

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

FIRST MERCHANTS CORP
Form 10-Q
November 05, 2008

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended September 30, 2008

OR

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

For the Transition Period from _____ to _____

Commission File Number 0-17071

First Merchants Corporation

(Exact name of registrant as specified in its charter)

Indiana

35-1544218

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

200 East Jackson Street
Muncie, IN

47305-2814

(Address of principal executive offices)

(Zip code)

(765) 747-1500

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Large accelerated filer [] Accelerated filer [X] Non-accelerated filer []
Smaller reporting company []

(Do not check if smaller reporting company)

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

As of October 28, 2008, there were 18,284,882 outstanding common shares, of the registrant.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX

Page No.

PART I. Financial Information:

Item 1.	Financial Statements:	
	Consolidated Condensed Balance Sheets.....	3
	Consolidated Condensed Statements of Income.....	4
	Consolidated Condensed Statements of Comprehensive Income.....	5
	Consolidated Condensed Statements of Stockholders' Equity.....	6
	Consolidated Condensed Statements of Cash Flows.....	7
	Notes to Consolidated Condensed Financial Statements.....	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.....	33
Item 4.	Controls and Procedures.....	33

PART II. Other Information:

Item 1.	Legal Proceedings.....	34
Item 1.A.	Risk Factors.....	34
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.....	34
Item 3.	Defaults Upon Senior Securities.....	34

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Item 4. Submission of Matters to a Vote of Security Holders.....35
 Item 5. Other Information.....35
 Item 6. Exhibits.....36
 Signatures.....37
 Index to Exhibits.....38

FIRST MERCHANTS CORPORATION
 FORM 10-Q
 PART I. FINANCIAL INFORMATION
 Item 1. FINANCIAL STATEMENTS
 CONSOLIDATED CONDENSED BALANCE SHEETS
 (Dollars in thousands, except per share amounts)

	September 30, 2008	December 31, 2007
	----- (Unaudited)	-----
ASSETS:		
Cash and due from banks	\$ 69,846	\$ 134,188
Federal funds sold	7,818	495
	-----	-----
Cash and cash equivalents	77,664	134,683
Interest-bearing deposits.....	15,623	24,931
Investment securities available for sale	377,329	440,836
Investment securities held to maturity	11,479	10,331
Mortgage loans held for sale.....	2,062	3,735
Loans, net of allowance for loan losses of \$34,985 and \$28,228.	3,043,783	2,848,615
Premises and equipment	44,402	44,445
Federal Reserve and Federal Home Loan Bank stock.....	25,494	25,250
Interest receivable	21,569	23,402
Core deposit intangibles	10,841	12,412
Goodwill	124,860	123,444
Cash surrender value of life insurance.....	73,448	70,970
Other real estate owned	16,916	2,573
Other assets	18,604	16,460
	-----	-----
Total assets	\$ 3,864,074	\$ 3,782,087
	=====	=====
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 384,928	\$ 370,397
Interest-bearing	2,529,355	2,473,724
	-----	-----
Total deposits	2,914,283	2,844,121
Borrowings:		
Federal funds purchased	57,600	52,350
Securities sold under repurchase agreements	100,227	106,497
Federal Home Loan Bank advances	237,225	294,101
Subordinated debentures, revolving credit lines		

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

and term loans	176,256	115,826
	-----	-----
Total borrowings	571,308	568,774
Interest payable	6,529	8,325
Other liabilities.....	19,861	20,931
	-----	-----
Total liabilities	3,511,981	3,442,151

COMMITMENTS AND CONTINGENT LIABILITIES

STOCKHOLDERS' EQUITY:

Cumulative preferred stock, \$1,000 par value:

Authorized -- 600 shares

Issued and outstanding - 125 shares..... 125

Preferred stock, no-par value:

Authorized and unissued - 500,000 shares

Common stock, \$.125 stated value:

Authorized -- 50,000,000 shares

Issued and outstanding - 18,125,090 and 18,002,787 shares.... 2,266 2,250

Additional paid-in capital 141,777 137,801

Retained earnings 210,605 202,750

Accumulated other comprehensive loss (2,680) (2,865)

Total stockholders' equity 352,093 339,936

Total liabilities and stockholders' equity \$ 3,864,074 \$ 3,782,087

See notes to consolidated condensed financial statements.

Page 3

FIRST MERCHANTS CORPORATION

FORM 10-Q

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

	Three Months Ended		Nine Mo
	September 30,		Septe
	2008	2007	2008
Interest Income:			
Loans receivable			
Taxable	\$49,828	\$53,081	\$149,952
Tax exempt	321	368	664
Investment securities			
Taxable	2,943	3,581	9,139
Tax exempt	1,379	1,613	4,344
Federal funds sold	10	41	21
Deposits with financial institutions	146	145	561
Federal Reserve and Federal Home Loan Bank stock	351	328	1,056
	-----	-----	-----

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Total interest income	54,978	59,157	165,737
	-----	-----	-----
Interest Expense:			
Deposits	16,213	23,327	51,943
Fed funds purchased	502	996	1,748
Securities sold under repurchase agreements	650	1,195	2,098
Federal Home Loan Bank advances	2,724	3,302	8,585
Subordinated debentures, revolving credit lines and term loans	1,635	1,802	5,127
	-----	-----	-----
Total interest expense	21,724	30,622	69,501
	-----	-----	-----
Net Interest Income	33,254	28,535	96,236
Provision for loan losses	7,094	2,810	17,987
	-----	-----	-----
Net Interest Income After Provision for Loan Losses	26,160	25,725	78,249
	-----	-----	-----
Other Income:			
Service charges on deposit accounts	3,568	3,241	9,656
Fiduciary activities	1,932	1,985	6,200
Other customer fees	1,696	1,767	5,142
Commission income	1,457	1,175	4,553
Earnings on cash surrender value of life insurance	519	998	1,863
Net gains and fees on sales of loans	648	749	1,959
Net realized gains/(losses) on sales of available-for-sale securities	185		271
Other than temporary impairment on investment securities.....	(1,440)		(1,440)
Other income	655	933	1,877
	-----	-----	-----
Total other income	9,220	10,848	30,081
	-----	-----	-----
Other expenses:			
Salaries and benefits	15,330	14,583	47,126
Net occupancy	1,857	1,818	5,412
Equipment	1,649	1,645	4,946
Marketing	605	560	1,701
Outside data processing fees.....	1,068	972	2,959
Printing and office supplies.....	281	394	853
Core deposit amortization.....	809	789	2,407
Write-off of unamortized underwriting expense			
Other expenses	5,516	4,241	14,388
	-----	-----	-----
Total other expenses	27,115	25,002	79,792
	-----	-----	-----
Income Before Income Tax	8,265	11,571	28,538
Income tax expense	2,516	3,221	8,121
	-----	-----	-----
Net Income	\$ 5,749	\$ 8,350	\$ 20,417
	=====	=====	=====
Per share:			
Basic net income	\$.32	\$.46	\$ 1.13
Diluted net income .....	.32	.46	1.13
Cash dividends paid .....	.23	.23	.69
Average diluted shares outstanding (in thousands)	18,196	18,276	18,129

See notes to consolidated condensed financial statements.

Page 4

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

FIRST MERCHANTS CORPORATION

FORM 10-Q
 CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
 (Dollars in thousands)
 (Unaudited)

	Three Months E	September 3
	-----	-----
	2008	2007
	-----	-----
Net Income.....	\$ 5,749	\$ 5,749
Other comprehensive income net of tax:		
Unrealized gains/(losses) on securities available for sale:		
Unrealized holding gains/(losses) arising during the period, net of income tax of \$(853), \$(1,584), \$510 and \$(312), respectively.....	1,585	1,585
Unrealized gains/(losses) on cash flow hedges:		
Unrealized gains/(losses) arising during the period, net of income tax of \$342, \$(525), \$(597) and \$(346), respectively.....	(513)	(513)
Amortization of items previously recorded in accumulated other comprehensive income/(losses), net of income tax expense of \$132, \$(117), \$311, and \$(351), respectively.....	(198)	(198)
Reclassification adjustment for losses included in net income, net of income tax expense of \$(502), \$0, \$(468), and \$0, respectively.	753	753
	-----	-----
	1,627	1,627
	-----	-----
Comprehensive income	\$ 7,376	\$ 7,376
	=====	=====

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q
 CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
 (Dollars in thousands)
 (Unaudited)

	2008	2007
	-----	-----
Balances, January 1	\$ 339,936	\$ 327,325

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Net income	20,417	22,329
Cash dividends on common stock	(12,561)	(12,685)
Other comprehensive income, net of tax	184	1,627
Stock issued under employee benefit plan	773	787
Stock issued under dividend reinvestment and stock purchase plan	795	890
Stock options exercised, net of tax	1,612	496
Tax benefit from stock options exercised	139	106
Stock redeemed	(2,180)	(9,240)
Issuance of stock related to acquisition	1,463	
Cumulative preferred stock issued	125	
Share-based compensation	1,390	1,106
	-----	-----
Balances, September 30	\$ 352,093	\$ 332,741
	=====	=====

See notes to consolidated condensed financial statements.

Page 6

FIRST MERCHANTS CORPORATION
FORM 10-Q
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
	-----	-----
Cash Flows From Operating Activities:		
Net income.....	\$ 20,417	\$ 22,329
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses.....	17,987	6,057
Depreciation and amortization.....	3,502	3,240
Share-based compensation.....	1,390	1,106
Tax benefits from stock options exercised.....	(139)	(106)
Mortgage loans originated for sale.....	(82,608)	(96,392)
Proceeds from sales of mortgage loans.....	84,281	97,477
Gains on sales of securities available for sale.....	271	
Recognized loss on other than temporary impairment..	(1,440)	
Change in interest receivable.....	1,833	(1,609)
Change in interest payable.....	(1,796)	(156)
Other adjustments.....	605	6,205
	-----	-----

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Net cash provided by operating activities.....	\$	44,303	\$	38,151
		-----		-----
Cash Flows From Investing Activities:				
Net change in interest-bearing deposits.....	\$	9,308	\$	(11,011)
Purchases of				
Securities available for sale.....		(74,443)		(60,568)
Securities held to maturity.....		(2,399)		
Proceeds from sales of securities available for sale..		34,256		
Proceeds from maturities of				
Securities available for sale.....		101,990		50,934
Securities held to maturity.....		1,252		662
Purchase of Federal Reserve and				
Federal Home Loan Bank Stock.....		(244)		(1,359)
Purchase of bank owned life insurance		(706)		(3,500)
Net cash paid in acquisitions		(237)		
Net change in loans.....		(236,823)		(183,954)
Other adjustments.....		(3,460)		(3,232)
		-----		-----
Net cash used by investing activities.....	\$	(171,506)	\$	(212,028)
		-----		-----
Cash Flows From Financing Activities:				
Net change in				
Demand and savings deposits.....	\$	5,870	\$	(57,402)
Certificates of deposit and other time deposits.....		64,292		66,039
Proceeds from the sale of other real estate owned.....		8,789		2,739
Borrowings.....		737,290		331,605
Repayment of borrowings.....		(734,756)		(153,770)
Cash dividends on common stock.....		(12,561)		(12,685)
Stock issued under employee benefit plans.....		773		787
Stock issued under dividend				
reinvestment and stock purchase plans.....		791		890
Stock options exercised.....		1,612		496
Cumulative preferred stock issued.....		125		
Tax benefit from stock options exercised.....		139		106
Stock redeemed.....		(2,180)		(9,240)
		-----		-----
Net cash provided by financing activities.....		70,184		169,565
		-----		-----
Net Change in Cash and Cash Equivalents.....		(57,019)		(4,312)
Cash and Cash Equivalents, January 1.....		134,683		89,957
		-----		-----
Cash and Cash Equivalents, September 30,.....	\$	77,664	\$	85,645
		=====		=====
Additional cash flows information:				
Interest paid	\$	71,297	\$	88,337
Income tax paid		15,090		6,939
Loans transferred to other real estate owned.....		23,669		2,592

See notes to consolidated condensed financial statements.

Page 7

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

(Unaudited)

NOTE 1. General

Financial Statement Preparation

The significant accounting policies followed by First Merchants Corporation ("Corporation") and its wholly owned subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments, which are of a normal recurring nature and are in the opinion of management necessary for a fair statement of the results for the periods reported, have been included in the accompanying consolidated condensed financial statements.

The consolidated condensed balance sheet of the Corporation as of December 31, 2007 has been derived from the audited consolidated balance sheet of the Corporation as of that date. Certain information and note disclosures normally included in the Corporation's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's Form 10-K annual report filed with the Securities and Exchange Commission. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the year.

NOTE 2. Share-Based Compensation

Stock options and restricted stock awards ("RSAs") have been issued to directors, officers and other management employees under the Corporation's 1994 Stock Option Plan and The 1999 Long-term Equity Incentive Plan. The stock options, which have a ten year life, become 100 percent vested ranging from three months to two years and are fully exercisable when vested. Option exercise prices equal the Corporation's common stock closing price on NASDAQ on the date of grant. RSAs provide for the issuance of shares of the Corporation's common stock at no cost to the holder and generally vest after three years. The RSAs vest only if the employee is actively employed by the Corporation on the vesting date and, therefore, any unvested shares are forfeited. Deferred stock units ("DSUs") have been credited to non-employee directors who have elected to defer payment of compensation under the Corporation's 2008 Equity Compensation Plan for Non-employee Directors. DSUs credited are equal to the restricted shares that the non-employee director would have received under the plan. As of September 30, 2008, there were 1,113 DSUs credited to the non-employee directors.

The Corporation's 2004 Employee Stock Purchase Plan ("ESPP") provides eligible employees of the Corporation and its subsidiaries an opportunity to purchase shares of common stock of the Corporation through annual offerings financed by payroll deductions. The price of the stock to be paid by the employees may not be less than 85 percent of the lesser of the fair market value of the Corporation's common stock at the beginning or at the end of the offering period. Common stock purchases are made annually and are paid through advance payroll deductions of up to 20 percent of eligible compensation.

SFAS 123(R) required the Corporation to begin recording compensation expense in 2006 related to unvested share-based awards outstanding as of December 31, 2005, by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards, with no change in historical reported fair values and earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with provisions of SFAS 123(R) and are recognized on a straight-line basis over the service periods of each award. To complete the exercise of vested stock options, RSA's and ESPP options, the Corporation

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

generally issues new shares from its authorized but unissued share pool. Share-based compensation for the three and nine months ended September 30, 2008 totaled \$488,000 and \$1,390,000, respectively, compared to \$365,000 and \$1,106,000 for the three and nine months ended September 30, 2007. Share based compensation has been recognized as a component of salaries and benefits expense in the accompanying Consolidated Condensed Statements of Income.

Page 8

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

NOTE 2. Share-Based Compensation continued

The estimated fair value of the stock options granted during 2008 and in prior years was calculated using a Black Scholes option pricing model. The following summarizes the assumptions used in the 2008 Black Scholes model:

Risk-free interest rate	2.69%
Expected price volatility	32.13%
Dividend yield	3.68%
Forfeiture rate	5.00%
Weighted-average expected life, until exercise	6.53 years

The Black Scholes model incorporates assumptions to value share-based awards. The risk-free rate of interest, for periods equal to the expected life of the option, is based on a zero-coupon U.S. government instrument over a similar contractual term of the equity instrument. Expected price volatility is based on historical volatility of the Corporation's common stock. In addition, the Corporation generally uses historical information to determine the dividend yield and weighted-average expected life of the options, until exercise. Separate groups of employees that have similar historical exercise behavior with regard to option exercise timing and forfeiture rates are considered separately for valuation and attribution purposes.

Share-based compensation expense recognized in the Consolidated Condensed Statements of Income is based on awards ultimately expected to vest and is reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods, if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be approximately 5 percent for the nine months ended September 30, 2008, based on historical experience.

The following table summarizes the components of the Corporation's share-based compensation awards recorded as expense:

		Three Months September 2008
Stock and ESPP Options:		
Pre-tax compensation expense	\$	164 \$
Income tax benefit		(14)

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Stock and ESPP option expense, net of income taxes	\$	150	\$
		=====	=====
Restricted Stock Awards:			
Pre-tax compensation expense	\$	324	\$
Income tax benefit		(113)	
		-----	-----
Restricted stock awards expense, net of income taxes	\$	211	\$
		=====	=====
Total Share-Based Compensation:			
Pre-tax compensation expense	\$	488	\$
Income tax benefit		(127)	
		-----	-----
Total share-based compensation expense, net of income taxes	\$	361	\$
		=====	=====

Page 9

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

NOTE 2. Share-Based Compensation continued

As of September 30, 2008, unrecognized compensation expense related to stock options and RSAs totaling \$374,000 and \$1,919,000 respectively, is expected to be recognized over weighted-average periods of .87 and 1.54 years, respectively.

Stock option activity under the Corporation's stock option plans as of September 30, 2008 and changes during the nine months ended September 30, 2008 were as follows:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in Years)
	-----	-----	-----
Outstanding at January 1, 2008	1,054,430	\$ 24.30	
Granted	82,713	26.76	
Exercised	(123,739)	22.74	
Cancelled	(59,713)	24.76	

Outstanding at September 30, 2008	953,691	\$ 24.69	5.55
	=====		
Vested and Expected to Vest at September 30, 2008..	947,549	\$ 24.67	5.53
Exercisable at September 30, 2008	847,441	\$ 24.36	4.95

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

The weighted-average grant date fair value was \$6.08 for stock options granted during the nine months ended September 30, 2008.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Corporation's closing stock price on the last trading day of the first nine months of 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their stock options on September 30, 2008. The amount of aggregate intrinsic value will change based on the fair market value of the Corporation's common stock.

The aggregate intrinsic value of stock options exercised during the first nine months of 2008 was \$613,000. Exercise of options during this same period resulted in cash receipts of \$1,612,000. The Corporation recognized a tax benefit of approximately \$139,000 in the first nine months of 2008, related to the exercise of employee stock options and has been recorded as an increase to additional paid-in capital.

The following table summarizes information on unvested RSAs outstanding as of September 30, 2008:

	Number of Shares	Weighted-Average Grant-Date Fair Value
	-----	-----
Unvested RSAs at January 1, 2008	98,027	\$ 27.12
Granted	66,696	26.25
Forfeited	(1,802)	25.79
Vested	(1,438)	27.20

Unvested RSAs at September 30, 2008	161,483	\$ 26.78
	=====	

Page 10

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

NOTE 2. Share-Based Compensation continued

The grant date fair value of ESPP options was estimated at the beginning of the July 1, 2008 offering period and approximates \$240,000. The ESPP options vest during the twelve month period ending June 30, 2009. At September 30, 2008, all compensation expense related to ESPP options was fully recognized. Total unrecognized compensation expense related to unvested ESPP options was \$180,000, which is expected to be recognized over a period of nine months.

Note 3. Disclosures About Fair Value of Assets and Liabilities

Effective January 1, 2008, the Corporation adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-sale securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. There are no securities classified within Level 1 of the hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include treasury securities, agencies, mortgage backs, state and municipal, corporate obligations, and marketable equity securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include mortgage-backed securities and corporate obligations.

The corporation has certain securities that have had a drop in fair market value as a result of the widening in market spreads that many sectors have experienced in recent months. Management has determined that these securities are not deemed to be other than temporarily impaired as the drop in market value is a result of illiquidity in the current market rather than poor performance. There has not been an adverse change in future cash flows of the securities. These securities have a book value and fair value, as determined through an analysis of future cash flow, of \$11.1 million.

Interest rate swap agreements

The fair value is estimated by a third party using inputs that are primarily unobservable and cannot be corroborated by observable market data and, therefore, are classified within Level 3 of the valuation hierarchy.

Page 11

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at September 30, 2008.

	Fair Value	Fair Value Measurement	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Available for sale securities	\$377,329		\$365,871
Hedged loans	45,299		
Interest rate swap agreements	(627)		

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable Level 3 inputs for the three and nine months ended September 30, 2008.

	Three Months Ended September 30, 2008		
	Available for Sale Securities	Hedged Loans	Interest Rate
Beginning balance	\$ 9,500	\$ 22,797	
Total realized and unrealized gains and losses			
Included in net income		\$ 475	\$
Included in other comprehensive income	2,121		
Purchases, issuances, and settlements		22,200	
Transfers in/(out) of Level 3	(128)		
Principal payments	(35)	(173)	
Ending balance	\$ 11,458	\$ 45,299	\$

	Nine Months Ended September 30, 2008		
	Available for Sale Securities	Hedged Loans	Interest Rate
Beginning balance	\$ 12,023		

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Total realized and unrealized gains and losses			
Included in net income		\$ 704	\$
Included in other comprehensive income	(1,270)		
Purchases, issuances, and settlements		44,792	
Transfers in/(out) of Level 3	847		
Principal payments	(142)	(197)	
Ending balance	\$ 11,458	\$ 45,299	\$

Page 12

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

Following is a description of valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired Loans

Loan impairment is reported when scheduled payments under contractual terms are deemed uncollectible. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate, or the fair value of collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectability of the loan is confirmed. During the first nine months of 2008, certain impaired loans were partially charged-off or re-evaluated, resulting in a remaining balance for these loans, net of specific reserve, of \$11,500,000 as of September 30, 2008. The valuation would be considered Level 3, consisting of appraisals of underlying collateral and discounted cash flow analysis.

Page 13

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at September 30, 2008				
U.S. Treasury	\$ 11,496	\$ 7		\$ 11,503

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

U.S. Government-sponsored				
agency securities.....	13,416	105	\$ 2	13,519
State and municipal	128,005	1,545	215	129,335
Mortgage-backed securities	205,303	1,891	989	206,205
Corporate obligations	13,615		2,073	11,542
Marketable equity securities.....	5,240		15	5,225
	-----	-----	-----	-----
Total available for sale	377,075	3,548	3,294	377,329
	-----	-----	-----	-----
Held to maturity at September 30, 2008				
State and municipal.....	11,467	60	365	11,162
Mortgage-backed securities.....	12			12
	-----	-----	-----	-----
Total held to maturity	11,479	60	365	11,174
	-----	-----	-----	-----
Total investment securities	\$388,554	\$ 3,608	\$ 3,659	\$388,503
	=====	=====	=====	=====

The Corporation has the intent and ability to hold the securities with unrealized losses to the earlier of recovery of maturity. If the Corporation is unable to make this assertion at any reporting period, the Corporation will take the necessary actions to recognize the unrealized loss in the appropriate period's income statement.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2007				
U.S. Treasury	\$ 1,501	\$ 18		\$ 1,519
U.S. Government-sponsored				
agency securities	67,793	240	\$ 98	67,935
State and municipal	150,744	2,324	156	152,912
Mortgage-backed securities	199,591	1,654	1,444	199,801
Corporate obligations	13,740		1,294	12,446
Marketable equity securities	6,835		612	6,223
	-----	-----	-----	-----
Total available for sale	440,204	4,236	3,604	440,836
	-----	-----	-----	-----
Held to maturity at December 31, 2007				
State and municipal	10,317	237	298	10,256
Mortgage-backed securities	14			14
	-----	-----	-----	-----
Total held to maturity	10,331	237	298	10,270
	-----	-----	-----	-----
Total investment securities	\$450,535	\$ 4,473	\$ 3,902	\$451,106
	=====	=====	=====	=====

The Corporation's investments in certain debt securities are reported in the financial statements at an amount less than their historical cost. The historical cost of these investments totaled \$136,569,000 and \$214,293,000 at September 30, 2008 and December 31, 2007, respectively. Total fair value of these investments was \$132,910,000 and \$210,391,000 which is approximately 34.2 and 46.6 percent of the Corporation's available-for-sale and held-to-maturity investment portfolio at September 30, 2008 and December 31, 2007, respectively. These declines primarily resulted from increases in market interest rates.

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

INVESTMENT SECURITIES continued

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Additionally, the Corporation has the intent and ability to hold these securities until a recovery of fair value. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

At September 30, 2008, approximately 100% of the mortgage-backed securities held by the Corporation are issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in market value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Corporation has the intent and ability to hold these mortgage-backed securities until a recovery of fair value, which may be maturity, the Corporation does not consider these securities to be other-than-temporarily impaired at September 30, 2008.

The Corporation's unrealized losses on corporate obligations relate primarily to its investment in pooled trust preferred securities. The decline in value is attributable to temporary illiquidity and the financial crisis affecting these markets and not the expected cash flows of the individual securities. Due to the illiquidity in the market, it is unlikely that the Corporation would be able to recover its investment in these securities if the Corporation sold the securities at this time. The Corporation has analyzed the cash flow characteristics of the securities and this analysis included utilizing the most recent trustee reports and any other relevant market information including announcements of deferrals or defaults of trust preferred securities. Because the Corporation has the intent and ability to hold these securities until a recovery of fair value and has determined that there was no adverse change in the cash flow as viewed by a market participant, the Corporation does not consider these investments to be other-than-temporarily impaired at September 30, 2008.

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

INVESTMENT SECURITIES continued

The following tables show the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

securities have been in a continuous unrealized loss position at September 30, 2008 and December 31, 2007:

(Dollars in Thousands)	FAIR VALUE	GROSS	FAIR VALUE
		UNREALIZED LOSSES	
		Less than 12 Months	12 Mont Lo
Temporarily Impaired Investment			
Securities at September 30, 2008:			
U.S. Government-sponsored Agency Securities	996	\$ (2)	
State and Municipal	\$ 34,609	(303)	\$ 3,523
Mortgage-backed Securities	70,124	(603)	12,102
Corporate Obligations	320	(1,646)	11,191
Marketable Equity Securities			45
	-----	-----	-----
Total Temporarily Impaired Investment Securities	\$106,049	\$(2,554)	\$ 26,861
	=====	=====	=====

(Dollars in Thousands)	FAIR VALUE	GROSS	FAIR VALUE
		UNREALIZED LOSSES	
		Less than 12 Months	12 Mont Lo
Temporarily Impaired Investment			
Securities at December 31, 2007:			
U.S. Government-sponsored Agency Securities			\$ 45,572
State and Municipal	\$ 858	\$ (7)	60,996
Mortgage-backed Securities	3,489	(30)	86,161
Corporate Obligations	12,415	(1,294)	
Marketable Equity Securities			900
	-----	-----	-----
Total Temporarily Impaired Investment Securities	\$ 16,762	\$(1,331)	\$193,629
	=====	=====	=====

Page 16

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

NOTE 5. Loans and Allowance

September 30, D
2008

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Loans:

Commercial and industrial loans	\$	851,233	\$
Agricultural production financing and other loans to farmers		136,176	
Real estate loans:			
Construction		167,512	
Commercial and farmland		966,259	
Residential		731,065	
Individuals' loans for household and other personal expenditures		145,345	
Tax-exempt loans		34,010	
Lease financing receivables, net of unearned income.....		9,262	
Other loans		37,906	

		3,078,768	
Allowance for loan losses.....		(34,985)	

Total Loans.....	\$	3,043,783	\$
		=====	

Nine Month
September

2008

Allowance for loan losses:

Balances, January 1	\$	28,228	\$
Provision for losses		17,987	
Recoveries on loans		3,718	
Loans charged off		(14,948)	

Balances, September 30.....	\$	34,985	\$
		=====	

September 30, December 31,
2008 2007

----- -----

Non Performing Assets:

Non-accrual loans.....	\$	37,879	\$	29,031
Renegotiated loans.....		135		145
		-----		-----
Non performing loans (NPL).....		38,014		29,176
Real estate owned and repossessed assets.....		16,916		2,573
		-----		-----
Non performing assets (NPA).....		54,930		31,749
90+ days delinquent.....		8,056		3,578
		-----		-----
NPAS & 90+ days delinquent.....	\$	62,986	\$	35,327
		=====		=====

Page 17

FIRST MERCHANTS CORPORATION

FORM 10-Q

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

(Unaudited)

NOTE 6. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average shares outstanding during the reporting period. Diluted net income per share is computed by dividing net income by the combination of all dilutive common share equivalents, comprised of shares issuable under the Corporation's share-based compensation plans, and the weighted-average shares outstanding during the reporting period.

Dilutive common share equivalents include the dilutive effect of in-the-money share-based awards, which are calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of share-based awards, the amount of compensation expense, if any, for future service that the Corporation has not yet recognized, and the amount of estimated tax benefits that would be recorded in additional paid-in-capital when share-based awards are exercised, are assumed to be used to repurchase common stock in the current period.

	Three Months Ended Sept			
	2008			
	Net Income	Weighted- Average Shares	Per Share Amount	Net Income
	-----	-----	-----	-----
Basic net income per share:				
Net income available to common stockholders.....	\$ 5,749	18,114,916	\$.32	\$ 8,
			=====	
Effect of dilutive stock options.....		81,537		
		-----		-----
Diluted net income per share:				
Net income available to common stockholders and assumed conversions.....	\$ 5,749	18,196,453	\$.32	\$ 8,
	=====	=====	=====	=====

Stock options to purchase 806,789 and 839,375 shares for the three months ended September 30, 2008 and 2007 were not included in the earnings per share calculation because the exercise price exceeded the average market price.

	Nine Months Ended Septem			
	2008			
	Net Income	Weighted- Average Shares	Per Share Amount	Net Income
	-----	-----	-----	-----
Basic net income per share:				
Net income available to common stockholders.....	\$ 20,417	18,035,064	\$ 1.13	\$ 22,
			=====	
Effect of dilutive stock options.....		94,252		
		-----		-----

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Diluted net income per share:

Net income available to
common stockholders

	\$ 20,417	18,129,316	\$ 1.13	\$ 22,
and assumed conversions.....	\$ 20,417	18,129,316	\$ 1.13	\$ 22,
	=====	=====	=====	=====

Stock options to purchase 703,124 and 706,641 shares for the nine months ended September 30, 2008 and 2007 were not included in the earnings per share calculation because the exercise price exceeded the average market price.

Page 18

FIRST MERCHANTS CORPORATION
FORM 10-Q
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)
(Unaudited)

Note 7. Impact of Accounting Changes

EFFECT OF NEWLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159) became effective for the Corporation on January 1, 2008. FAS 159 allows companies an option to report selected financial assets and liabilities at fair value. Because we did not elect the fair value measurement provision for any of our financial assets or liabilities, the adoption of SFAS 159 did not have any impact on our 2008 consolidated financial statements. Presently, we have not determined whether we will elect the fair value measurement provisions for future transactions.

Effective January 1, 2008, the Corporation adopted EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements and EITF 06-10, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements. The adoption of EITF 06-4 and EITF 06-10 did not have any impact on our 2008 consolidated financial statements.

Future Accounting Matters

Financial Accounting Standards Board Statement No. 141 (SFAS 141R), "Business Combinations (Revised 2007)," was issued in December 2007 and is effective on January 1, 2009. It replaces SFAS 141 which applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed. Under SFAS 141R, the requirements of SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," would have to be met in order to accrue for a

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting. Instead, that contingency would be subject to the probable and estimable recognition criteria under SFAS 5, "Accounting for Contingencies."

Financial Accounting Standards Board Statement No. 160 (SFAS 160), "Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51," was issued in December 2007 and establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as a minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that are attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective for the Corporation on January 1, 2009 and is not expected to have a significant impact on the Corporation's financial statements.

Financial Accounting Standards Board Statement No. 161 (SFAS 161), "Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133," was issued in March 2008 and amends and expands the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for the Corporation on January 1, 2009 and is not expected to have a significant impact on the Corporation's financial statements.

Page 19

FIRST MERCHANTS CORPORATION
FORM 10-Q
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Table dollars in thousands)
(Unaudited)

NOTE 8 PENDING ACQUISITION

On September 3, 2008, the Corporation entered into a definitive agreement to acquire Lincoln Bancorp and its wholly owned subsidiary Lincoln Bank. The agreement provides that shareholders of Lincoln will receive, at their election, either 0.7004 shares of First Merchants common stock, subject to possible upward or downward adjustment as provided in the Merger Agreement 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. The transaction value is estimated at approximately \$75 million. The Corporation will issue no more than 3,576,417 shares of its common stock in the transaction. The transaction is expected to close in the fourth quarter of 2008.

Page 20

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

From time to time, we include forward-looking statements in our oral and written communication. We may include forward-looking statements in filings with the Securities and Exchange Commission, such as this Form 10-Q, in other written materials and in oral statements made by senior management to analysts, investors, representatives of the media and others. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of these safe harbor provisions. Forward-looking statements can often be identified by the use of words like "believe", "continue", "pattern", "estimate", "project", "intend", "anticipate", "expect" and similar expressions or future or conditional verbs such as "will", "would", "should", "could", "might", "can", "may", or similar expressions. These forward-looking statements include:

- * statements of our goals, intentions and expectations;
- * statements regarding our business plan and growth strategies;
- * statements regarding the asset quality of our loan and investment portfolios; and
- * estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors which could affect the actual outcome of future events:

- * fluctuations in market rates of interest and loan and deposit pricing, which could negatively affect our net interest margin, asset valuations and expense expectations;
- * adverse changes in the economy, which might affect our business prospects and could cause credit-related losses and expenses;
- * adverse developments in our loan and investment portfolios;
- * competitive factors in the banking industry, such as the trend towards consolidation in our market;
- * changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like our affiliate banks;
- * acquisitions of other businesses by us and integration of such acquired businesses;
- * changes in market, economic, operational, liquidity, credit and interest rate risks associated with our business; and
- * the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends.

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. In addition, our past results of operations do not necessarily indicate our anticipated future results.

Page 21

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results ----- of Operations continued -----

RECENT MARKET DEVELOPMENTS

The global and U.S. economies are experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system during the past year. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers, including other financial institutions. The availability of credit, confidence in the financial sector, and level of volatility in the financial markets have been significantly adversely affected as a result. In recent weeks, volatility and disruption in the capital and credit markets has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' underlying financial strength.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. Pursuant to the EESA, the U.S. Treasury will have the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, Secretary Paulson, after consulting with the Federal Reserve and the FDIC, announced that the Department of the Treasury will purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Asset Relief Program Capital Purchase Program (the "TARP Capital Purchase Program"), from the \$700 billion authorized by the EESA, the Treasury will make \$250 billion of capital available to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions will be required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP Capital Purchase

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Program. Secretary Paulson also announced that nine large financial institutions have already agreed to participate in the TARP Capital Purchase Program.

Also on October 14, 2008, after receiving a recommendation from the boards of the FDIC and the Federal Reserve, and consulting with the President, Secretary Paulson signed the systemic risk exception to the FDIC Act, enabling the FDIC to temporarily provide a 100% guarantee of the senior debt of all FDIC-insured institutions and their holding companies, as well as deposits in non-interest bearing transaction deposit accounts under a Temporary Liquidity Guarantee Program. Coverage under the Temporary Liquidity Guarantee Program is available for 30 days without charge and thereafter at a cost of 75 basis points per annum for senior unsecured debt and 10 basis points per annum for non-interest bearing transaction deposits. The Corporation is assessing its participation in both the TARP Capital Purchase Program and the Temporary Liquidity Guarantee Program but has not yet made a definitive decision as to whether it will participate.

It is not clear at this time what impact the EESA, the TARP Capital Purchase Program, the Temporary Liquidity Guarantee Program, other liquidity and funding initiatives of the Federal Reserve and other agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the financial markets and the other difficulties described above, including the extreme levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies. Further adverse effects could have an adverse effect on the Corporation and its business.

Page 22

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results

of Operations continued

CRITICAL ACCOUNTING POLICIES

Generally accepted accounting principles are complex and require us to apply significant judgments to various accounting, reporting and disclosure matters. We must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of our significant accounting policies, see "Notes to the Consolidated Financial Statements" in our Annual Report on Form 10-K for the year ended December 31, 2007. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. We have reviewed the application of these policies with the Audit Committee of our Board of Directors.

We believe there have been no significant changes during the nine months ended September 30, 2008 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007.

BUSINESS SUMMARY

We are a diversified financial holding company headquartered in Muncie, Indiana. Since its organization in 1982, the Corporation has grown to include 65 banking

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

center locations in 18 Indiana and 3 Ohio counties. In addition to its branch network, the Corporation's delivery channels include ATMs, check cards, interactive voice response systems and internet technology.

The Corporation's business activities are currently limited to one significant business segment, which is community banking. As of September 30, 2008, the Corporation's financial service affiliates included four nationally chartered banks: First Merchants Bank, National Association, First Merchants Bank of Central Indiana, National Association, Lafayette Bank and Trust Company, National Association and Commerce National Bank. The banks provide commercial and retail banking services. In addition, our trust company, multi-line insurance company and a title company provide trust asset management services, retail and commercial insurance agency services and title services, respectively.

On September 3, 2008, the Corporation announced a definitive agreement to acquire Lincoln Bancorp through a merger of Lincoln into First Merchants. At September 30, 2008, Lincoln Bancorp had \$831.3 million in assets. Lincoln Bancorp and Lincoln Bank are headquartered in Plainfield, Indiana with additional offices in Avon, Bargersville, Brownsburg, Crawfordsville, Frankfort, Franklin, Greenwood, Mooresville, Morgantown, Nashville and Trafalgar. Lincoln Bank also has 2 loan production offices located in Carmel and Greenwood, Indiana. First Merchants and Lincoln will have combined assets of \$4.7 billion and create the largest financial holding company based in Central Indiana. The combined company will have eighty-two banking offices in twenty-three Indiana and three Ohio counties, a trust company with assets under management in excess of \$1.7 billion, and a multi-line insurance agency. The merger is pending Lincoln Bancorp shareholder approval and regulatory approval. The company has filed the registration statement which includes the terms and conditions of the merger agreement on form S-4 dated September 24, 2008 (file No. 333-153656).

Management believes that its vision, mission, culture statement and core values produce profitable growth for shareholders. Management also believes it is important to maintain a strong control environment as we continue to grow our businesses. Interest rate and market risks inherent in our asset and liability balances are managed within prudent ranges, while ensuring adequate liquidity and funding. Sound credit policies are maintained and interest rate and market risks inherent in our asset and liability balances are managed within prudent ranges, while ensuring adequate liquidity and funding.

Page 23

FIRST MERCHANTS CORPORATION FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results

of Operations continued

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2008, equaled \$5,749,000, compared to \$8,350,000 in the same period of 2007. Diluted earnings per share were \$.32, compared to \$.46 reported for the third quarter 2007. Net income for the nine months ended September 30, 2008 was \$20,417,000 compared to \$22,329,000 for the same period in 2007. Diluted earnings per share were \$1.13 in 2008 and \$1.22 in 2007.

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Net-interest margin expanded by 39 basis points from 3.52 percent in the third quarter of 2007 to 3.91 percent in 2008. As a result, net-interest income increased by \$4.7 million, or 16.5 percent. Year-to-date net interest margin improved by 32 basis points as net interest income increased by \$13 million or 15.6 percent.

Provision expense totaled \$7.1 million for the quarter, an increase of \$4.3 million, as net charge-offs totaled \$3.7 million. Year-to-date provision expense totaled \$18 million, an increase of \$12 million over the prior year, as charge-off's totaled \$11.2 million. Non-performing assets increased from 84 basis points of total assets to 142 basis points during the year.

The Corporation's allowance for loan losses as a percent of total loans increased from .96 to 1.14 percent since September 30, 2007. The increase totals \$7.4 million in additional reserves. The increased allowance for loan losses total is comprised of a \$2.0 million increase in the general historical loss component, a \$6.3 million increase in environmental factors and a decline in specific reserves of \$924,000.

Total non-interest income decreased by \$1.6 million, during the quarter, due primarily to a \$1.4 million write-off of the other than temporarily impairment of Federal Home Loan Mortgage Corporation preferred stock. The investment was deemed to be permanently impaired as the market value continued to decline rapidly with no indication of recovery. Total expenses increased during the quarter by \$2.1 million totaling \$27.1 million. Year-to-date non-interest income declined by \$337,000 and non-interest expense increased \$2,857,000.

Annualized returns on average assets and average stockholders' equity for the nine months ended September 30, 2008, were .72 percent and 7.81 percent, respectively, compared with .83 percent and 9.05 percent for the same period of 2007.

CAPITAL

Our regulatory capital continues to exceed regulatory "well capitalized" standards. Tier I regulatory capital consists primarily of total stockholders' equity and subordinated debentures issued to business trusts categorized as qualifying borrowings, less non-qualifying intangible assets and unrealized net securities gains. Our Tier I capital to average assets ratio was 7.3 percent at September 30, 2008 and 7.2 percent at year end 2007. In addition, at September 30, 2008, we had a Tier I risk-based capital ratio of 8.5 percent and total risk-based capital ratio of 11.2 percent. Regulatory capital guidelines require a Tier I risk-based capital ratio of at least 4.0 percent and a total risk-based capital ratio of at least 8.0 percent.

Our GAAP capital ratio, defined as total stockholders' equity to total assets, equaled 9.1 percent at September 30, 2008 and 9.0 percent at December 31, 2007. When we acquire other companies for stock, GAAP capital increases by the entire amount of the purchase price.

Our tangible capital ratio, defined as total stockholders' equity less intangibles net of tax to total assets less intangibles net of tax, equaled 5.9 percent as of September 30, 2008, and 5.7 percent at December 31, 2007.

Page 24

Item 2. Management's Discussion and Analysis of Financial Condition and Results

of Operations continued

We believe that all of the above capital ratios are meaningful measurements for

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

evaluating our safety and soundness. Additionally, we believe the following table is also meaningful when considering our performance measures. The table details and reconciles tangible earnings per share, return on tangible capital and tangible assets to traditional GAAP measures.

(Dollars in thousands)	September 30, 2008	December 31, 2007
	-----	-----
Average goodwill	\$ 124,310	\$ 123,191
Average core deposit intangible (CDI)	11,679	13,868
Average deferred tax on CDI	(2,971)	(3,659)
	-----	-----
Intangible adjustment	\$ 133,018	\$ 133,400
	=====	=====
Average stockholders' equity (GAAP capital)	\$ 348,415	\$ 330,786
Intangible adjustment	(133,018)	(133,400)
	-----	-----
Average tangible capital	\$ 215,397	\$ 197,386
	=====	=====
Average assets	\$ 3,791,305	\$ 3,639,772
Intangible adjustment	(133,018)	(133,400)
	-----	-----
Average tangible assets	\$ 3,658,287	\$ 3,506,372
	=====	=====
Net income	\$ 20,417	\$ 31,639
CDI amortization, net of tax	1,119	1,919
	-----	-----
Tangible net income	\$ 21,536	\$ 33,558
	=====	=====
Diluted earnings per share	\$ 1.13	\$ 1.73
Diluted tangible earnings per share	\$ 1.19	\$ 1.83
Return on average GAAP capital	7.81%	9.56%
Return on average tangible capital	13.33%	17.00%
Return on average assets .....	.72%	.87%
Return on average tangible assets .....	.78%	.96%

Page 25

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results

 of Operations continued

ASSET QUALITY/PROVISION FOR LOAN LOSSES

Our primary business focus is middle market commercial and residential real estate, auto and small consumer lending, which results in portfolio diversification. We ensure that appropriate methods to understand and underwrite risk are utilized. Commercial loans are individually underwritten and judgmentally risk rated. They are periodically monitored and prompt corrective actions are taken on deteriorating loans. Retail loans are typically

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

underwritten with statistical decision-making tools and are managed throughout their life cycle on a portfolio basis.

The allowance for loan losses is maintained through the provision for loan losses, which is a charge against earnings. The amount provided for loan losses and the determination of the adequacy of the allowance are based on a continuous review of the loan portfolio, including an internally administered loan "watch" list and an ongoing loan review. The evaluation takes into consideration identified credit problems, as well as the possibility of losses inherent in the loan portfolio that are not specifically identified.

At September 30, 2008, non-performing assets, which includes nonaccrual loans, restructured loans, and other real estate owned totaled \$54,930,000, an increase of \$23,181,000 from December 31, 2007 as noted in Note 5 Loans and Allowance, included within the Notes to Consolidated Condensed Financial Statements of this Form 10Q. Other real estate owned increased \$14,343,000 from December 31, 2007, largely due to two relationships, one that came into other real estate owned in the first quarter of 2008 and one in the second quarter. Other real estate owned declined by \$300,000 in the third quarter due to a sale of property. Additional sales are anticipated in the fourth quarter. Current appraisals are obtained to determine value as management continues to aggressively market these real estate assets.

Non-performing loans will increase or decrease going forward due to portfolio growth, routine problem loan recognition and resolution through collections, sales or charge-offs. The performance of any loan can be affected by external factors such as economic conditions, or factors particular to a borrower, such as actions of a borrower's management.

At September 30, 2008, impaired loans totaled \$129,052,000, an increase of \$42,103,000 from December 31, 2007. At September 30, 2008, an allowance for losses was not deemed necessary for impaired loans totaling \$114,940,000, as there was no identified loss on these credits. An allowance of \$6,123,000 was recorded for the remaining balance of impaired loans of \$14,112,000 and is included in our allowance for loan losses.

The increase of total impaired loans is primarily due to the increase of performing, substandard classified loans, which comprise a portion of our total impaired loans. A loan is deemed impaired when, based on current information or events, it is probable all amounts due of principal and interest according to the contractual terms of the loan agreement will not be collected. All of our criticized loans, including substandard, doubtful and loss credits, are included in the impaired loan total.

At September 30, 2008, the allowance for loan losses was \$34,985,000, an increase of \$6,757,000 from year end 2007. As a percent of loans, the allowance was 1.14 percent at September 30, 2008 and .98 percent at December 31, 2007.

The provision for loan losses for the first nine months of 2008 was \$17,987,000, an increase of \$11,930,000 from \$6,057,000 for the same period in 2007. The increase from the prior year was a result of an increase in net charge offs and the increase in non-performing loans.

The decline in the value of the residential real estate in our market has negatively impacted the underlying collateral value in our residential, land development and construction loans. This downturn in the real estate market is expected to continue and management is proactive in evaluating loans collateralized by real estate. The evaluation by management includes consideration of specific borrower cash flow analysis and estimated collateral values, types and amounts on non-performing loans, past and anticipated loan loss experience, changes in the composition of the loan portfolio, and the current condition and amount of loans outstanding. The determination of the

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

provision in any period is based on management's continuing review and evaluation of the loan portfolio, and its judgment as to the impact of current economic conditions on the portfolio.

Page 26

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results

of Operations continued

LIQUIDITY

Liquidity management is the process by which we ensure that adequate liquid funds are available for us and our subsidiaries. These funds are necessary in order to meet financial commitments on a timely basis. These commitments include withdrawals by depositors, funding credit obligations to borrowers, paying dividends to shareholders, paying operating expenses, funding capital expenditures, and maintaining deposit reserve requirements. Liquidity is monitored and closely managed by our asset/liability committee.

Our liquidity is dependent upon our receipt of dividends from our bank subsidiaries, which are subject to certain regulatory limitations and access to other funding sources. Liquidity of our bank subsidiaries is derived primarily from core deposit growth, principal payments received on loans, the sale and maturity of investment securities, net cash provided by operating activities, and access to other funding sources.

The most stable source of liability-funded liquidity for both the long-term and short-term is deposit growth and retention in the core deposit base. In addition, we utilize advances from the Federal Home Loan Bank ("FHLB") and a revolving line of credit with LaSalle Bank, N.A. as funding sources. At September 30, 2008, total borrowings from the FHLB were \$237,225,000. Our bank subsidiaries have pledged certain mortgage loans and investments to the FHLB. The total available remaining borrowing capacity from the FHLB at September 30, 2008, was \$15,247,000. At September 30, 2008, our revolving line of credit had no balance and a remaining borrowing capacity of \$25,000,000.

The principal source of asset-funded liquidity is investment securities classified as available for sale, the market values of which totaled \$377,329,000 at September 30, 2008, a decrease of \$63,507,000 or 14.4 percent below December 31, 2007. Securities classified as held to maturity that are maturing within a short period of time can also be a source of liquidity. Securities classified as held to maturity and that are maturing in one year or less totaled \$2,254,000 at September 30, 2008. In addition, other types of assets such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, and loans and interest-bearing deposits with other banks maturing within one year are sources of liquidity.

In the normal course of business, we are a party to a number of other off-balance sheet activities that contain credit, market and operational risk that are not reflected in whole or in part in our consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments, commitments under operating leases and long-term debt.

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

We provide customers with off-balance sheet credit support through loan commitments and standby letters of credit. Summarized credit-related financial instruments at September 30, 2008 are as follows:

(Dollars in thousands)	At September 30, 2008

Amounts of commitments:	
Loan commitments to extend credit	\$ 700,555
Standby letters of credit	32,523

	\$ 733,078
	=====

Since many of the commitments are expected to expire unused or be only partially used, the total amount of unused commitments in the preceding table does not necessarily represent future cash requirements.

In addition to owned banking facilities, we have entered into a number of long-term leasing arrangements to support our ongoing activities. The required payments under such commitments and borrowings at September 30, 2008 are as follows:

(Dollars in thousands)	2008 remaining	2009	2010	2011	2012	2013 and after	2014 and after

Operating leases	\$ 440	\$ 1,590	\$ 1,312	\$ 1,117	\$ 735	\$ 378	\$ 5
Borrowings	220,131	55,340	61,045	25,941	65,710	143,141	5
	-----	-----	-----	-----	-----	-----	-----
Total	\$220,571	\$ 56,930	\$ 62,357	\$ 27,058	\$ 66,445	\$143,519	\$5
	=====	=====	=====	=====	=====	=====	=====

Page 27

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results

of Operations continued

INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK

Asset/Liability Management ("ALM") has been an important factor in our ability to record consistent earnings growth through periods of interest rate volatility. Management and the Board of Directors monitor our liquidity and interest sensitivity positions at regular meetings to review how changes in interest rates may affect earnings. Decisions regarding investments and the pricing of loan and deposit products are made after analysis of reports designed to measure liquidity, rate sensitivity, exposure to changes in net interest income given various rate scenarios and the economic and competitive environments.

It is our objective to monitor and manage risk exposure to net interest income caused by changes in interest rates. It is the goal of our ALM function to provide optimum and stable net interest income. To accomplish this, we use two ALM tools. GAP/Interest Rate Sensitivity Reports and Net Interest Income

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Simulation Modeling are both constructed, presented, and monitored quarterly.

We believe that our liquidity and interest sensitivity position at September 30, 2008, remained adequate to meet our primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

Net interest income simulation modeling, or earnings-at-risk, measures the sensitivity of net interest income to various interest rate movements. Our asset liability process monitors simulated net interest income under three separate interest rate scenarios; base, rising and falling. Estimated net interest income for each scenario is calculated over a 12-month horizon. The immediate and parallel changes to the base case scenario used in the model are presented on the following page. The interest rate scenarios are used for analytical purposes and do not necessarily represent our view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into our earnings.

The base scenario is highly dependent on numerous assumptions embedded in the model, including assumptions related to future interest rates. While the base sensitivity analysis incorporates our best estimate of interest rate and balance sheet dynamics under various market rate movements, the actual behavior and resulting earnings impact will likely differ from that projected. For mortgage-related assets, the base simulation model captures the expected prepayment behavior under changing interest rate environments. Assumptions and methodologies regarding the interest rate or balance behavior of indeterminate maturity products, e.g., savings, money market, NOW and demand deposits, reflect our best estimate of expected future behavior.

Page 28

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results

of Operations continued

The comparative rising and falling scenarios below assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by us in the base simulation are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(200) Basis Points
Federal Funds	200	(200)
One-Year CMT	200	(200)
Three-Year CMT	200	(200)
Five-Year CMT	200	(200)
CD's	200	(170)
FHLB Advances	200	(200)

Results for the base, rising and falling interest rate scenarios are listed below, based upon our rate sensitive assets and liabilities at September 30, 2008. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

	BASE	RISING	FALLING
	(Dollars in thousands)		
Net Interest Income	\$130,147	\$133,524	\$124,485
Variance from base		\$ 3,377	\$ (5,663)
Percent of change from base		2.6%	(4.4)%

The comparative rising and falling scenarios below assume further interest rate changes in addition to the base simulation discussed above. These changes are immediate and parallel changes to the base case scenario. In addition, total rate movements (beginning point minus ending point) to each of the various driver rates utilized by us in the base simulation are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(200) Basis Points
Federal Funds	200	(200)
One-Year CMT	200	(200)
Two-Year CMT	200	(200)
Three-Year CMT	200	(200)
Five-Year CMT	200	(200)
CD's	200	(193)
FHLB Advances	200	(200)

Results for the base, rising and falling interest rate scenarios are listed below, based upon our rate sensitive assets and liabilities at December 31, 2007. The net interest income shown represents cumulative net interest income over a 12-month time horizon. Balance sheet assumptions used for the base scenario are the same for the rising and falling simulations.

	BASE	RISING	FALLING
	(Dollars in thousands)		
Net Interest Income	\$117,693	\$120,089	\$116,063
Variance from base		\$ 2,396	\$ (1,630)
Percent of change from base		2.0 %	(1.4)%

Page 29

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations continued

EARNING ASSETS

The following table presents the earning asset mix as of September 30, 2008, and December 31, 2007. Earning assets increased by \$128,829,000 in the nine months ended September 30, 2008. Loans and loans held for sale increased by \$200,252,000. The three largest loan segments that increased were in commercial and industrial, agricultural production, and commercial and farmland. Loan segments that decreased were loans to individuals and residential real estate.

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Investments decreased by \$62,359,000 as lower yielding investments matured and were reinvested in higher yielding loans.

EARNING ASSETS (Dollars in thousands)	September 30, 2008	December 31, 2007
Interest-bearing time deposits	\$ 15,623	\$ 24,931
Investment securities available for sale	377,329	440,836
Investment securities held to maturity	11,479	10,331
Mortgage loans held for sale	2,062	3,735
Loans	3,078,768	2,876,843
Federal Reserve and Federal Home Loan Bank stock	25,494	25,250
	-----	-----
Total	\$3,510,755	\$3,381,926

Page 30

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations continued

NET INTEREST INCOME

Net Interest Income is the primary source of our earnings. It is a function of net interest margin and the level of average earning assets. The table below presents our asset yields, interest expense, and net interest income as a percent of average earning assets for the three and nine months ended September 30, 2008 and 2007.

The following table reflects the change in asset yields, interest costs and the resulting net interest margin for the three months and nine months ended September 2008 and 2007.

(Dollars in Thousands)	Three Months Ended September 30,		Nine M Sept
	2008	2007	2008
Annualized net interest income.....	\$ 133,017	\$ 114,142	\$ 128,315
Annualized FTE adjustment.....	\$ 3,661	\$ 4,265	\$ 3,595
Annualized net interest income			

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

On a fully taxable equivalent basis.....	\$ 136,678	\$ 118,407	\$ 131,910
Average earning assets.....	\$3,499,686	\$3,359,170	\$3,441,884
Interest income (FTE) as a percent of average earning assets.....	6.39%	7.17%	6.52%
Interest expense as a percent of average earning assets.....	2.48%	3.65%	2.69%
Net interest income (FTE) as a percent of average earning assets.....	3.91%	3.52%	3.83%

Average earning assets include the average balance of securities classified as available for sale, computed based on the average of the historical amortized cost balances without the effects of the fair value adjustment. In addition, annualized amounts are computed utilizing a 30/360 day basis.

HEDGING ACTIVITIES

On August 1, 2006, the Corporation purchased three prime-based interest rate floor agreements with an aggregate notional amount of \$250 million and strike rates ranging from 6% to 7%. The combined purchase price of approximately \$550,000 was to be amortized on an allocated fair value basis over the three-year term of the agreements. On March 19, 2008, the Corporation received \$5,216,000 in connection with the termination of the three interest rate floor agreements. The contractual maturity of the floors was August 1, 2009. During the life of the floors, pre-tax gains of approximately \$4,662,500 were deferred in accumulated other comprehensive income (AOCI) in accordance with cash flow hedge accounting rules established by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (as amended). The amounts deferred in AOCI will be reclassified out of equity into earnings over the remaining contractual term of the original contract. SFAS 133 requires that amounts deferred in AOCI be reclassified into earnings in the same periods during which the originally hedged cash flows (prime-based interest payments on loan assets) affects earnings, as long as the originally hedged cash flows remain probable of occurring (i.e. the principal amount of designated prime-based loans match or exceed the notional amount of the terminated floor through August 1, 2009). If the principal amount of the originally hedged loans falls below the notional amount of the terminate floors, then amounts in AOCI could be accelerated. The Corporation decided to terminate the interest rate floor agreements only after considering the impact of the transaction on its risk management objectives and after alternative strategies were in place to mitigate the adverse impact of falling interest rates on its net interest margin. At September 30, 2008, the remaining pre-tax gains are approximately \$2.8 million.

Page 31

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results

of Operations continued

The Corporation offers interest rate derivative products (e.g. interest rate

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

swaps) to certain of its high-quality commercial borrowers. This product allows customers to enter into an agreement with the Corporation to swap their variable rate loan to a fixed rate. These derivative products are designed to reduce, eliminate or modify the risk of changes in the borrower's interest rate or market price risk. The extension of credit incurred through the execution of these derivative products is subject to the same approvals and rigorous underwriting standards as the related traditional credit product. The Corporation limits its risk exposure to these products by entering into a mirror-image, offsetting swap agreement with a separate, well-capitalized and rated counterparty previously approved by the Credit and Asset Liability Committee. By using these interest rate swap arrangements, the Corporation is also better insulated from the interest rate risk associated with underwriting fixed-rate loans. These derivative contracts are not designated against specific assets or liabilities under SFAS 133 and, therefore, do not qualify for hedge accounting. The derivatives are recorded on the balance sheet at fair value and changes in fair value of both the customer and the offsetting swaps agreements are recorded (and essentially offset) in non-interest income. The fair value of the derivative instruments incorporates a consideration of credit risk (in accordance with SFAS 157), resulting in some volatility in earnings each period. As of September 30, 2008, the notional amount of customer-facing swaps is approximately \$48,235,000. This amount is offset with third-party counterparties, as described above, in the same amount. As of September 30, 2008, the fair value of derivative assets in this program is approximately \$767,000; the fair value of derivative liabilities is approximately \$690,000.

OTHER INCOME

Total other income in the third quarter of 2008 was \$1,628,000 or 15.0 percent lower than the same period of 2007.

Five items primarily account for the change:

1. In the third quarter 2008, an other than temporary impairment loss of \$1,458,000 was recognized on Freddie Mac Preferred Stock.
2. The sale of a branch building and other real estate resulted in gains of \$666,000 in the third quarter of 2007.
3. Earnings on bank-owned life insurance decreased \$479,000 from the same period in 2007 due to the decline in the subprime and commercial paper markets.
4. Service Charges increased \$327,000 from the same period in 2007 due to increased fees and activity.
5. Fees related to the new derivative product were \$254,000 in the third quarter of 2008. This product was introduced in 2008.

Other income for the first nine months of 2008 was \$337,000 or 1.1 percent lower than the same period in 2007.

Five items primarily account for the change:

1. In the third quarter 2008, an other than temporary impairment loss of \$1,458,000 was recognized on Freddie Mac Preferred Stock.
2. Earnings on bank-owned life insurance decreased \$602,000 from the same period in 2007 due to the decline in the subprime and commercial paper markets.
3. Fees related to the new derivative product were \$620,000 through the first nine months of 2008. This product was introduced in 2008.

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

4. Insurance commissions increased \$471,000 from the same period in 2007 due to the purchase of an insurance agency in April 2008.
5. Service Charges increased \$441,000 from the same period in 2007 due to increased fees and activity.

Page 32

FIRST MERCHANTS CORPORATION

FORM 10-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results

of Operations continued

OTHER EXPENSES

Total other expenses in the third quarter of 2008 were \$2,113,000 or 8.5 percent higher than the same period in 2007.

Four items primarily account for the change:

1. Salary and employee benefit expenses were \$747,000 higher than in the same period of 2007 due to staffing additions and normal annual increases.
2. Expenses related to other real estate owned and repossessed assets were \$727,000 higher in 2008 than in the same period of 2007.
3. FDIC insurance increased \$262,000 from the same period in 2007 due to a cumulative credit that was utilized in prior periods.

Total other expenses for the first nine months of 2008 were \$2,857,000 or 3.7 percent higher than the same period in 2007.

Four items account for the majority of the change:

1. Salary and employee benefit expenses were \$3,021,000 higher than in the same period of 2007 due to staffing additions and normal annual increases.
2. Expenses related to other real estate owned and repossessed assets were, \$633,000 higher in 2008 than in the same period of 2007.
3. FDIC insurance increased \$310,000 from the same period in 2007 due to a cumulative credit that was utilized in prior periods.
4. In the second quarter of 2007, the Corporation wrote off \$1.8 million in unamortized underwriting fees associated with First Merchants Capital Trust I subordinated debentures.

INCOME TAXES

Income tax expense, for the nine months ended September 30, 2008, decreased by \$201,000 from the same period in 2007. The effective tax rate was 28.5 and 27.2

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

percent for the 2008 and 2007 periods.

OTHER

The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including us, and that address is (<http://www.sec.gov>).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required under this item is included as part of Management's Discussion and Analysis of Financial Condition and Results of Operations, under the headings "LIQUIDITY" and "INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK".

Item 4. Controls and Procedures

At the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 are recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Page 33

FIRST MERCHANTS CORPORATION
FORM 10-Q
PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1.A. Risk Factors

In addition to the risk factors previously disclosed in the Corporation's December 31, 2007 Annual Report on Form 10-K, the Corporation may suffer losses in its portfolio despite its underwriting practices. In connection with recent negative economic developments, many financial institutions, including the Corporation, have experienced unusual and significant declines in the performance of their loan portfolios, and the values of real estate collateral supporting many loans have declined. If the current trends in the housing and real estate markets continue, we expect that loan delinquencies and credit losses may increase. Although the Corporation believes its underwriting and loan review procedures are appropriate for the various kinds of loans they make, loan quality deterioration could adversely affect the Corporation's results of operations and financial condition.

Item 2. Unregistered Sales of Equity

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Securities and Use of Proceeds

- a. None
- b. None
- c. Issuer Purchases of Equity Securities

The following table presents information relating to our purchases of equity securities during the quarter ended September 30, 2008, as follows(1):

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS (2)	MA APPROX OF SH BE THE
07/01/08 - 07/31/08	0	\$ 0	0	3
08/01/08 - 08/31/08	0	0	0	3
09/01/08 - 09/30/08	0	0	0	3

On December 4, 2007, the Corporation's Board authorized management to repurchase up to 500,000 shares of the Corporation's Common Stock. This authorization was publicly announced and expires December 31, 2008. There were 390,000 remaining shares that may yet be purchased pursuant to such authorizations as of September 30, 2008.

Item 3. Defaults Upon Senior Securities

None

FIRST MERCHANTS CORPORATION
FORM 10-Q
PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

- a. None
- b. None

FIRST MERCHANTS CORPORATION

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

FORM 10-Q

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit No.:	Description of Exhibit:	Form 10-Q Page No.:
2.1	Agreement of Reorganization and Merger between First Merchants Corporation and Lincoln Bancorp dated September 2, 2008 (Incorporated by reference to Registrant's Form 8-K filed September 3, 2008). Upon request, the Registrant agrees to furnish supplementally to the Commission a copy of the Disclosure Letters referenced in the Agreement of Reorganization and Merger.	
2.2	First Amendment of Reorganization and Merger dated October 29, 2008	39
3a	Bylaws of First Merchants Corporation dated October 28, 2008	41
10	First Merchants Corporation 2007 Directors' Deferred Compensation Plan (Effective as of August 1, 2007) (As Amended by First and Second Amendments	55
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	69
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	70
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	71

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES

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

First Merchants Corporation

(Registrant)

Date: November 5, 2008

by /s/ Michael C. Rechin

Michael C. Rechin
President and
Chief Executive Officer
(Principal Executive Officer)

Date: November 5, 2008

by /s/ Mark K. Hardwick

Mark K. Hardwick
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX TO EXHIBITS

INDEX TO EXHIBITS

(a)3. Exhibits:

Exhibit No.:	Description of Exhibit:	Form 10-Q Page No.:
-----	-----	-----
2.1	Agreement of Reorganization and Merger between First Merchants Corporation and Lincoln Bancorp dated September 2, 2008 (Incorporated by reference to Registrant's Form 8-K filed September 3, 2008). Upon request, the Registrant	

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

	agrees to furnish supplementally to the Commission a copy of the Disclosure Letters referenced in the Agreement of Reorganization and Merger.	
2.2	First Amendment of Reorganization and Merger dated October 29, 2008	38
3a	Bylaws of First Merchants Corporation dated October 28, 2008	41
10	First Merchants Corporation 2007 Directors' Deferred Compensation Plan (Effective as of August 1, 2007) (As Amended by First and Second Amendments)	55
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	69
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	70
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	71

Page 38

EXHIBIT-2.2

FIRST MERCHANTS CORPORATION

FORM 10-Q
FIRST AMENDMENT OF
REORGANIZATION AND MERGER

THIS FIRST AMENDMENT TO AGREEMENT OF REORGANIZATION AND MERGER (the "First Amendment"), made as of the 29th day of October, 2008, is by and between FIRST MERCHANTS CORPORATION, an Indiana corporation ("First Merchants"), and LINCOLN BANCORP, an Indiana corporation ("Lincoln").

WITNESSETH:

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

WHEREAS, First Merchants and Lincoln are parties to an Agreement of Reorganization and Merger, dated September 2, 2008 (the "Agreement"); and

WHEREAS, the parties now desire to amend the Agreement as herein provided;

NOW, THEREFORE, in consideration of the premises, and the mutual promises herein contained, the parties agree that the Agreement shall be, and it hereby is, amended as follows:

PART I. AMENDATORY PROVISION

All capitalized terms used, but not otherwise defined herein, shall have the meaning ascribed in the Agreement.

1. Section 8.08(b). Section 8.08(b) of the Agreement is hereby amended by adding the following sentence at the end of the subsection:

Notwithstanding the foregoing, the indemnity obligations contained herein shall be limited as required by Federal banking law and the obligations are invalid and unenforceable to the extent the obligations exceed such limitations.

PART II. CONTINUING EFFECT

All other terms, conditions, representations, warranties and covenants contained in the Agreement shall remain unchanged and shall continue in full force and effect. Except as expressly herein provided, the Agreement and this First Amendment shall be interpreted, wherever possible, in a manner consistent with one another, but in the event of any irreconcilable inconsistency, this First Amendment shall control.

This First Amendment may be signed in multiple counterparts, each of which (including a facsimile thereof) will be deemed an original, but all of which will constitute one and the same instrument.

[THIS SPACE INTENTIONALLY LEFT BLANK. SIGNATURE PAGE TO FOLLOW.]

Page 39

IN WITNESS WHEREOF, First Merchants and Lincoln have caused this First Amendment to be executed effective as of the date first above written.

"FIRST MERCHANTS"

FIRST MERCHANTS CORPORATION

By: /s/ Michael C. Rechin

Michael C. Rechin, President and Chief Executive Officer

"LINCOLN"

LINCOLN BANCORP

By: /s/ Jerry R. Engle

Jerry R. Engle, President and Chief Executive Officer

LINCOLN BANK, an Indiana state bank, and FIRST MERCHANTS BANK OF CENTRAL

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

INDIANA, NATIONAL ASSOCIATION, a national banking association, hereby join in this First Amendment as required by Section 13.02(b) of the Agreement.

LINCOLN BANK

By: /s/ Jerry R. Engle

Jerry R. Engle, President and
Chief Executive Officer

FIRST MERCHANTS BANK OF CENTRAL INDIANA

By: /s/ Michael L. Baker

Michael L. Baker, President and
Chief Executive Officer

Page 40

EXHIBIT-3A

FIRST MERCHANTS CORPORATION

FORM 10-Q
BYLAWS OF
FIRST MERCHANTS CORPORATION

Following are the Bylaws of First Merchants Corporation (hereinafter referred to as the "Corporation"), a corporation existing pursuant to the provisions of the Indiana Business Corporation Law (hereinafter referred to as the "Act"), as most recently amended effective as of October 28, 2008:

ARTICLE I

Name, Principal Office and Seal

Section 1. Name and Principal Office. The name of the Corporation is First Merchants Corporation. The post office address of the principal office of the Corporation is 200 East Jackson Street, Muncie, Indiana 47305.

Section 2. Seal. The seal of the Corporation shall be circular in form and mounted upon a metal die, suitable for impressing the same upon paper. About the upper periphery of the seal shall appear the words "First Merchants Corporation" and about the lower periphery thereof the word "Muncie, Indiana". In the center of the seal shall appear the word "Seal".

ARTICLE II

Fiscal Year

The fiscal year of the Corporation shall begin each year on the first day of January and end on the last day of December of the same year.

ARTICLE III

Capital Stock

Section 1. Number of Shares and Classes of Capital Stock. The total number

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

of shares of capital stock which the Corporation shall have authority to issue shall be as stated in the Articles of Incorporation.

Section 2. Consideration for No Par Value Shares. The shares of stock of the Corporation without par value shall be issued or sold in such manner and for such amount of consideration as may be fixed from time to time by the Board of Directors. Upon payment of the consideration fixed by the Board of Directors, such shares of stock shall be fully paid and nonassessable.

Section 3. Consideration for Treasury Shares. Treasury shares may be disposed of by the Corporation for such consideration as may be determined from time to time by the Board of Directors.

Page 41

Section 4. Payment for Shares. The consideration for the issuance of shares of capital stock of the Corporation may be paid, in whole or in part, in money, in other property, tangible or intangible, or in labor actually performed for, or services actually rendered to the Corporation; provided, however, that the part of the surplus of the Corporation which is transferred to stated capital upon the issuance of shares as a share dividend shall be deemed to be the consideration for the issuance of such shares. When payment of the consideration for which a share was authorized to be issued shall have been received by the Corporation, or when surplus shall have been transferred to stated capital upon the issuance of a share dividend, such share shall be declared and taken to be fully paid and not liable to any further call or assessment, and the holder thereof shall not be liable for any further payments thereon. In the absence of actual fraud in the transaction, the judgment of the Board of Directors as to the value of such property, labor or services received as consideration, or the value placed by the Board of Directors upon the corporate assets in the event of a share dividend, shall be conclusive. Promissory notes, uncertified checks, or future services shall not be accepted in payment or part payment of the capital stock of the Corporation, except as permitted by the Act.

Section 5. Share Certificates. Shares of the Corporation's stock may but need not be represented by a certificate. The rights and obligations of shareholders of the same class or series of shares are identical whether or not their shares are represented by certificates.

A book entry stock account shall be established in the name of each shareholder who is the beneficial owner of any shares of the Corporation's stock that are not represented by a certificate, which stock account shall set forth the number of such shares credited to the shareholder. A shareholder may request that a stock certificate, representing all or part of the shares credited to his or her stock account, be issued and delivered to the shareholder at any time.

Any holder of capital stock of the Corporation shall be entitled to a stock certificate, signed by the President or a Vice President and the Secretary or any Assistant Secretary of the Corporation, stating the name of the registered holder, the number of shares represented by such certificate, the par value of each share of stock or that such shares of stock are without par value, and that such shares are fully paid and nonassessable. If such shares are not fully paid, the certificate shall be legibly stamped to indicate the per cent which has been paid, and as further payments are made, the certificate shall be stamped accordingly. The certificate may bear the seal of the Corporation or its facsimile.

If the Corporation is authorized to issue shares of more than one class, every certificate shall state the kind and class of shares represented thereby, and the relative rights, interests, preferences and restrictions of such class, or a summary thereof; provided, that such statement may be omitted from the certificate if it shall be set forth upon the face or back of the certificate

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

that such statement, in full, will be furnished by the Corporation to any shareholder upon written request and without charge.

Section 6. Facsimile Signatures. If a certificate is countersigned by the written signature of a transfer agent other than the Corporation or its employee, the signatures of the officers of the Corporation may be facsimiles. If a certificate is countersigned by the written signature of a registrar other than the Corporation or its employee, the signatures of the transfer agent and the officers of the Corporation may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of its issue.

Page 42

Section 7. Transfer of Shares. The shares of capital stock of the Corporation shall be transferable on the books of the Corporation upon surrender of the certificate or certificates representing the same, properly endorsed by the registered holder or by the holder's duly authorized attorney or accompanied by proper evidence of succession, assignment or authority to transfer. Shares that are not represented by a certificate shall be transferable on the books of the Corporation upon receipt of written direction to do so from the registered holder or the holder's duly authorized attorney or accompanied by proper evidence of succession, assignment or authority to transfer, in a form satisfactory to the Corporation, its transfer agent or registrar.

Section 8. Cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 10 of this Article III.

Section 9. Transfer Agent and Registrar. The Board of Directors may appoint a transfer agent and a registrar for each class of capital stock of the Corporation and may require all certificates representing such shares to bear the signature of such transfer agent and registrar. Shareholders shall be responsible for notifying the Corporation or transfer agent and registrar for the class of stock held by such shareholder in writing of any changes in their addresses from time to time, and failure so to do shall relieve the Corporation, its shareholders, Directors, officers, transfer agent and registrar of liability for failure to direct notices, dividends, or other documents or property to an address other than the one appearing upon the records of the transfer agent and registrar of the Corporation.

Section 10. Lost, Stolen or Destroyed Certificates. The Corporation may cause a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or the owner's legal representative, to give the Corporation a bond in such sum and in such form as it may direct to indemnify against any claim that may be made against the Corporation with respect to the certificates alleged to have been lost, stolen or destroyed or the issuance of such new certificate. The Corporation, in its discretion, may authorize the issuance of such new certificates without any bond when in its judgment it is proper to do so.

Section 11. Registered Shareholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of such shares to receive dividends, to vote as such owner, to hold liable for calls and assessments, and to treat as owner in all other respects, and shall not be bound to recognize any equitable or other claims to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Indiana.

Section 12. Options to Officers and Employees. The issuance, including the consideration, of rights or options to Directors, officers or employees of the Corporation, and not to the shareholders generally, to purchase from the Corporation shares of its capital stock shall be approved by the affirmative vote of the holders of a majority of the shares entitled to vote thereon or shall be authorized by and consistent with a plan approved by such a vote of the shareholders.

ARTICLE IV

Meetings of Shareholders

Section 1. Place of Meeting. Meetings of shareholders of the Corporation shall be held at such place, within or without the State of Indiana, as may from time to time be designated by the Board of Directors, or as may be specified in the notices or waivers of notice of such meetings.

Section 2. Annual Meeting. The annual meeting of shareholders for the election of Directors, and for the transaction of such other business as may properly come before the meeting, shall be held at such time as the Board of Directors may set by resolution, following the close of the fiscal year of the Corporation. A failure to hold the annual meeting at the designated time shall not affect the validity of any corporate action.

Section 3. Special Meetings. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Articles of Incorporation, may be called by the Board of Directors or the President and shall be called by the President or Secretary at the request in writing of a majority of the Board of Directors, or at the request in writing of shareholders holding of record not less than one-fourth (1/4) of all the shares outstanding and entitled by the Articles of Incorporation to vote on the business for which the meeting is being called.

Section 4. Notice of Meetings. A written or printed notice, stating the place, day and hour of the meeting, and in case of a special meeting, or when required by any other provision of the Act, or of the Articles of Incorporation, as now or hereafter amended, or these Bylaws, the purpose or purposes for which the meeting is called, shall be delivered or mailed by the Secretary, or by the officers or persons calling the meeting, to each shareholder of record entitled by the Articles of Incorporation, as now or hereafter amended, and by the Act to vote at such meeting, at such address as appears upon the records of the Corporation, at least ten (10) days before the date of the meeting. Notice of any such meeting may be waived in writing by any shareholder, if the waiver sets forth in reasonable detail the purpose or purposes for which the meeting is called, and the time and place thereof. Attendance at any meeting in person, or by proxy, shall constitute a waiver of notice of such meeting. Each shareholder, who has in the manner above provided waived notice of a shareholders' meeting, or who personally attends a shareholders' meeting, or is represented thereat by a proxy authorized to appear by an instrument of proxy, shall be conclusively

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

presumed to have been given due notice of such meeting. Notice of any adjourned meeting of shareholders shall not be required to be given if the time and place thereof are announced at the meeting at which the adjournment is taken except as may be expressly required by law.

Page 44

Section 5. Addresses of Shareholders. The address of any shareholder appearing upon the records of the Corporation shall be deemed to be the latest address of such shareholder appearing on the records maintained by the Corporation or its transfer agent for the class of stock held by such shareholder.

Section 6. Voting at Meetings.

(a) Quorum. The holders of record of a majority of the issued and outstanding stock of the Corporation entitled to vote at such meeting, present in person or by proxy, shall constitute a quorum at all meetings of shareholders for the transaction of business, except where otherwise provided by law, the Articles of Incorporation or these Bylaws. In the absence of a quorum, any officer entitled to preside at, or act as secretary of, such meeting shall have the power to adjourn the meeting from time to time until a quorum shall be constituted. At any such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting, but only those shareholders entitled to vote at the original meeting shall be entitled to vote at any adjournment or adjournments thereof unless a new record date is fixed by the Board of Directors for the adjourned meeting.

(b) Voting Rights. Except as otherwise provided by law or by the provisions of the Articles of Incorporation, every shareholder shall have the right at every shareholders' meeting to one vote for each share of stock having voting power, registered in the shareholder's name on the books of the Corporation on the date for the determination of shareholders entitled to vote, on all matters coming before the meeting including the election of directors. At any meeting of shareholders, every shareholder having the right to vote shall be entitled to vote in person, or by proxy executed by the shareholder or a duly authorized attorney in fact, in writing, transmitted by electronic means, or by any other method allowed by law, and bearing a date not more than eleven (11) months prior to its execution, unless a longer time is expressly provided therein.

(c) Required Vote. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of the Act or of the Articles of Incorporation or by these Bylaws, a greater vote is required, in which case such express provision shall govern and control the decision of such question.

Section 7. Voting List. The Corporation or its transfer agent shall make, at least five (5) business days before each meeting of the shareholders, a complete list of the shareholders entitled by the Articles of Incorporation, as now or hereafter amended, to notice of the meeting, arranged in alphabetical order, with the address of and number of shares held by each, which list shall be on file at the principal office of the Corporation and subject to inspection during regular business hours by any shareholder entitled to vote at the meeting, or by the shareholder's agent or attorney authorized in writing. Such list shall be available continuing through the meeting, at the Corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held.

Page 45

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Section 8. Fixing of Record Date to Determine Shareholders Entitled to Vote. The Board of Directors may fix a record date, not exceeding seventy (70) days prior to the date of any meeting of the shareholders, for the purpose of determining the shareholders entitled to notice of and to vote at the meeting. In the absence of action by the Board of Directors fixing a record date as herein provided, the record date shall be the sixtieth (60th) day prior to the date of the meeting. A new record date must be fixed if a meeting of the shareholders is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

Section 9. Nominations for Director. The Nominating and Governance Committee of the Board of Directors shall have the responsibility for nominating individuals to serve as members of the Board of Directors, including the slate of Directors to be elected each year at the annual meeting of shareholders. In so doing, the Committee shall maintain up-to-date criteria for selecting Directors and a process for identifying and evaluating prospective nominees. Shareholders may suggest a candidate for consideration by the Committee as a Director nominee by submitting the suggestion in writing and delivering or mailing it to the Secretary of the Corporation at the Corporation's principal office. Suggestions for nominees from shareholders must include: (a) the name, address and number of the Corporation's shares owned by the shareholder; (b) the name, address, age and principal occupation of the suggested nominee; (c) such other information concerning the suggested nominee as the shareholder may wish to submit or the Committee may reasonably request. The Committee shall evaluate suggestions for nominees from shareholders in the same manner as other candidates.

Any nominations for election as Directors at any annual or special meeting of shareholders not made in accordance with this Section may be disregarded by the Chairman of the meeting, in the Chairman's discretion; and, upon the Chairman's instructions, the vote tellers or inspectors of shareholder votes may disregard all votes cast for each such nominee.

ARTICLE V

Board of Directors

Section 1. Election, Number and Term of Office. The business and affairs of the Corporation shall be managed in accordance with the Act under the direction of a Board consisting of ten (10) Directors, to be elected by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors. The number of Directors may be changed by amendment of this Section by a two-thirds (2/3) vote of the Board of Directors.

The Directors shall be divided into three (3) classes as nearly equal in number as possible, all Directors to serve three (3) year terms except as provided in the third paragraph of this Section. One class shall be elected at each annual meeting of the shareholders, by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors. Unless the number of Directors is changed by amendment of this Section, Classes I and III shall each have three (3) Directors, and Class II shall have four (4) Directors. No decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director.

Page 46

No person shall serve as a Director subsequent to the annual meeting of shareholders following the end of the calendar year in which such person attains the age of seventy (70) years. The term of a Director shall expire as of the annual meeting following which the Director is no longer eligible to serve under

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

the provisions of this paragraph, even if fewer than three (3) years have elapsed since the commencement of the Director's term.

Except in the case of earlier resignation, removal or death, all Directors shall hold office until their respective successors are chosen and qualified.

The provisions of this Section of the Bylaws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

Section 2. Vacancies. Any vacancy occurring in the Board of Directors caused by resignation, death or other incapacity, or an increase in the number of Directors, shall be filled by a majority vote of the remaining members of the Board of Directors, until the next annual meeting of the shareholders, or at the discretion of the Board of Directors, such vacancy may be filled by a vote of the shareholders at a special meeting called for that purpose.

Section 3. Annual Meeting of Directors. The Board of Directors shall meet each year immediately after the annual meeting of the shareholders, at the place where such meeting of the shareholders has been held either within or without the State of Indiana, for the purpose of organization, election of officers, and consideration of any other business that may properly come before the meeting. No notice of any kind to either old or new members of the Board of Directors for such annual meeting shall be necessary.

Section 4. Regular Meetings. Regular meetings of the Board of Directors shall be held at such times and places, either within or without the State of Indiana, as may be fixed by the Directors. Such regular meetings of the Board of Directors may be held without notice or upon such notice as may be fixed by the Directors.

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President, or by not less than a majority of the members of the Board of Directors. Notice of the time and place, either within or without the State of Indiana, of a special meeting shall be delivered personally, telephoned, faxed or sent by other electronic means to each Director at least twenty-four (24) hours, or mailed or delivered by express private delivery service, to each Director at the Director's usual place of business or residence at least forty-eight (48) hours, prior to the time of the meeting. Directors, in lieu of such notice, may sign a written waiver of notice either before the time of the meeting, at the meeting or after the meeting. Attendance by a Director in person at any special meeting shall constitute a waiver of notice.

Section 6. Quorum. A majority of the actual number of Directors elected and qualified, from time to time, shall be necessary to constitute a quorum for the transaction of any business except the filling of vacancies, and the act of a majority of the Directors present at the meeting, at which a quorum is present, shall be the act of the Board of Directors, unless the act of a greater number is required by the Act, by the Articles of Incorporation, or by these Bylaws. A Director, who is present at a meeting of the Board of Directors, at which action on any corporate matter is taken, shall be conclusively presumed to have assented to the action taken, unless (a) the Director shall have affirmatively stated the Director's dissent at and before the adjournment of such meeting (in which event the fact of such dissent shall be entered by the secretary of the meeting in the minutes of the meeting), or (b) the Director shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. The right of dissent provided for by either clause (a) or clause (b) of the immediately preceding sentence shall not be available, in respect of any matter acted upon at any meeting, to a Director who voted at the meeting in favor of such matter and did not change this vote prior to the time that the result of the vote on such matter was announced by the chairman of such meeting.

A member of the Board of Directors may participate in a meeting of the Board by means of a conference telephone or similar communications equipment by which all Directors participating in the meeting can communicate with each other, and participation by these means constitutes presence in person at the meeting.

Section 7. Consent Action by Directors. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if prior to such action a written consent to such action is signed by all members of the Board of Directors or such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or committee.

Section 8. Removal. Any or all members of the Board of Directors may be removed, with or without cause, at a meeting of the shareholders called expressly for that purpose by the affirmative vote of the holders of not less than two-thirds (2/3) of the outstanding shares of capital stock then entitled to vote on the election of Directors, except that if the Board of Directors, by an affirmative vote of at least two-thirds (2/3) of the entire Board of Directors, recommends removal of a Director to the shareholders, such removal may be effected by the affirmative vote of the holders of not less than a majority of the outstanding shares of capital stock then entitled to vote on the election of Directors at a meeting of shareholders called expressly for that purpose.

The provisions in this Section of the Bylaws may not be changed or amended except by a two-thirds (2/3) vote of the Board of Directors.

Section 9. Dividends. The Board of Directors shall have power, subject to any restrictions contained in the Act or in the Articles of Incorporation and out of funds legally available therefor, to declare and pay dividends upon the outstanding capital stock of the Corporation as and when they deem expedient. Before declaring any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time in their absolute discretion deem proper for working capital, or as a reserve or reserves to meet contingencies or for such other purposes as the Board of Directors may determine, and the Board of Directors may in their absolute discretion modify or abolish any such reserve in the manner in which it was created.

Section 10. Fixing of Record Date to Determine Shareholders Entitled to Receive Corporate Benefits. The Board of Directors may fix a record date with respect to any dividend, including a share dividend, or other distribution to the shareholders of the Corporation, or for a determination of shareholders for any other purpose, as a time for the determination of the shareholders entitled to receive any such dividend, distribution or rights; and in such case only shareholders of record at the time so fixed shall be entitled to receive such dividend, rights or distribution. If no record date is fixed for the determination of shareholders entitled to receive payment of a dividend, the end of the day on which the resolution of the Board of Directors declaring such dividend is adopted shall be the record date for such determination.

Section 11. Interest of Directors in Contracts. Any contract or other transaction between the Corporation and any corporation in which this Corporation owns a majority of the capital stock shall be valid and binding,

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

notwithstanding that the Directors or officers of this Corporation and the other corporation are identical or that some or all of the Directors or officers, or both, are also directors or officers of such other corporation.

Any contract or other transaction between the Corporation and one or more of its Directors or members or employees, or between the Corporation and any firm of which one or more of its Directors are members or employees or in which they are interested, or between the Corporation and any corporation or association of which one or more of its Directors are stockholders, members, directors, officers, or employees or in which they are interested, shall be valid for all purposes, notwithstanding the presence of such Director or Directors at the meeting of the Board of Directors of the Corporation which acts upon, or in reference to, such contract or transaction and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall authorize, approve and ratify such contract or transaction by a vote of a majority of the Directors present, such interested Director or Directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority of such quorum necessary to carry such vote. This Section shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

Section 12. Committees. The Board of Directors may, by resolution adopted by a majority of the actual number of Directors elected and qualified, from time to time, designate from among its members an Executive Committee and one or more other committees.

During the intervals between meetings of the Board of Directors, any Executive Committee so appointed, unless expressly provided otherwise by law or these Bylaws, shall have and may exercise all the authority of the Board of Directors, including, but not limited to, the authority to issue and sell or approve any contract to issue or sell, securities or shares of the Corporation or designate the terms of a series or class of securities or shares of the Corporation. The terms which may be affixed by the Executive Committee include, but are not limited to, the price, dividend rate, and provisions of redemption, a sinking fund, conversion, voting, or preferential rights or other features of securities or class or series of a class of shares. Such Committee may have full power to adopt a final resolution which sets forth these terms and to authorize a statement of such terms to be filed with the Secretary of State. However, such Executive Committee shall not have the authority to declare dividends or distributions, amend the Articles of Incorporation or the Bylaws, approve a plan of merger or consolidation, even if such plan does not require shareholder approval, reduce earned or capital surplus, authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors, or recommend to the shareholders a voluntary dissolution of the Corporation or a revocation thereof. The Board of Directors may, in its discretion, constitute and appoint other committees, in addition to an Executive Committee, to assist in the management and control of the affairs of the Corporation, with responsibilities and powers appropriate to the nature of the several committees and as provided by the Board of Directors in the resolution of appointment or in subsequent resolutions and directives. Such committees may include, but are not limited to, a Nominating and Governance Committee, an Audit Committee, and a Compensation and Human Resources Committee.

Page 49

No member of any committee appointed by the Board of Directors shall continue to be a member thereof after he ceases to be a Director of the Corporation. The calling and holding of meetings of any committee and its method of procedure shall be determined by the Board of Directors or by the committee

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

itself, except as otherwise provided in these Bylaws. To the extent permitted by law, a member of the Board of Directors serving on any such committee shall not be liable for any action taken by such committee if the Director has acted in good faith and in a manner the Director reasonably believed to be in the best interests of the Corporation. A member of a committee may participate in a meeting of the committee by means of a conference telephone or similar communications equipment by which all members participating in the meeting can communicate with each other, and participation by these means constitutes presence in person at the meeting.

ARTICLE VI

Officers

Section 1. Principal Officers. The principal officers of the Corporation shall be a Chairman of the Board, a Vice Chairman of the Board, a Chief Executive Officer, a President, one (1) or more Vice Presidents (which may include one (1) or more Executive Vice Presidents, Senior Vice Presidents, First Vice Presidents and/or other Vice Presidents), a Treasurer and a Secretary. The Corporation may also have, at the discretion of the Board of Directors, such other subordinate officers as may be appointed in accordance with the provisions of these Bylaws. The Board of Directors may, from time to time, designate a chief operating officer and a chief financial officer from among the principal officers of the Corporation. Any two (2) or more offices may be held by the same person. No person shall be eligible for the office of Chairman of the Board, Vice Chairman of the Board, Chief Executive Officer or President who is not a Director of the Corporation.

Section 2. Election and Term of Office. The principal officers of the Corporation shall be chosen annually by the Board of Directors at the annual meeting thereof. Each such officer shall hold office until the officer's successor shall have been duly chosen and qualified, or until the officer's death, or until the officer shall resign, or shall have been removed in the manner hereinafter provided.

Section 3. Removal. Any principal officer may be removed, either with or without cause, at any time, by resolution adopted at any meeting of the Board of Directors by a majority of the actual number of Directors elected and qualified from time to time.

Section 4. Subordinate Officers. In addition to the principal officers enumerated in Section 1 of this Article VI, the Corporation may have one or more Assistant Treasurers, one or more Assistant Secretaries and such other officers, agents and employees as the Board of Directors may deem necessary, each to hold office for such period, to have such authority, and to perform such duties as the Chief Executive Officer or the Board of Directors may from time to time determine. The Board of Directors may delegate to any principal officer the power to appoint and to remove, either with or without cause, any such subordinate officers, agents or employees.

Page 50

Section 5. Resignations. Any officer may resign at any time by giving written notice to the Chairman of the Board of Directors, the Chief Executive Officer, the President, or the Secretary. Any such resignation shall take effect upon receipt of such notice or at any later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 6. Vacancies. Any vacancy in any office for any cause may be filled for the unexpired portion of the term in the manner prescribed in these Bylaws

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

for election or appointment to such office for such term.

Section 7. Chairman of the Board. The Chairman of the Board shall preside at all meetings of shareholders and at all meetings of the Board of Directors. The Chairman of the Board shall perform such other duties and have such other powers as, from time to time, may be assigned by the Board of Directors.

Section 8. Vice Chairman of the Board. The Vice Chairman of the Board shall act in the absence of the Chairman of the Board. The Vice Chairman of the Board shall perform such other duties and have such other powers as, from time to time, may be assigned by the Board of Directors.

Section 9. Chief Executive Officer. The Chief Executive Officer, subject to the control of the Board of Directors, shall have overall responsibility for the affairs of the Corporation, including responsibility for developing and attaining major corporate goals and implementing policies approved by the Board. In general, the Chief Executive Officer shall perform the duties and exercise the powers incident to the office of Chief Executive Officer and all such other duties and powers as, from time to time, may be assigned by the Board of Directors. In the absence or disability of the Chairman of the Board and Vice Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the shareholders and the Board of Directors at which the Chief Executive Officer is in attendance.

Section 10. President. The President shall perform the duties and exercise the powers incident to the office of President and all such other duties and powers as, from time to time, may be assigned by the Board of Directors or the Chief Executive Officer. Subject to the control and direction of the Board of Directors and the Chief Executive Officer, the President may enter into, execute and deliver any agreement, instrument or document in the name and on behalf of the Corporation.

Section 11. Vice Presidents. The Corporation shall have such Vice Presidents as the Board of Directors shall determine, which may include one (1) or more Executive Vice Presidents, Senior Vice Presidents, First Vice Presidents and/or other Vice Presidents. The Board of Directors shall designate one of the Vice Presidents (an Executive Vice President, if one has been appointed) to perform the duties and exercise the powers of the President in the absence or disability of the President. The Vice Presidents shall perform such duties and have such powers as the Chief Executive Officer, the President, or the Board of Directors may from time to time assign.

Page 51

Section 12. Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds and securities of the Corporation and shall deposit all such funds in the name of the Corporation in such banks or other depositories as shall be selected by the Board of Directors. The Treasurer shall upon request exhibit at all reasonable times the Treasurer's books of account and records to any of the Directors of the Corporation during business hours at the office of the Corporation where such books and records shall be kept; shall render upon request by the Board of Directors a statement of the condition of the finances of the Corporation at any meeting of the Board of Directors or at the annual meeting of the shareholders; shall receive, and give receipt for, moneys due and payable to the Corporation from any source whatsoever; and in general, shall perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to the Treasurer by the Chief Executive Officer, the President, or the Board of Directors. The Treasurer shall give such bond, if any, for the faithful discharge of the Treasurer's duties as the Board of Directors may require. All acts affecting the Treasurer's duties and responsibilities shall be subject to the review and approval of the

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Corporation's chief financial officer.

Section 13. Secretary. The Secretary shall keep or cause to be kept in the books provided for that purpose the minutes of the meetings of the shareholders and of the Board of Directors; shall duly give and serve all notices required to be given in accordance with the provisions of these Bylaws and by the Act; shall be custodian of the records and of the seal of the Corporation and see that the seal is affixed to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these Bylaws; and, in general, shall perform all duties incident to the office of Secretary and such other duties as may, from time to time, be assigned to the Secretary by the Chief Executive Officer, the President, or the Board of Directors.

Section 14. Voting Corporation's Securities. Unless otherwise ordered by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President and the Secretary, and each of them, are appointed attorneys and agents of the Corporation, and shall have full power and authority in the name and on behalf of the Corporation, to attend, to act, and to vote all stock or other securities entitled to be voted at any meetings of security holders of corporations, or associations in which the Corporation may hold securities, in person or by proxy, as a stockholder or otherwise, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities, and which as the owner thereof the Corporation might have possessed and exercised, if present, or to consent in writing to any action by any such other corporation or association. The Board of Directors by resolution from time to time may confer like powers upon any other person or persons.

ARTICLE VII

Indemnification

Section 1. Indemnification of Directors, Officers, Employees and Agents. Every person who is or was a Director, officer, employee or agent of this Corporation or of any other corporation for which such person is or was serving in any capacity at the request of this Corporation shall be indemnified by this Corporation against any and all liability and expense that such person may incur in connection with or resulting from or arising out of any claim, action, suit or proceeding, provided that such person is wholly successful with respect thereto or acted in good faith in what such person reasonably believed to be in or not opposed to the best interest of this Corporation or such other corporation, as the case may be, and, in addition, in any criminal action or proceeding in which such person had no reasonable cause to believe that his or her conduct was unlawful. As used herein, "claim, action, suit or proceeding" shall include any claim, action, suit or proceeding (whether brought by or in the right of this Corporation or such other corporation or otherwise), civil, criminal, administrative or investigative, whether actual or threatened or in connection with an appeal relating thereto, in which a Director, officer, employee or agent of this Corporation may become involved, as a party or otherwise,

Page 52

- (i) by reason of such person's being or having been a Director, officer, employee, or agent of this Corporation or such other corporation or arising out of his or her status as such or
- (ii) by reason of any past or future action taken or not taken by such person in any such capacity, whether or not such person continues to be such at the time such liability or expense is incurred.

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

The terms "liability" and "expense" shall include, but shall not be limited to, attorneys' fees and disbursements, amounts of judgments, fines or penalties, and amounts paid in settlement by or on behalf of a Director, officer, employee, or agent, but shall not in any event include any liability or expenses on account of profits realized by such person in the purchase or sale of securities of the Corporation in violation of the law. The termination of any claim, action, suit or proceeding, by judgment, settlement (whether with or without court approval) or conviction or upon a plea of guilty or of nolo contendere, or its equivalent, shall not create a presumption that a Director, officer, employee, or agent did not meet the standards of conduct set forth in this paragraph.

Any such Director, officer, employee, or agent who has been wholly successful with respect to any such claim, action, suit or proceeding shall be entitled to indemnification as a matter of right. Except as provided in the preceding sentence, any indemnification hereunder shall be made only if

- (i) the Board of Directors acting by a quorum consisting of Directors who are not parties to or who have been wholly successful with respect to such claim, action, suit or proceeding shall find that the Director, officer, employee, or agent has met the standards of conduct set forth in the preceding paragraph; or
- (ii) independent legal counsel shall deliver to the Corporation their written opinion that such Director, officer, employee, or agent has met such standards of conduct.

If several claims, issues or matters of action are involved, any such person may be entitled to indemnification as to some matters even though he is not entitled as to other matters.

Page 53

The Corporation may advance expenses to or, where appropriate, may at its expense undertake the defense of any such Director, officer, employee, or agent upon receipt of an undertaking by or on behalf of such person to repay such expenses if it should ultimately be determined that such person is not entitled to indemnification hereunder.

The provisions of this Section shall be applicable to claims, actions, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act during, before or after the adoption hereof.

The rights of indemnification provided hereunder shall be in addition to any rights to which any person concerned may otherwise be entitled by contract or as a matter of law and shall inure to the benefit of the heirs, executors and administrators of any such person.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation against any liability asserted against such person and incurred by such person in any capacity or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Section or otherwise.

ARTICLE VIII

Amendments

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Except as expressly provided herein or in the Articles of Incorporation, the Board of Directors may make, alter, amend or repeal these Bylaws by an affirmative vote of a majority of the actual number of Directors elected and qualified.

Page 54

EXHIBIT-10

FIRST MERCHANTS CORPORATION

FORM 10-Q

2007 DIRECTORS' DEFERRED COMPENSATION PLAN
(Effective as of August 1, 2007)
(As Amended by First and Second Amendments)

FIRST MERCHANTS CORPORATION

2007 DIRECTORS' DEFERRED COMPENSATION PLAN

(Effective as of August 1, 2007)

(As Amended by First and Second Amendments)

Page 55

ARTICLE I

INTRODUCTION

Section 1.1 Purpose. The purpose of the First Merchants Corporation 2007 Directors' Deferred Compensation Plan (the "Plan") is to permit non-employee members of the Board of Directors (the "Board") of First Merchants Corporation (the "Company") and non-employee members of the board of directors of Affiliates who adopt the Plan with the Company's consent in accordance with Section 9.1, to

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

elect to defer all or a portion of the fees payable to them for their services as board members. It is the intention of the Company and Affiliates that the Plan constitute a deferred compensation arrangement that complies with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). Consequently, the Plan will be administered and its provisions interpreted consistently with that intention.

Section 1.2 Effective Date: Plan Year. The "Effective Date" of the Plan is August 1, 2007. The "Plan Year" is the 12-month period beginning on each January 1 and ending on the next following December 31.

Section 1.3 Administration. The Plan will be administered by the Compensation Committee of the Board (the "Committee"). The Committee, from time to time, may adopt any rules and procedures it deems necessary or desirable for the proper and efficient administration of the Plan that are consistent with the terms of the Plan. The Committee may also delegate day-to-day administration to individual employees of First Merchants Bank. Any notice or document required to be given or filed with the Committee will be properly given or filed if delivered to or mailed, by registered mail, postage paid, to the Compensation Committee of the Board of Directors, First Merchants Corporation, 200 East Jackson, Muncie, Indiana 47308, Attention: Human Resource Department.

Section 1.4 Affiliates. Any corporation or trade or business whose employees are treated as being employed by the Company under Code Sections 414(b), 414(c), 414(m) or 414(o) (an "Affiliate") may adopt the Plan with the Company's consent in accordance with Section 9.1.

Section 1.5 Supplements. The provisions of the Plan may be modified by supplements to the Plan. The terms and provisions of each supplement are a part of the Plan and supersede any other provisions of the Plan to the extent necessary to eliminate any inconsistencies between the supplement and any other Plan provisions.

Section 1.6 Definitions. The following terms are defined in the Plan in the following

Sections:

Term	Plan Section
Acceleration Event	4.7
Account	3.3
Affiliate	1.4
Board	1.1
Change in Control	4.5
Code	1.1
Committee	1.3
Company	1.1
Director	2.1
Effective Date	1.2
ERISA	7.2
Fees	3.1
Participant	2.2
Participant Deferral Contribution	3.1
Plan	1.1
Plan Year	1.2
Separation from Service	4.1(b)
Total and Permanent Disability	3.2(e) (ii)
Trust	7.2
Unforeseeable Emergency	3.2(e) (i)

ARTICLE II

ELIGIBILITY AND PARTICIPATION

Section 2.1 Eligibility. Any duly elected and serving non-employee member of the Board or board of directors of an Affiliate that has adopted the Plan under Article IX ("Director") is eligible to become a Participant in the Plan as of the later of the Effective Date or the date the individual becomes a Director.

Section 2.2 Deferral Election Form. A Director will become a "Participant" by completing a deferral election form pursuant to Article III. A Participant will cease to be an active Participant effective as of the earlier of the date the Plan is terminated or the date the Participant is no longer serving as a Director, so that he or she will not be entitled to make deferrals under Article III on or after that date.

ARTICLE III

CONTRIBUTIONS AND ALLOCATIONS

Section 3.1 Participant Deferral Contributions. Subject to the terms and limitations of this Article III, a Participant may elect, pursuant to Section 3.2, to have all or a portion of his Fees payable in any Plan Year withheld by the Company and credited as a "Participant Deferral Contribution" under the Plan. The term "contribution" is used for ease of reference; however, contributions are merely credits to each Participant's Account, which is a bookkeeping account. The term "Fees," for purposes of the Plan, means the fees payable by the Company or an Affiliate to the Participant for the Participant's services as a Director, including retainer fees for attendance at regularly scheduled meetings, special meetings called from time to time, and fees for attendance at any and all meetings of committees of the applicable board of directors. Fees may be paid in the form of cash ("Cash Fees") and in the form of shares of restricted stock ("Stock Fees").

Section 3.2 Deferral Elections. Participant Deferral Contributions will be withheld from a Participant's Fees in accordance with the following terms and conditions.

- (a) Requirement for Deferral Elections. As a condition to the Company's or an Affiliate's obligation to withhold and the Committee's obligation to credit Participant Deferral Contributions for the benefit of a Participant pursuant to Section 3.1, the Participant must complete and file a deferral election form with the Committee (in a format prescribed by the Committee).

Page 57

- (b) Timing of Execution and Delivery of Elections. To be effective to defer any portion of a Participant's Fees, a deferral election form must be filed with the Committee on or prior to the last day of the calendar year preceding the initial Plan Year in which the services giving rise to the Fees are performed. This Fee deferral election will remain effective for all fixture years unless the Participant files a new Fee deferral election, terminating or amending the Participant's Fee deferral election. For example, to defer Fees payable with respect to director services performed during the 2008 and subsequent Plan Years, an election must be filed on or before December 31, 2007. This deferral election will apply in the 2008 Plan Year and all subsequent

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Plan Years until terminated or amended with respect to a future Plan Year.

- (c) Initial Eligibility. In the case of the first Plan Year in which an individual becomes eligible to participate, the deferral election form may be filed at any time within 30 days of the date the individual first becomes eligible to participate (rather than the date specified under subsection 3.2(b)). This initial election will only apply to Fees paid for services performed after the filing of the deferral election form. This special initial eligibility election rule will not apply if the Director is or has been a participant in a deferred compensation arrangement required to be aggregated with this Plan under the rules of Code Section 409A.
- (d) Change of Deferral Elections. Subject to the provisions of subsection 3.2(e), as of December 31 of each year, a deferral election made for Fees payable in a subsequent Plan Year will remain in effect for the Plan Year and all future Plan Years, unless and until the election is revoked or a new election filed, effective solely for future Plan Years. The revocation or new election must be filed in accordance with the requirements of subsection 3.2(b). No deferral election may be changed for Fees payable for a Plan Year after the last day of the election period described in subsection 3.2(b). For example, any election in place for 2008 Fees may not be changed after December 31, 2007, however, in December 2009 the Participant may submit a new deferral election that terminates or changes the amount of the deferral for the year 2010.
- (e) Cancellation of Elections.
 - (i) Unforeseeable Emergency. The Committee, in its sole discretion, may cancel a Participant's election to defer Fees if the Committee determines the Participant has suffered an "Unforeseeable Emergency" or has taken a hardship distribution pursuant to Treasury Regulation 1.401(k)-1(d)(3) from a plan qualified under Code Section 401(k). The cancellation will apply to the period after the Committee's determination. The Participant must submit a signed statement of the facts causing the severe financial hardship and any other information required by the Committee, in its sole discretion. "Unforeseeable Emergency" means a severe financial hardship of the Participant resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's beneficiary, or the Participant's dependent (as defined in Code Section 152(a), without regard to Code Sections 152(b)(1), (b)(2) and (d)(1)(B)); loss of the Participant's property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, not as a result of a natural disaster); imminent foreclosure of or eviction from the Participant's primary residence; the need to pay for medical expenses, including nonrefundable deductibles,, as well as for the costs of prescription drug medication; the need to pay for the funeral expenses of a spouse or a dependent (as defined in Code Section 152(a)) or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.
 - (ii) Total and Permanent Disability. The Committee in its sole discretion, may also cancel a Participant's election to defer

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

fees if the Committee determines that the Participant has incurred a "Total and Permanent Disability." The determination of Total and Permanent Disability will be made by a physician approved by the Committee. Any cancellation will apply to the period after the Committee's determination. A "Total and Permanent Disability" is a medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties of his or her position or any substantially similar position, where such impairment can be expected to result in death or can be expected to last for a continuous period of not less than six months.

Section 3.3 Plan Account. The Committee will establish and maintain an "Account" under the Plan for each Participant and will increase and decrease a Participant's Account as provided in Section 3.5.

Section 3.4 Investment Credits. A Participant's Account will be increased to reflect the increase in the value of the Account established for the Participant. The amount of earnings credited on deferred Cash Fees will be determined as if the deferred Cash Fees were invested in the greater of the Fed Funds Rate or the Five-Year Treasury Interest Rate determined as of the first business day of each quarter of the calendar year, but not to exceed 120 percent of the Applicable Long Term Federal rate for monthly compounding. The amount of earnings credited on deferred Stock Fees will be equal to dividends paid on an equivalent number of shares of common stock of the Company for the period of time that the Stock Fees are deferred. In the event any Participant is entitled to a distribution of the Account under Article IV, the increase in the value of the Account will be allocated as of the last day of the quarter immediately preceding the quarter in which the payment to the Participant will be made.

Section 3.5 Account Allocations. As of each accounting date, each Participant's Account will be:

- (i) Increased by the amount credited to the Account under Section 3.1 since the last accounting;
- (ii) Increased by the amount determined under Section 3.4 since the last accounting; and
- (iii) Decreased by any payment made under Article IV.

The accounting date under this Section will be any date determined by the Committee. However, the accounting required under this Section must be made, at a minimum, as of the last day of each Plan Year.

ARTICLE IV

BENEFIT PAYMENTS

Section 4.1 Time of Payment of Benefits. Except as provided in Sections 4.5 through 4.7, a Participant will receive or will begin to receive payment of his Account balance (as determined under Article III) within 90 days following the date specified for payment or the commencement of payment effectively elected by the Participant, as provided in subsection 4.1(a).

Page 59

- (a) Timing of Execution and Delivery of Election. A Participant may elect the date or dates his Account balance will be paid or will begin to be paid by completing and filing with the Committee a payment election form approved by the Committee. To be effective, the election under

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

this Section must be filed with the Committee no later than the later of: (i) the time the Participant is first eligible to make a deferral election under this Plan (or under any other plan required to be aggregated with this Plan pursuant to the requirements of Code Section 409A); or (ii) December 31, 2007. If no date is specified, payment will be made or commenced within 90 days following the Participant's Separation from Service.

- (b) Separation from Service. "Separation from Service" means the date on which the Participant ceases to be a Director.
- (c) Change of Payment Election. An election as to the date payment will be made or commenced may be changed by a Participant by filing a new payment election form with the Committee; provided, however, that: (i) the new election will not take effect until at least 12 months after the date the new election is filed, (ii) the single lump sum payment or the commencement of installment payments will be delayed for a period of not less than five years from the date the payment or first payment would otherwise have been made, and (iii) the new election is filed with the Committee at least 12 months prior to the date of the first scheduled payment under the Plan.

Section 4.2 Method of Payment. Except as provided in Sections 4.5 through 4.7, a Participant may elect, in accordance with Section 4.3, to have the balance of his or deferred Cash Fees distributed in cash in:

- (a) A single lump sum payment; or
- (b) Annual installment payments over a period of 2 to 5 years.

All deferred Stock Fees will be paid in a single lump sum.

Section 4.3 Method of Payment Elections.

- (a) Initial Election. A Participant may elect the manner in which his Account balance will be paid to him under Section 4.2 in accordance with the terms and conditions of this Section. To make an election, a Participant must file an election with the Committee (on a form or forms prescribed by the Committee). To be effective, the election under this Section must be filed with the Committee no later than the later of: (i) the time the Participant first makes a deferral election under the Plan; or (ii) December 31, 2007. If no election is made or if the election is not timely or properly made, distribution will be made in the form of a single lump sum payment.
- (b) Change of Method of Payment Election. An election as to the manner of payment may not be changed after the payment has been made or payments have commenced. Prior to that time, a Participant may change his election by filing a new election form with the Committee; provided, however, that: (i) the new election will not take effect until at least 12 months after the date the new election is filed; (ii) the single lump sum payment or the commencement of installment payments with respect to which such election is made must be deferred for a period of not less than five years from the date such payment would otherwise have been made; and (iii) the new election is filed at least 12 months prior to the date of the first scheduled payment under the Plan.

Page 60

- (c) Installments. If installment distributions are elected, the initial

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

annual installment amount will be the deferred Cash Fees otherwise payable in a single sum multiplied by a fraction, the numerator of which is one and the denominator of which is the total number of installment distributions. Subsequent annual installments will also be a fraction of the unpaid deferred Cash Fees, the numerator of which is always one but the denominator of which is the denominator used in calculating the previous installment minus one. For example, if five annual installment payments are elected, the initial installment will be one-fifth of the vested deferred Cash Fees, the second installment will be one-fourth of the remaining deferred Cash Fees and the third installment will be one-third of the remaining deferred Cash Fees, and so on.

Section 4.4 Vesting. A Participant will be fully "vested" in his deferred Cash Fees at all times. A Participant will be "vested" in his Stock Fees in accordance with Sections 3.04 and 3.05 of the First Merchants Corporation Equity Compensation Plan for Non-Employee Directors.

Section 4.5 Change in Control. In the event a Change in Control occurs, the Participant's Account will be distributed no later than 90 days following such determination, in a single lump sum payment. A "Change in Control" means any of the following:

- (a) A change in the ownership of the Company occurs on the date that any person, or group of persons, as defined below, acquires ownership of stock of the Company that, together with stock held by the person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company. However, if any person or group is considered to own more than 50 percent of the total fair market value or total voting power of the stock, the acquisition of additional stock by the same person or group is not considered to cause a change in the ownership of the Company (or to cause a change in the effective control of the Company as defined in subsection 4.5(b)). An increase in the percentage of stock owned by any person or group, as a result of a transaction in which the Company acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this subsection. This subsection only applies when there is a transfer of stock of the Company (or issuance of stock of a corporation) and stock in the Company remains outstanding after the transaction.

For purposes of this subsection and subsection 4.5(b), persons will not be considered to be acting as a group solely because they purchase or own stock of the Company at the same time, or as a result of the same public offering. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock or similar business transaction with the Company. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock or similar transaction, such shareholder is considered to be acting as a group with other shareholders only with respect to the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

Page 61

- (b) Change in the Effective Control. A change in the effective control of the Company will occur when: (i) any person or group acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition by such person(s), ownership of stock of the

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Company possessing 30 percent or more of the total voting power; or (ii) a majority of members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the board of directors prior to the date of the appointment or election. However, if any person or group is considered to effectively control the Company, the acquisition of additional control of the Company by the same person(s) is not considered to cause a change in the effective control.

- (c) Change in the Ownership of a Substantial Portion of the Company's Assets. A change in the ownership of a substantial portion of the Company's assets occurs on the date that any person or group acquires, or has acquired during the 12-month period ending on the date of the most recent acquisition by such person(s), assets from the Company that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition(s). Gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

However, there is no Change in Control under this subsection when there is a transfer to an entity that is controlled by the shareholders of the Company immediately after the transfer. A transfer of assets by the Company is not treated as a change in the ownership of such assets if the assets are transferred to: (i) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock; (ii) an entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the Company; (iii) a person, or group of persons, that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the Company or (iv) an entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person described in (iii). For purposes of this subsection, except as otherwise provided, a person's status is determined immediately after the transfer of the assets. For example, a transfer to a corporation in which the Company has no ownership interest before the transaction, but which is a majority-owned subsidiary of the Company after the transaction, is not treated as a change in the ownership of the assets of the Company.

For purposes of this subsection, persons will not be considered to be acting as a group solely because they purchase assets of the Company at the same time. However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of assets, or similar business transaction with the Company. If a person, including an entity shareholder, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of assets, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only to the extent of the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

Notwithstanding the foregoing, the acquisition of common stock of the Company by any retirement plan sponsored by the Company or an Affiliate will not constitute a Change in Control.

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Section 4.6 Unforeseeable Emergency. In the event the Committee determines in its sole discretion that a Participant has experienced an Unforeseeable Emergency, all or a portion of a Participant's Account may be distributed no later than 90 days following such determination, in a single lump sum payment. The Participant must submit a signed statement of the facts causing the severe financial hardship and any other information required by the Committee, in its sole discretion. Payment under this Section is subject to the following conditions:

- (a) The emergency must not be able to be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets, to the extent liquidation of such assets would not cause severe financial hardship, or by cessation of deferrals under this Plan.
- (b) The amount of the distribution must be limited to the amount reasonably necessary to satisfy the emergency need (which may include amounts necessary to pay any Federal, state or local income taxes or penalties reasonably anticipated to result from the distribution) and must take into account any additional compensation available due to cancellation of a deferral election under subsection 3.2(e).

Section 4.7 Acceleration of Time of Payment. Except as provided in Sections 4.5, 4.6 or this Section, the time or schedule of payment of a Participant's Account provided in Sections 4.1 through 4.4 may not be accelerated. The time or schedule of payment of a Participant's Account may be accelerated in the following circumstances, each of which is an "Acceleration Event," to a time that is no later than 90 days following the Committee's determination that one of the Acceleration Events has occurred:

- (a) Domestic Relations Order. The time or schedule of a payment from a Participant's Account may be accelerated to make a payment to an individual other than the Participant as may be necessary to fulfill a domestic relations order (as defined in Code Section 414(p)(1)(B)).
- (b) Conflicts of Interest. The time or schedule of a payment from a Participant's Account may be accelerated to the extent reasonably necessary to avoid the violation of an applicable Federal, state, local or foreign ethics law or conflicts of interest law (including where such payment is reasonably necessary to permit the service provider to participate in activities in the normal course of his or her position in which the service provider would otherwise not be able to participate under an applicable rule). A payment is reasonably necessary to avoid the violation of Federal, state, local or foreign ethics laws or conflicts of interest law if the payment is a necessary part of a course of action that results in compliance with a Federal, state, local or foreign ethics law or conflicts of interest law that would be violated absent such course of action, regardless of whether other actions would also result in compliance with the Federal, state, local or foreign ethics law or conflicts of interest law.
- (c) Income Inclusion Under Code Section 409A. The time or schedule of a payment from a Participant's Account may be accelerated to pay the income tax, interest and penalties imposed if the Plan fails to meet the requirements of Code Section 409A and related regulations; provided, however, such payment will not exceed the amount required to be included in income as a result of the failure to comply with the requirements of Code Section 409A and related regulations.
- (d) Plan Termination. The time or schedule of payment or commencement of payments from a Participant's Account may be accelerated when the Plan is terminated in accordance with one of the following:

- (i) The Company terminates the Plan within 12 months of a corporate dissolution taxed under Code Section 331, or with the approval of a bankruptcy court pursuant to 11 U.S.C. Section 503(b)(1)(A), provided that the amounts deferred under the Plan are included in the Participants' gross incomes in the latest of the following years (or, if earlier, the taxable year in which the amount is constructively received).
 - (A) The calendar year in which the Plan termination and liquidation occurs;
 - (B) The first calendar year in which the amount is no longer subject to a substantial risk of forfeiture; or
 - (C) The first calendar year in which the payment is administratively practicable.

- (ii) The Company's irrevocable action to terminate and liquidate the Plan within the 30 days preceding or the 12 months following a change in control as defined in Treasury Regulation 1.409A-3(i)(5). For purposes of this subsection 4.7(e)(ii), the Plan may be terminated only if all agreements, methods, programs, and other arrangements sponsored by the Company and all participating Affiliates immediately after the time of the change in control with respect to which deferrals of compensation are treated as having been deferred under a single plan under Treasury Regulation 1.409A-1(c)(2) are terminated and liquidated with respect to each Participant that experienced the change in control, so that under the terms of the termination and liquidation all such Participants are required to receive all amounts of compensation deferred under the Plan and other arrangements within 12 months of the date the Company irrevocably takes all necessary action to terminate and liquidate the Plan and other arrangements.

- (iii) The Company's termination and liquidation of the Plan, provided that:
 - (A) The termination and liquidation does not occur proximate to a downturn in the financial health of the Company;
 - (B) The Company terminates and liquidates all agreements, programs, and other arrangements that would be aggregated under Treasury Regulation Section 1.409A-1(c) if the Participant had deferrals of compensation under all of the agreements, methods, programs, and other arrangements that are terminated and liquidated;
 - (C) No payments in liquidation of the Plan are made within 12 months of the date the Company takes all necessary action to irrevocably terminate and liquidate the plan other than payments that would be payable under the terms of the Plan if the action to terminate and liquidate the Plan had not occurred;
 - (D) All payments are made within 24 months of the date the Company takes all necessary action to irrevocably terminate and liquidate the Plan; and

(E) The Company does not adopt a new plan or arrangement that would be aggregated with any terminated and liquidated plan or arrangement under Treasury Regulation Section 1.409A-1(c) if the same Participant participated in both plans or arrangements, at any time within three years following the date the Company takes all necessary action to irrevocably terminate and liquidate the Plan.

(iv) Such other events and conditions as the Internal Revenue Service may prescribe in generally applicable guidance published in the Internal Revenue Bulletin.

NOTE: Article IV, Benefit Payments, is amended, in accordance with the transitional relief provided under Section 3.02 of IRS Notice 2007-86, to provide (notwithstanding any contrary provisions of Sections 4.1, 4.3 or 4.7) that a Participant may elect, on or before December 31, 2008, to change the time or method of payment previously elected by such Participant and/or to accelerate the time of payment previously elected, with respect to all or part of the Participant's Account balance under the Plan; however, any such election shall apply only to amounts that would not otherwise be payable in 2008 and shall not cause an amount to be paid in 2008 that would not otherwise be payable in 2008

ARTICLE V

PLAN ADMINISTRATION

Section 5.1 Appointment of the Committee. The Committee, or a duly authorized officer or officers of the Company empowered by the Committee to act on its behalf, will be responsible for administering the Plan, and the Committee will be charged with the full power and the responsibility for administering the Plan in all its details.

Section 5.2 Powers and Responsibilities of the Committee.

- (a) Committee Powers. The Committee will have all powers necessary to administer the Plan, including the power to construe and interpret the Plan documents; to decide all questions relating to an individual's eligibility to participate in the Plan; to determine the amount, manner and timing of any distribution of benefits or withdrawal under the Plan; to resolve any claim for benefits in accordance with Article VI, and to appoint or employ advisors, including legal counsel, to render advice with respect to any of the Committee's responsibilities under the Plan. Any construction, interpretation, or application of the Plan by the Committee will be final, conclusive and binding.
- (b) Records and Reports. The Committee will be responsible for maintaining sufficient records to determine each Participant's eligibility to participate in the Plan, and for purposes of determining the amount of contributions that may be made on behalf of the Participant under the Plan.
- (c) Rules and Decisions. The Committee may adopt such rules as it deems necessary, desirable, or appropriate in the administration of the Plan. All rules and decisions of the Committee will be applied uniformly and consistently to all Participants in similar circumstances. When making a determination or calculation, the Committee will be entitled to rely upon information furnished by a Participant or beneficiary, the Company or the legal counsel of the

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Company.

- (d) Application for Benefits. The Committee may require a Participant or beneficiary to complete and file with it an application for a benefit, and to furnish all pertinent information requested by it. The Committee may rely upon all such information so furnished to it, including the Participant's or beneficiary's current mailing address.

Page 65

- (e) Delegation. The Committee may authorize one or more officers of the Company to perform administrative responsibilities on its behalf under the Plan, Any such duly authorized officer will have all powers necessary to carry out the administrative duties delegated to such officer by the Committee.

Section 5.3 Liabilities. The individual members of the Committee will be indemnified and held harmless by the Company with respect to any alleged breach of responsibilities performed or to be performed hereunder.

ARTICLE VI

BENEFIT CLAIMS

While a Participant or beneficiary need not file a claim to receive his benefit under the Plan, if he wishes to do so, a claim must be made in writing and filed with the Committee. If a claim is denied, the Committee will furnish the claimant with written notice of its decision. A claimant may request a review of the denial of a claim for benefits by filing a written request with the Committee. The Committee will afford the claimant a full and fair review of such request.

ARTICLE VII

FUNDING AND TRANSFERS

Section 7.1 Unfunded Status. The Plan will be maintained in such a fashion that at all times for purposes of the Code it will be unfunded and will constitute a mere promise by the Company to make Plan benefit payments in the future. Any and all rights created under this Plan will be unsecured contractual rights against the Company.

Section 7.2 Trust. Notwithstanding the provisions of Section 7.1, the Committee may, in its discretion, satisfy all or any part of the Company's obligations under the Plan from a trust established by the Company in connection with the Plan ("Trust") or from an insurance contract, annuity or similar vehicle owned by the Company or by setting aside and investing amounts deferred under the Plan as an asset of the Company. Any such Trust or other vehicle will constitute solely a means to assist the Company in meeting its promised obligations under the Plan and will not constitute a funded account within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or the Code, nor will it create a security interest for the benefit of any Participant or beneficiary. Any Trust created hereunder will conform in substantially all respects to the terms of the Model Trust, as described in Revenue Procedure 92-64.

ARTICLE VIII

AMENDMENT AND TERMINATION OF THE PLAN

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Section 8.1 Amendment of the Plan. The Company may amend the Plan at any time in its sole discretion. Notwithstanding the foregoing, the Company may not amend the Plan to reduce a Participant's Account balance as determined on the day preceding the effective date of the amendment.

Section 8.2 Termination of the Plan. The Company may terminate the Plan at any time in its sole discretion. Absent an amendment to the contrary, Plan benefits that had accrued prior to the termination will be paid at the times and in the manner provided for by the Plan at the time of the termination.

Page 66

ARTICLE IX

PARTICIPATION BY AFFILIATES

Section 9.1 Affiliate Participation. Any Affiliate may adopt the Plan and become a participating Company under the Plan by filing with the Committee:

- (a) A certified copy of a resolution of its board of directors to that effect; and
- (b) A written document signed by an authorized officer of the Company which indicates the consent of the Company to that action.

Notwithstanding any provision herein to the contrary, First Merchants Bank, N.A., First Merchants Bank of Central Indiana, N.A., First Merchants Trust Company, N.A., Commerce National Bank and Lafayette Bank and Trust, N.A., shall automatically be participating Affiliates as of the Effective Date.

Section 9.2 Company Action Binding on Other Employers. As long as the Company is the sponsor of the Plan, it is empowered to act for any other participating Affiliate in all matters relating to the Plan or the Committee.

ARTICLE X

MISCELLANEOUS

Section 10.1 Governing Law. The Plan shall be construed, regulated and administered according to the laws of the State of Indiana, without reference to that state's choice of law principles, except in those areas preempted by the laws of the United States of America in which case the federal laws will control.

Section 10.2 Headings and Gender. The headings and subheadings in the Plan have been inserted for convenience of reference only and will not affect the construction of the Plan provisions. In any necessary construction, the masculine will include the feminine and the singular the plural, and vice versa.

Section 10.3 Withholding of Taxes. The Company will withhold from any amount payable under this Plan all federal, state, city and local taxes as legally required.

Section 10.4 Spendthrift Clause. No benefit or interest available under the Plan will be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors of a Participant or a Participant's beneficiary, either voluntarily or involuntarily.

Section 10.5 Counterparts. This Plan may be executed in any number of counterparts, each one constituting but one and the same instrument, and may be sufficiently evidenced by any one counterpart.

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

Section 10.6 No Enlargement of Rights. Nothing contained in the Plan may be construed as a contract of employment between the Company and any person, nor may the Plan be deemed to give any person the right to be retained as a director or limit the right of the Company to dismiss a director.

Page 67

Section 10.7 Limitations on Liability. Notwithstanding any other provision of the Plan, neither the Company nor any individual acting as an employee or agent of the Company will be liable to a Participant or any beneficiary for any claim, loss, liability or expense incurred in connection with the Plan, except when the same has been judicially determined to be due to the gross negligence or willful misconduct of that person.

Section 10.8 Incapacity of Participant or Beneficiary. If any person entitled to receive a distribution under the Plan is physically or mentally incapable of personally receiving and giving a valid receipt for any payment due (unless a prior claim for the distribution has been made by a duly qualified guardian or other legal representative), then, unless and until a claim for the distribution has been made by a duly appointed guardian or other legal representative of the person, the Committee may provide for the distribution to be made to any other individual or institution then contributing toward or providing for the care and maintenance of the person. Any payment made for the benefit of the person under this Section will be a payment for the account of such person and a complete discharge of any liability of the Company and the Plan.

Section 10.9 Evidence. Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information which the person relying on the evidence considers pertinent and reliable, and signed, made or presented by the proper party or parties.

Section 10.10 Action by Company. Any action required of or permitted by the Company under the Plan will be by resolution of the Board, by the Compensation Committee of the Board, or by a person or persons authorized by resolution of the Compensation Committee or the Board.

Section 10.11 Severability. In the event any provisions of the Plan are held to be illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of the Plan, and the Plan will be construed and endorsed as if the illegal or invalid provisions had never been contained in the Plan.

Section 10.12 Information to be Furnished by a Participant. A Participant, or any other person entitled to benefits under the Plan, must furnish the Committee with any and all documents, evidence, data or other information the Committee considers necessary or desirable for the purpose of administering the Plan. Benefit payments under the Plan are conditioned on a Participant (or other person who is entitled to benefits) furnishing full, true and complete data, evidence or other information to the Committee, and on the prompt execution of any document reasonably related to the administration of the Plan requested by the Committee.

Section 10.13 Binding on Successors. The Plan will be binding upon and inure to the benefit of the Company and its successors and assigns, and the successors, assigns, designees and estates of a Participant. The Plan will also be binding upon and inure to the benefit of any successor organization succeeding to substantially all of the assets and business of the Company, but nothing in the Plan will preclude the Company from merging or consolidating into or with, or transferring all or substantially all of its assets to, another organization which assumes the Plan and all obligations of the Company

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

hereunder. The Company agrees that it will make appropriate provision for the preservation of a Participant's rights under the Plan in any agreement or plan which it may enter into to effect any merger, consolidation, reorganization or transfer of assets. Upon such a merger, consolidation, reorganization, or transfer of assets and assumption of Plan obligations of the Company, the term "Company" will refer to such other organization and the Plan will continue in full force and effect.

Page 68

EXHIBIT-31.1

FIRST MERCHANTS CORPORATION
FORM 10-Q
CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Michael C. Rechin, President and Chief Executive Officer of First Merchants Corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Merchants Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2008

by /s/ Michael C. Rechin

Michael C. Rechin
President and
Chief Executive Officer
(Principal Executive Officer)

Page 69

EXHIBIT-31.2

FIRST MERCHANTS CORPORATION

FORM 10-Q
CERTIFICATIONS PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Mark K. Hardwick, Executive Vice President and Chief Financial Officer of First Merchants Corporation, certify that:

- 1. I have reviewed this Quarterly Report on Form 10-Q of First Merchants Corporation;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2008

by: /s/ Mark K. Hardwick

Mark K. Hardwick
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Page 70

Edgar Filing: FIRST MERCHANTS CORP - Form 10-Q

EXHIBIT-32

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael C. Rechin, President and Chief Executive Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 5, 2008

by /s/ Michael C. Rechin

Michael C. Rechin
President and
Chief Executive Officer
(Principal Executive Officer)

A signed copy of this written statement required by Section 906 has been provided to First Merchants Corporation and will be retained by First Merchants Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

In connection with the quarterly report of First Merchants Corporation (the "Corporation") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark K. Hardwick, Executive Vice President and Chief Financial Officer of the Corporation, do hereby certify, in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o (d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 5, 2008

by /s/ Mark K. Hardwick

Mark K. Hardwick
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

A signed copy of this written statement required by Section 906 has been provided to First Merchants Corporation and will be retained by First Merchants Corporation and furnished to the Securities and Exchange Commission or its staff upon request.