			