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FIRST MERCHANTS CORP
Form 8-K
October 22, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 22, 2003

FIRST MERCHANTS CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction of incorporation)

0-17071
(Commission File Number)

35-1544218
(IRS Employer Identification No.)

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

47305-2814
(Zip Code)

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

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

Exhibit 99.1 Press Release, dated October 22, 2003, issued by
First Merchants Corporation

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

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

On October 22, 2003, First Merchants Corporation issued a press release to report its financial results for the quarter ended September 30, 2003. The release is furnished as Exhibit 99.1 hereto.

SIGNATURES

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

By: /s/ Larry R. Helms

Larry R. Helms, Senior Vice President

Dated: October 22, 2003

EXHIBIT INDEX

Exhibit No.

99.1

Description

Press Release, dated October 22, 2003, issued by First Merchants Corporation.

First Merchants Corporation

Exhibit No. 99.1

Press Release, dated October 22, 2003

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

October 22, 2003

FOR IMMEDIATE RELEASE

For more information, contact:

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

765-751-1857

<http://firstmerchants.com>

SOURCE: First Merchants Corporation

FIRST MERCHANTS ANNOUNCES 3rd QUARTER EARNINGS PER SHARE

First Merchants Corporation (NASDAQ - FRME) has reported that third quarter 2003 diluted earnings per share equaled \$.39, a decrease of 15.2%, from \$.46 in the prior year. Net income decreased \$478,000, or 6.1%, during the same period.

Year-to-date diluted earnings were \$1.19 per share compared to \$1.31 in 2002. Year-to-date net income increased \$512,000, or 2.4%, from \$21,240,000 to \$21,752,000.

Net interest margin for the nine months ended September 30, 2003 declined 34 basis points as the Corporation's yield on earning assets declined 83 basis points and the cost of supporting liabilities declined by 49 basis points.

For the quarter, net interest margin declined 47 basis points as the Corporation's yield on earning assets declined 1.03 percent and the cost of

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supporting liabilities declined by 56 basis points.

Year-to-date gains from the sale of mortgage loans increased from \$990,000 to \$5,618,000, and the provision for loan losses increased from \$4,297,000 to \$8,430,000.

For the quarter, gains from the sale of mortgage loans increased by \$876,000 and the provision for loan losses decreased by \$115,000.

Michael L. Cox, President and Chief Executive Officer, commented that, "Changes in the yield curve, during the quarter, increased pressure on earnings as the Corporation maintains an asset sensitive interest rate risk position. This position has increased our dependence on gains generated from the sales of mortgage loans during this record low interest rate environment. The Federal Reserve Bank's reduction in the target fed funds rate of 25-basis points, during the last week of June, coupled with more than a 100-basis point increase in the 30-year treasury and mortgage rates, have proven to be challenging."

Total loans outstanding reached \$2.4 billion, an increase of \$355 million over the prior year. Of the increase, \$318 million is attributable to the acquisition of CNBC Bancorp on March 1, 2003. The remaining net increase of \$37 million resulted primarily from increased commercial real estate loans outstanding of \$55 million, mitigated by reductions in both residential real estate loans and individual loans for household and other personal expenditures.

Total non-performing assets decreased from 1.21% of total loans in the third quarter of 2002 to 1.13% as of September 30, 2003. The Corporation's allowance for loan losses increased to 1.27% versus 1.10% during the same period last year.

During the quarter, the Corporation completed a sale of non-performing loans. The sale reduced non-performing loans by \$2 million and significantly reduced classified assets in one bank. Additionally, the remaining banks in the Corporation reduced non-performing loans by another \$1.7 million.

The Corporation's Board of Directors also authorized management to proceed with its strategic initiative of minimizing the number of regulatory agencies governing its banks. The Corporation is in the process of converting all of its state chartered banks to National Charters. The Office of the Comptroller of the Currency and the Federal Reserve Bank will be the remaining regulators once the conversion is complete.

CONFERENCE CALL

First Merchants Corporation will conduct a conference call at 2:30 p.m. Eastern Standard Time on Wednesday, October 22, 2003. To participate, dial 888-710-8192 and reference First Merchants Corporation's third quarter earnings release. A digital recording will be available two hours after the completion of the conference from October 22, 2003, to October 24, 2003. To access, US/Canada guests should call 800-642-1687; or for International/Local guests, call 706-645-9291 and enter the Conference I.D. 3236274.

Detailed financial results are reported on the attached pages.

First Merchants Corporation is a financial holding company headquartered in Muncie, Indiana. Subsidiaries of the Corporation include First Merchants Bank, NA, Madison Community Bank, First United Bank, Union County National Bank, The Randolph County Bank, First National Bank, Decatur Bank & Trust Company, Frances Slocum Bank, Lafayette Bank & Trust Company, Commerce National Bank and Merchants Trust Company. The Corporation also operates First Merchants Insurance Services, a full-service property casualty, personal lines, and healthcare

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insurance agency, headquartered in Muncie, Indiana, and is a majority member of Indiana Title Insurance Company, LLC, a title insurance agency.

First Merchants Corporation's common stock is traded over-the-counter on the NASDAQ National Market System under the symbol FRME and is rated A+ by Standard & Poor's Corporation. Quotations are carried in daily newspapers and can be found on the company's Internet web page (<http://www.firstmerchants.com>).

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CONSOLIDATED BALANCE SHEETS

(in thousands)

| | September 30, | |
|---|---------------|--------------|
| | 2003 | 2002 |
| Assets | | |
| Cash and due from banks | \$ 87,619 | \$ 73,223 |
| Federal funds sold | 0 | 8,750 |
| | ----- | ----- |
| Cash and cash equivalents | 87,619 | 81,973 |
| Interest-bearing time deposits | 3,789 | 10,222 |
| Investment securities | 316,852 | 345,452 |
| Mortgage loans held for sale | 12,042 | 14,089 |
| Loans, net of allowance for loan losses of \$29,842 and \$22,147 | 2,321,563 | 1,971,891 |
| Premises and equipment | 39,475 | 39,179 |
| Federal Reserve and Federal Home Loan Bank stock | 14,057 | 11,097 |
| Interest receivable | 17,139 | 18,622 |
| Core deposit intangibles and goodwill | 143,648 | 106,753 |
| Cash surrender value of life insurance | 37,536 | 14,143 |
| Other assets | 18,000 | 16,065 |
| | ----- | ----- |
| Total assets | \$ 3,011,720 | \$ 2,629,486 |
| | ===== | ===== |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | \$ 316,058 | \$ 246,410 |
| Interest-bearing | 1,994,146 | 1,773,325 |
| | ----- | ----- |
| Total deposits | 2,310,204 | 2,019,735 |
| Borrowings | 374,051 | 328,933 |
| Interest payable | 5,200 | 6,813 |
| Other liabilities | 21,064 | 14,132 |
| | ----- | ----- |
| Total liabilities | 2,710,519 | 2,369,613 |
| Stockholders' equity | | |
| Preferred stock, no-par value | | |
| Authorized and unissued -- 500,000 shares | | |
| Common stock, \$.125 stated value | | |
| Authorized -- 50,000,000 shares | | |
| Issued and outstanding - 18,487,974 and 17,124,914 | | |
| | 2,311 | 2,141 |
| Additional paid-in capital | 149,810 | 116,102 |
| Retained earnings | 147,559 | 135,266 |
| Accumulated other comprehensive income | 1,521 | 6,364 |
| | ----- | ----- |
| Total stockholders' equity | 301,201 | 259,873 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 3,011,720 | \$ 2,629,486 |

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FINANCIAL HIGHLIGHTS

| (In thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------|------------------------------------|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| NET CHARGE OFF'S | \$ 2,503 | \$ 1,637 | \$ 4,732 | \$ 4,193 |
| AVERAGE BALANCES | | | | |
| Total Assets | \$3,030,935 | \$2,635,606 | \$2,923,015 | \$2,319,049 |
| Total Loans | 2,348,817 | 1,984,323 | 2,258,725 | 1,766,879 |
| Total Deposits | 2,305,589 | 2,018,242 | 2,221,870 | 1,800,894 |
| Total Stockholders' Equity | 301,048 | 254,654 | 290,503 | 229,634 |
| FINANCIAL RATIOS | | | | |
| Return on Average Assets | 0.97% | 1.19% | 0.99% | 1.22% |
| Return on Avg. Stockholders' Equity | 9.76 | 12.40 | 9.98 | 12.45 |
| Avg. Earning Assets to Avg. Assets | 89.48 | 90.27 | 89.92 | 91.11 |
| Allowance for Loan Losses as % Of Total Loans | 1.26 | 1.10 | 1.26 | 1.10 |
| Net Charge Off's as % Of Avg. Loans (Annualized) | .43 | .32 | .28 | .32 |
| Dividend Payout Ratio | 58.97 | 47.83 | 56.30 | 50.38 |
| Avg. Stockholders' Equity to Avg. Assets | 9.93 | 9.58 | 9.94 | 9.81 |
| Tax Equivalent Yield on Earning Assets | 5.89 | 6.92 | 6.11 | 6.94 |
| Cost of Supporting Liabilities | 1.93 | 2.49 | 2.01 | 2.50 |
| Net Int. Margin (FTE) on Earning Assets | 3.96 | 4.43 | 4.10 | 4.44 |

CONSOLIDATED STATEMENTS OF INCOME

| (in thousands, except share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| Interest Income | | | | |
| Loans receivable | | | | |
| Taxable | \$ 35,607 | \$ 35,362 | \$106,539 | \$ 94,000 |
| Tax exempt | 185 | 169 | 512 | 400 |
| Investment securities | | | | |
| Taxable | 1,342 | 2,442 | 4,621 | 6,000 |
| Tax exempt | 1,562 | 1,793 | 4,819 | 4,000 |
| Federal funds sold | 49 | 123 | 339 | 400 |
| Deposits with financial institutions | 13 | 53 | 54 | 400 |
| Federal Reserve and Federal Home Loan Bank stock | 201 | 206 | 610 | 400 |
| | ----- | ----- | ----- | ----- |
| Total interest income | 38,959 | 40,148 | 117,494 | 107,000 |

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| | | | | |
|---|----------|----------|-----------|-------|
| Interest expense | | | | |
| Deposits | 8,623 | 10,696 | 26,555 | 29 |
| Securities sold under repurchase agreements | 370 | 517 | 1,273 | 1 |
| Federal Home Loan Bank advances | 2,409 | 2,283 | 7,077 | 5 |
| Trust preferred securities | 1,232 | 1,181 | 3,697 | 2 |
| Other borrowings | 451 | 143 | 1,053 | |
| | ----- | ----- | ----- | ----- |
| Total interest expense | 13,085 | 14,820 | 39,655 | 39 |
| | ----- | ----- | ----- | ----- |
| Net interest income | 25,874 | 25,328 | 77,839 | 67 |
| Provision for loan losses | 1,706 | 1,821 | 8,430 | 4 |
| | ----- | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 24,168 | 23,507 | 69,409 | 63 |
| | ----- | ----- | ----- | ----- |
| Other income | | | | |
| Fiduciary activities | 1,547 | 1,651 | 5,133 | 4 |
| Service charges on deposit accounts | 2,861 | 2,626 | 8,388 | 6 |
| Other customer fees | 961 | 957 | 3,085 | 2 |
| Net realized gains on sales of available-for-sale securities | 512 | 162 | 950 | |
| Commission income | 638 | 557 | 2,099 | 1 |
| Other income | 2,357 | 1,693 | 8,660 | 3 |
| | ----- | ----- | ----- | ----- |
| Total other income | 8,876 | 7,646 | 28,315 | 19 |
| | ----- | ----- | ----- | ----- |
| Other expenses | | | | |
| Salaries and employee benefits | 13,206 | 10,606 | 37,885 | 28 |
| Net occupancy expenses | 1,189 | 999 | 3,480 | 2 |
| Equipment expenses | 1,996 | 1,880 | 5,856 | 4 |
| Marketing expense | 414 | 415 | 1,259 | 1 |
| Deposit insurance expense | | 143 | | |
| Outside data processing fees | 1,025 | 1,018 | 3,055 | 2 |
| Printing and office supplies | 401 | 388 | 1,240 | 1 |
| Goodwill and core deposit amortization | 958 | 786 | 2,777 | 1 |
| Other expenses | 3,771 | 2,952 | 11,784 | 8 |
| | ----- | ----- | ----- | ----- |
| Total other expenses | 22,960 | 19,187 | 67,336 | 51 |
| | ----- | ----- | ----- | ----- |
| Income before income tax | 10,084 | 11,966 | 30,388 | 32 |
| Income tax expense | 2,735 | 4,139 | 8,636 | 10 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 7,349 | \$ 7,827 | \$ 21,752 | \$ 21 |
| | ===== | ===== | ===== | ===== |
| Per Share Data (1) | | | | |
| Basic Net Income | .40 | .47 | 1.20 | |
| Diluted Net Income | .39 | .46 | 1.19 | |
| Cash Dividends Paid | .23 | .22 | .67 | |

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

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CONSOLIDATED BALANCE SHEETS

(in thousands)

| | September 30, 2003 | June 30, 2003 | March 31, 2003 | December 31, 2002 |
|--|-----------------------|------------------|-------------------|----------------------|
| Assets | | | | |
| Cash and due from banks | \$ 87,619 | \$ 89,126 | \$ 81,789 | \$ 87,619 |
| Federal funds sold | 0 | 14,150 | 54,925 | 31,400 |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents | 87,619 | 103,276 | 136,714 | 119,019 |
| Interest-bearing time deposits | 3,789 | 8,777 | 5,170 | 3,500 |
| Investment securities | 316,852 | 363,103 | 333,692 | 342,000 |
| Mortgage loans held for sale | 12,042 | 15,151 | 13,558 | 21,500 |
| Loans | 2,351,405 | 2,324,576 | 2,291,178 | 2,004,300 |
| Less: Allowance for loan losses | (29,842) | (30,639) | (29,733) | (22,400) |
| | ----- | ----- | ----- | ----- |
| Net loans | 2,321,563 | 2,293,937 | 2,261,445 | 1,981,900 |
| Premises and equipment | 39,475 | 39,313 | 38,861 | 38,600 |
| Federal Reserve and Federal Home Loan Bank stock | 14,057 | 13,933 | 13,912 | 11,400 |
| Interest receivable | 17,139 | 16,592 | 16,789 | 17,300 |
| Core deposit intangibles and goodwill | 143,648 | 144,663 | 141,226 | 107,200 |
| Cash surrender value of life insurance | 37,536 | 34,575 | 14,567 | 14,300 |
| Other assets | 18,000 | 23,641 | 23,088 | 21,500 |
| | ----- | ----- | ----- | ----- |
| Total assets | \$ 3,011,720 | \$ 3,056,961 | \$ 2,999,022 | \$ 2,678,600 |
| | ===== | ===== | ===== | ===== |
| Liabilities | | | | |
| Deposits | | | | |
| Noninterest-bearing | \$ 316,058 | \$ 324,735 | \$ 289,835 | \$ 272,100 |
| Interest-bearing | 1,994,146 | 1,988,593 | 1,996,836 | 1,764,500 |
| | ----- | ----- | ----- | ----- |
| Total deposits | 2,310,204 | 2,313,328 | 2,286,671 | 2,036,600 |
| Borrowings | 374,051 | 417,669 | 388,821 | 356,900 |
| Interest payable | 5,200 | 5,494 | 5,694 | 6,000 |
| Other liabilities | 21,064 | 19,460 | 28,212 | 17,900 |
| | ----- | ----- | ----- | ----- |
| Total liabilities | 2,710,519 | 2,755,951 | 2,709,398 | 2,417,500 |
| Stockholders' equity | | | | |
| Preferred stock, no-par value | | | | |
| Authorized and unissued -- 500,000 shares | | | | |
| Common stock, \$.125 stated value | | | | |
| Authorized -- 50,000,000 shares | | | | |
| Issued and outstanding | 2,311 | 2,301 | 2,298 | 2,100 |
| Additional paid-in capital | 149,810 | 148,296 | 143,505 | 116,400 |
| Retained earnings | 147,559 | 144,457 | 139,743 | 138,100 |
| Accumulated other comprehensive income | 1,521 | 5,956 | 4,078 | 4,400 |
| | ----- | ----- | ----- | ----- |
| Total stockholders' equity | 301,201 | 301,010 | 289,624 | 261,100 |
| | ----- | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 3,011,720 | \$ 3,056,961 | \$ 2,999,022 | \$ 2,678,600 |
| | ===== | ===== | ===== | ===== |

NON-PERFORMING ASSETS

(In thousands)

September 30, June 30, March 31, December 31, September 30,
2003 2003 2003 2002 2002

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| | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| 90 days past due | \$ 4,790 | \$ 5,295 | \$ 3,552 | \$ 6,676 | \$ 9,134 |
| Non-accrual loans | 20,093 | 22,532 | 19,747 | 14,134 | 13,134 |
| Other real estate | 1,547 | 2,351 | 1,841 | 1,691 | 1,691 |
| | ----- | ----- | ----- | ----- | ----- |
| Total non-performing assets | \$ 26,430 | \$ 30,178 | \$ 25,140 | \$ 22,501 | \$ 23,959 |
| | ===== | ===== | ===== | ===== | ===== |
| Average total loans for the quarter | \$ 2,348,817 | \$ 2,313,688 | \$ 2,111,056 | \$ 2,066,616 | \$ 1,984,117 |
| Total non-performing assets as a percent of average total loans | 1.13% | 1.30% | 1.19% | 1.09% | 1.19% |
| Restructured loans | \$ 647 | \$ 899 | \$ 2,194 | \$ 2,508 | \$ 2,508 |

CONSOLIDATED STATEMENTS OF INCOME

| (in thousands, except share data) | Three Months Ended | | | |
|---|--------------------|---------------|----------------|-------------------|
| | September 30, 2003 | June 30, 2003 | March 31, 2003 | December 31, 2002 |
| Interest Income | | | | |
| Loans receivable | | | | |
| Taxable | \$ 35,607 | \$ 35,759 | \$ 35,173 | \$ 34,775 |
| Tax exempt | 185 | 162 | 165 | 235 |
| Investment securities | | | | |
| Taxable | 1,342 | 1,600 | 1,679 | 2,100 |
| Tax exempt | 1,562 | 1,626 | 1,631 | 1,740 |
| Federal funds sold | 49 | 177 | 113 | 169 |
| Deposits with financial institutions | 13 | 19 | 22 | 38 |
| Federal Reserve and Federal Home Loan Bank stock | 201 | 211 | 198 | 208 |
| | ----- | ----- | ----- | ----- |
| Total interest income | 38,959 | 39,554 | 38,981 | 39,265 |
| | ----- | ----- | ----- | ----- |
| Interest expense | | | | |
| Deposits | 8,623 | 9,048 | 8,884 | 9,934 |
| Securities sold under repurchase agreements | 370 | 454 | 449 | 502 |
| Federal Home Loan Bank advances | 2,409 | 2,395 | 2,273 | 2,359 |
| Trust preferred securities | 1,232 | 1,259 | 1,206 | 1,181 |
| Other borrowings | 451 | 443 | 159 | 154 |
| | ----- | ----- | ----- | ----- |
| Total interest expense | 13,085 | 13,599 | 12,971 | 14,130 |
| | ----- | ----- | ----- | ----- |
| Net interest income | 25,874 | 25,955 | 26,010 | 25,135 |
| Provision for loan losses | 1,706 | 2,123 | 4,601 | 2,877 |
| | ----- | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 24,168 | 23,832 | 21,409 | 22,258 |
| | ----- | ----- | ----- | ----- |
| Other income | | | | |
| Fiduciary activities | 1,547 | 1,889 | 1,697 | 1,487 |
| Service charges on deposit accounts | 2,861 | 2,743 | 2,784 | 2,695 |

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| | | | | |
|---|----------|----------|----------|----------|
| Other customer fees | 961 | 1,036 | 1,088 | 993 |
| Net realized gains on sales of available-for-sale securities | 512 | 67 | 371 | 169 |
| Commission income | 638 | 707 | 754 | 586 |
| Other income | 2,357 | 4,711 | 1,592 | 1,286 |
| | ----- | ----- | ----- | ----- |
| Total other income | 8,876 | 11,153 | 8,286 | 7,216 |
| | ----- | ----- | ----- | ----- |
| Other expenses | | | | |
| Salaries and employee benefits | 13,206 | 12,902 | 11,777 | 10,849 |
| Net occupancy expenses | 1,189 | 1,200 | 1,091 | 933 |
| Equipment expenses | 1,996 | 2,016 | 1,844 | 1,861 |
| Marketing expense | 414 | 411 | 434 | 416 |
| Deposit insurance expense | 0 | | | 104 |
| Outside data processing fees | 1,025 | 1,102 | 928 | 940 |
| Printing and office supplies | 401 | 432 | 407 | 442 |
| Goodwill and core deposit amortization | 958 | 991 | 828 | 750 |
| Other expenses | 3,771 | 3,881 | 4,132 | 3,591 |
| | ----- | ----- | ----- | ----- |
| Total other expenses | 22,960 | 22,935 | 21,441 | 19,886 |
| | ----- | ----- | ----- | ----- |
| Income before income tax | 10,084 | 12,050 | 8,254 | 9,588 |
| Income tax expense | 2,735 | 3,305 | 2,596 | 2,998 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 7,349 | \$ 8,745 | \$ 5,658 | \$ 6,590 |
| | ===== | ===== | ===== | ===== |
| Per Share Data(1) | | | | |
| Basic Net Income | \$.40 | \$.48 | \$.32 | \$.38 |
| Diluted Net Income | .39 | .48 | .32 | .38 |
| Cash Dividends Paid | .23 | .22 | .22 | .22 |
| ..22 | | | | |

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