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FIRST MERCHANTS CORP
Form 10-Q
November 08, 2006

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, 2006

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
(Check one):

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Large accelerated filer [] Accelerated filer [X] Non-accelerated filer []

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 16, 2006, there were 18,412,237 outstanding common shares, without par value, of the registrant.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CONSOLIDATED CONDENSED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	September 30, 2006	December 31, 2005
	-----	-----
	(Unaudited)	
ASSETS:		
Cash and due from banks	\$ 65,641	\$ 70,417
Interest-bearing deposits.....	8,717	8,748
Investment securities available for sale	458,784	422,627
Investment securities held to maturity	9,290	11,639
Mortgage loans held for sale.....	3,395	4,910
Loans, net of allowance for loan losses of \$26,975 and \$25,188.	2,614,669	2,432,239
Premises and equipment	40,511	39,417
Federal Reserve and Federal Home Loan Bank stock.....	23,620	23,200
Interest receivable	23,946	19,690
Core deposit intangibles	15,280	17,567
Goodwill	121,386	121,266
Cash surrender value of life insurance.....	63,539	43,579
Other assets	23,261	21,780
	-----	-----
Total assets	\$ 3,472,039	\$ 3,237,079
	=====	=====
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 324,601	\$ 314,335
Interest-bearing	2,369,690	2,068,241
	-----	-----
Total deposits	2,694,291	2,382,576
Borrowings	419,146	508,236
Interest payable	10,236	5,874
Other liabilities.....	26,075	26,997
	-----	-----
Total liabilities	3,149,748	2,923,683

COMMITMENTS AND CONTINGENT LIABILITIES

STOCKHOLDERS' EQUITY:

Preferred stock, no-par value:

Authorized and unissued - 500,000 shares

Common Stock, \$.125 stated value:

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Authorized --- 50,000,000 shares		
Issued and outstanding - 18,334,811 and 18,416,714 shares....	2,292	2,302
Additional paid-in capital	143,688	145,682
Retained earnings	184,555	174,717
Accumulated other comprehensive loss	(8,244)	(9,305)
	-----	-----
Total stockholders' equity	322,291	313,396
	-----	-----
Total liabilities and stockholders' equity	\$ 3,472,039	\$ 3,237,079
	=====	=====

See notes to consolidated condensed financial statements.

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

	Three Months Ended		Nine
	September 30,		Se
	2006	2005	2006
Interest Income:			
Loans receivable			
Taxable	\$48,738	\$40,853	\$137,47
Tax exempt	189	160	58
Investment securities			
Taxable	3,289	2,427	9,09
Tax exempt	1,645	1,595	4,90
Federal funds sold	13	51	4
Deposits with financial institutions	144	185	39
Federal Reserve and Federal Home Loan Bank stock	307	296	93
	-----	-----	-----
Total interest income	54,325	45,567	153,43
	-----	-----	-----
Interest expense:			
Deposits	20,291	12,172	51,62
Borrowings	6,410	5,255	18,83
	-----	-----	-----
Total interest expense	26,701	17,427	70,45
	-----	-----	-----
Net Interest Income	27,624	28,140	82,97
Provision for loan losses	1,558	1,794	5,01
	-----	-----	-----
Net Interest Income After Provision for Loan Losses	26,066	26,346	77,96
	-----	-----	-----
Other Income:			
Net realized gains on sales of available-for-sale securities.		16	
Other income	8,835	8,764	25,84
	-----	-----	-----

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Total other income	8,835	8,780	25,84
	-----	-----	-----
Other expenses:			
Salaries and benefits	14,033	13,384	41,96
Other expenses	9,922	9,917	29,66
	-----	-----	-----
Total other expenses	23,955	23,301	71,63
	-----	-----	-----
Income before income tax	10,946	11,825	32,17
Income tax expense	3,207	3,605	9,63
	-----	-----	-----
Net Income	\$ 7,739	\$ 8,220	\$22,53
	=====	=====	=====
 Per share:			
Basic	\$.42	\$.45	\$ 1.23
Diluted42	.44	1.22
Dividends23	.23	.69

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months E	September 3
	-----	-----
	2006	-----
	-----	-----
Net Income.....	\$ 7,739	\$
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period, net of		
income tax benefit of \$(2,742), \$589, \$(707), and \$2,195	3,993	
Unrealized gains on cash flow hedges:		
Unrealized gains arising during the period, net of income tax of		
\$(79), \$0, \$(79) and \$0	119	
Less: Reclassification adjustment for gains (losses) included in net		
income, net of income tax expense of \$0, \$6, \$0 and \$9	-----	-----
	4,113	-----
	-----	-----
Comprehensive income	\$ 11,852	\$
	=====	=====

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	2006	2005
	-----	-----
Balances, January 1	\$ 313,396	\$ 314,603
Net income	22,539	22,708
Cash dividends on common stock	(12,662)	(12,748)
Cash dividends on restricted stock awards	(39)	
Other comprehensive income (loss), net of tax.....	1,060	(3,306)
Stock issued under employee benefit plan	857	913
Stock issued under dividend reinvestment and stock purchase plan	919	638
Stock options exercised	857	2,114
Tax benefit from stock options exercised	132	
Stock redeemed	(5,332)	(6,970)
Issuance of stock in acquisition		438
Share-based compensation	564	
	-----	-----
Balances, September 30	\$ 322,291	\$ 318,390
	=====	=====

See notes to consolidated condensed financial statements.

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

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	-----	2006	-----
Cash Flows From Operating Activities:			
Net income.....	\$	22,	
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan losses.....		5,	
Depreciation and amortization.....		6,	
Share-based compensation.....			
Tax benefits from stock options exercised.....		(
Mortgage loans originated for sale.....		(89,	
Proceeds from sales of mortgage loans.....		90,	
Change in interest receivable.....		(4,	
Change in interest payable.....		4,	
Other adjustments.....		(19,	

Net cash provided by operating activities.....	\$	16,	-----
Cash Flows From Investing Activities:			
Net change in interest-bearing deposits.....	\$		
Purchases of			
Securities available for sale.....		(82,	
Proceeds from maturities of			
Securities available for sale.....		42,	
Securities held to maturity.....		6,	
Proceeds from sales of securities available for sale.....			
Purchase of Federal Reserve and			
Federal Home Loan Bank Stock.....		(
Net change in loans.....		(187,	
Other adjustments.....		(7,	

Net cash used by investing activities.....	\$	(228,	-----
Cash Flows From Financing Activities:			
Net change in			
Demand and savings deposits.....	\$	(1,	
Certificates of deposit and other time deposits.....		313,	
Borrowings.....		144,	
Repayment of borrowings.....		(233,	
Cash dividends on common stock.....		(12,	
Cash dividends on restricted stock awards.....			
Stock issued under employee benefit plan.....			
Stock issued under dividend reinvestment and stock purchase plans.....			
Stock options exercised.....			
Tax benefit from stock options exercised.....			
Stock redeemed.....		(5,	

Net cash provided/(used) by financing activities.....		207,	-----
Net Change in Cash and Cash Equivalents.....		(4,	
Cash and Cash Equivalents, January 1.....		70,	

Cash and Cash Equivalents, June 30.....	\$	65,	=====
Additional cash flows information:			
Interest paid	\$	66	
Income tax paid		11	

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See notes to consolidated condensed financial statements.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(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, except as discussed below within the caption "Change in Accounting Principle". 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, 2005 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 month periods ended September 30, 2006 are not necessarily indicative of the results to be expected for the year.

Change in Accounting Principle

Effective January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment ("SFAS 123(R)"). SFAS 123(R) addresses all forms of share-based payment awards, including shares under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS 123(R) requires all share-based payments to be recognized as expense, based upon their fair values, in the financial statements over the vesting period of the awards. The Corporation has elected the modified prospective application and, as a result, has recorded approximately \$564,000 in compensation expense related to vested stock options, Employee Stock Purchase Plan options and restricted stock awards, less estimated forfeitures, for the nine month period ended September 30, 2006.

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

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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.

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) requires 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 generally issues new shares from its authorized but unissued share pool. At September 30, 2006, share-based compensation for the three and nine months ended September 30, 2006 totaled \$212,000 and \$564,000, respectively, and has been recognized as a component of salaries and benefits expense in the accompanying Consolidated Condensed Statements of Income.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

NOTE 2. Share-Based Compensation continued

Prior to 2006, the Corporation accounted for share-based compensation in accordance with APB 25 using the intrinsic value method, which did not require that compensation expense be recognized for the Corporation's stock and ESPP options; however, under APB 25, the Corporation was required to record compensation expense over the vesting period for the value of RSAs granted, if any.

The Corporation provided pro forma disclosure amounts in accordance with SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" (SFAS No. 148), as if the fair value method defined by SFAS No. 123 had been applied to its share-based compensation. The Corporation's net income and net income per share for the nine months ended September 30, 2005 would have been reduced if compensation expense related to stock and ESPP options had been recorded in the financial statements, based on fair value at the grant dates.

The estimated fair value of the stock options granted during 2006 and in prior years was calculated using a Black Scholes option pricing model. The following summarizes the assumptions used in the 2006 Black Scholes model:

Risk-free interest rate	4.59%
Expected price volatility	29.84%
Dividend yield	3.54%
Forfeiture rate	4.00%
Weighted-average expected life, until exercise	5.75 years

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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 4 percent for the nine months ended September 30, 2006, based on historical experience. In the Corporation's pro forma disclosures required under SFAS 123(R) for the periods prior to fiscal 2006, the Corporation accounted for forfeitures as they occurred.

As a result of adopting SFAS 123(R), net income of the Corporation for the nine months ended September 30, 2006 was \$451,000 lower (net of \$113,000 in tax benefits), than if it had continued to account for share-based compensation under APB 25. The impact on both basic and diluted earnings per share for the nine months ended September 30, 2006 was \$.01 per share.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

NOTE 2. Share-Based Compensation continued

Pro forma net income, as if the fair value based method had been applied to all awards, is as follows:

(In thousands, except for per share amounts)

		Three Month September 2006	

Net income as reported	\$	7,739	\$
Add: Share-based compensation awards recorded as expense, net of income taxes		177	
Less: Share-based compensation cost, determined under the fair value based method, net of income taxes		(177)	
Pro forma net income	\$	7,739	\$
		=====	==
Earnings per share:			
Basic - as reported	\$.42	\$

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Basic - pro forma42
Diluted - as reported42
Diluted - pro forma42

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

	Three Months Ended September 30, 2006 -----
Stock and ESPP Options:	
Pre-tax compensation expense	\$ 165
Income tax benefit	4

Stock and ESPP option expense, net of income taxes	\$ 169
	=====
Restricted Stock Awards:	
Pre-tax compensation expense	\$ 47
Income tax benefit	(39)

Restricted stock awards expense, net of income taxes	\$ 8
	=====
Total Share-Based Compensation:	
Pre-tax compensation expense	\$ 212
Income tax benefit	(35)

Total share-based compensation expense, net of income taxes	\$ 177
	=====

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

NOTE 2. Share-Based Compensation continued

As of September 30, 2006, unrecognized compensation expense related to stock options, RSAs and ESPP options totaling \$279,000, \$1,002,000 and \$149,000, respectively, is expected to be recognized over weighted-average periods of 1.21, 2.33 and .75 years, respectively.

Stock option activity under the Corporation's stock option plans as of September 30, 2006 and changes during the nine months ended September 30, 2006 were as follows:

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	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in Years)
Outstanding at January 1, 2006	1,104,787	\$ 23.28	
Granted	72,256	25.03	
Exercised	(72,093)	16.46	
Cancelled	(23,188)	23.80	

Outstanding at September 30, 2006	1,081,762	\$ 23.85	6.09
	=====		
Vested and Expected to Vest at September 30, 2006	1,080,896	\$ 23.85	.09
Exercisable at September 30, 2006	1,002,591	\$ 23.74	5.82

The weighted-average grant date fair value was \$6.22 for stock options granted during the nine months ended September 30, 2006.

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 2006 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, 2006. 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 2006 was \$595,000. Exercise of options during this same period resulted in cash receipts of \$857,000. The Corporation recognized a tax benefit of approximately \$113,000 in the first nine months of 2006, 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 restricted stock awards outstanding as of September 30, 2006:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested RSAs at January 1, 2006	2,000	\$ 26.44
Granted	55,300	25.14
Forfeited	2,700	25.14
Vested	200	25.14

Unvested RSAs at September 30, 2006	54,400	\$ 25.19
	=====	

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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, 2006 offering period and approximates \$198,000. The ESPP options vested during the twelve month period ending June 30, 2007. At September 30, 2006, total unrecognized compensation expense related to unvested ESPP options was \$149,000, which is expected to be recognized over a period of nine months.

NOTE 3. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at September 30, 2006				
U.S. Treasury	\$ 1,495		\$ (1)	\$ 1,494
U.S. Government-sponsored agency securities.....	93,466	\$ 50	(1,552)	91,964
State and municipal	169,655	2,116	(1,057)	170,714
Mortgage-backed securities	187,394	447	(5,014)	182,827
Marketable equity securities.....	12,085		(300)	11,785
	-----	-----	-----	-----
Total available for sale	464,095	2,613	(7,924)	458,784
	-----	-----	-----	-----
Held to maturity at September 30, 2006				
State and municipal.....	9,271	392	(244)	9,419
Mortgage-backed securities.....	19			19
	-----	-----	-----	-----
Total held to maturity	9,290	392	(244)	9,438
	-----	-----	-----	-----
Total investment securities	\$473,385	\$ 3,005	\$ (8,168)	\$468,222
	=====	=====	=====	=====

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2005				
U.S. Treasury	\$ 1,586		\$ (1)	\$ 1,585
U.S. Government-sponsored agency securities	83,026	\$ 1	(1,836)	81,191
State and municipal	167,095	2,159	(1,131)	168,123
Mortgage-backed securities	168,019	139	(5,656)	162,502
Other asset-backed securities.....	1			1
Marketable equity securities	9,660		(435)	9,225
	-----	-----	-----	-----
Total available for sale	429,387	2,299	(9,059)	422,627
	-----	-----	-----	-----
Held to maturity at December 31, 2005				
State and municipal	11,609	283	(412)	11,480
Mortgage-backed securities	30			30

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Total held to maturity	11,639	283	(412)	11,510
Total investment securities	\$441,026	\$ 2,582	\$ (9,471)	\$434,137

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

NOTE 4. Loans and Allowance

	September 30, 2006

Loans:	
Commercial and industrial loans	\$ 497,280
Agricultural production financing and other loans to farmers	104,147
Real estate loans:	
Construction	175,753
Commercial and farmland	835,403
Residential	757,116
Individuals' loans for household and other personal expenditures	215,237
Tax-exempt loans	16,550
Lease financing receivables, net of unearned income.....	8,543
Other loans	31,615

	2,641,644
Allowance for loan losses.....	(26,975)

Total Loans.....	\$ 2,614,669
	=====
	Nine Month September
	2006

Allowance for loan losses:	
Balances, January 1	\$ 25,188
Provision for losses	5,013
Recoveries on loans	1,421
Loans charged off	(4,647)

Balances, September 30	\$ 26,975
	=====

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Information on nonaccruing, contractually past due 90 days or more other than nonaccruing and restructured loans is summarized below:

	September 30, 2006	December 31, 2005
Non-accrual loans.....	\$ 16,524	\$ 10,030
Loans contractually past due 90 days or more other than nonaccruing.....	4,253	3,965
Restructured loans.....	93	310
Total.....	\$ 20,870	\$ 14,305

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

NOTE 5. 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 September		
	2006		
	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:			
Net income available to common stockholders.....	\$ 7,739	18,317,558	\$.42
Effect of dilutive stock options.....		63,073	
Diluted net income per share:			

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Net income available to common stockholders and assumed conversions.....	\$ 7,739	18,380,631	\$.42	\$ 8,22
	=====	=====	=====	=====

Options to purchase 659,432 and 207,349 shares for the three months ended September 30, 2006 and 2005 were not included in the earnings per share calculation because the exercise price exceeded the average market price.

	Nine Months Ended September			
	2006			
	Income	Weighted- Average Shares	Per Share Amount	Income
	-----	-----	-----	-----
Basic net income per share:				
Net income available to common stockholders.....	\$ 22,539	18,375,574	\$ 1.23	\$ 22,70
			=====	
Effect of dilutive stock options.....		79,723		
	-----	-----		-----
Diluted net income per share:				
Net income available to common stockholders and assumed conversions.....	\$ 22,539	18,455,297	\$ 1.22	\$ 22,70
	=====	=====	=====	=====

Options to purchase 647,801 and 170,312 shares for the nine months ended September 30, 2006 and 2005 were not included in the earnings per share calculation because the exercise price exceeded the average market price.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

Note 6. Defined Benefit Pension Costs

The Corporation has defined benefit pension plans covering substantially all employees. The plans provide benefits that are based on the employees' compensation and years of service. The Corporation uses an actuarial calculation to determine pension plan costs.

In January 2005, the Board of Directors of the Corporation approved the curtailment of the accumulation of defined benefits for future services provided by certain participants in the First Merchants Corporation Retirement Pension Plan (the "Plan"). Employees of the Corporation and certain of its subsidiaries who are participants in the Plan were notified that, on and after March 1, 2005, no additional pension benefits will be earned by employees who have not both attained the age of fifty-five (55) and accrued at least ten (10) years of

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"Vesting Service". As a result of this action, the Corporation recorded a \$1,630,000 pension curtailment loss to record previously unrecognized prior service costs in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Plans and for Termination Benefits." This loss was recognized and recorded by the Corporation in the first quarter of 2005.

The following represents the pension cost for the three and nine months ended September 30, 2006.

	Three Months Ended		Ni
	September 30,		
	2006	2005	200
Pension Cost			

Service cost.....	\$ 131	\$ 145	\$
Interest cost	684	658	2,
Expected return on plan assets	(728)	(768)	(2,
Amortization of the transition asset.....		(7)	
Amortization of prior service cost.....	2	1	
Amortization of the net loss.....	86	24	
Curtailment loss.....			
Total Pension Cost.....	\$ 175	\$ 53	\$
	=====	=====	=====

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Table dollars in thousands)

(Unaudited)

Note 7. Impact of Accounting Changes

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 156 ("SFAS No. 156"). This Statement amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities.

SFAS No. 156 requires an entity to initially recognize a servicing asset or servicing liability at fair value each time it undertakes an obligation to service a financial asset by entering into a servicing contract in other specific situations.

In addition, SFAS No. 156 permits an entity to choose either of the following subsequent measurement methods for each class of separately recognized servicing

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assets and servicing liabilities:

- o Amortization method- Amortize servicing assets or servicing liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and assess servicing assets or servicing liabilities for impairment or increased obligation, based on fair value at each reporting date.
- o Fair value measurement method- Measure servicing assets or servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur.

SFAS No. 156 is effective for the Corporation at the beginning of its first fiscal year that begins after September 15, 2006, and should be applied prospectively for recognition and initial measurement of servicing assets and servicing liabilities. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year.

The Corporation did not early adopt SFAS No. 156 on January 1, 2006. The Corporation is currently evaluating the effect of adoption of this Statement on its financial condition and results of operations.

In September 2006, the Emerging Issues Task Force (EITF) reached a consensus regarding the accounting for entities with split-dollar life insurance arrangements that provide an employee with a specified benefit that is not limited to an employee's active service period. In reaching its consensus, the EITF determined that an employer should recognize as a liability the future benefits to be provided to employees beyond the employees active service period. In the case of split-dollar plan that provides a death benefit to the employee's designated beneficiary and the benefit is provided to the employee beyond their active service period, an entity should accrue a liability during the employee's active service period for the cost of maintaining the life insurance policy during the employee's retirement period. EITF 06-4 is effective for fiscal years beginning after December 15, 2007 with earlier application permitted. Entities should recognize the effects of applying EITF 06-4 either as a change in accounting principle through a cumulative-effect adjustment to retained earnings or other components of equity as of the beginning of the year of adoption or as a change in accounting principle through retrospective application to all prior periods. The Corporation is currently evaluating the effect of adoption of this Statement on its financial condition and results of operations.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, Accounting for Defined Benefit Pension and Other Postretirement Plan-an amendment of SFAS No. 87, 88, 106 and 132(R). This statement requires an entity that sponsors one or more single-employer defined benefit plans to recognize the funded status of a benefit plan (measured as the difference between the fair value of plan assets and the benefit obligation) in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation and for any other plan the benefit obligation is the accumulated postretirement benefit obligation. Additionally, all items previously deferred when applying SFAS No. 87 or SFAS No. 106 will now be recognized as a component of accumulated other comprehensive income, net of applicable taxes. SFAS No. 158 will not change the components of net periodic benefit cost. SFAS No. 158 will require plan asset and benefit obligations to be measured primarily as of the balance sheet date. The effective date for the recognition of the funded status on the balance sheet is for fiscal years ending after December 15, 2006 while the effective date for the requirement that the measurement date of plan assets and the benefit obligation be the same as the balance sheet date is for fiscal years ending after December 15, 2008. The Corporation is currently evaluating the effect of adoption of this Statement on its financial condition and results

of operations.

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

of Operations

FORWARD-LOOKING STATEMENTS

We from time to time 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;

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- * 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.

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.

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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 the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005. 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 quarter ended September 30, 2006 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 the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

BUSINESS SUMMARY

We are a financial holding company headquartered in Muncie, Indiana. Since our organization in 1982, we have grown to include 8 affiliate banks with 64 locations in 17 Indiana and 3 Ohio counties. In addition to our branch network, our delivery channels include ATMs, check cards, interactive voice response systems and internet technology.

Our business activities are currently limited to one significant business segment, which is community banking. Our financial service affiliates include eight nationally chartered banks: First Merchants Bank, N.A., The Madison Community Bank, N.A., United Communities National Bank, First National Bank, Decatur Bank and Trust Company, N.A., Frances Slocum Bank & Trust Company, N.A., Lafayette Bank and Trust Company, N.A. and Commerce National Bank. The banks provide commercial and retail banking services. In addition, our trust company, multi-line insurance company and title company provide trust asset management services, retail and commercial insurance agency services and title services, respectively.

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We believe that our mission, guiding principles and strategic initiatives produce profitable growth for stockholders. Our vision is to satisfy all the financial needs of our customers, help them succeed financially and be recognized as the premier financial services company in our markets. Our primary strategy to achieve this vision is to increase product usage and focus on providing each customer with all of the financial products that fulfill their needs. Our cross-sell strategy and diversified business model facilitate growth in strong and weak economic cycles.

We believe it is important to maintain a well controlled environment as we continue to grow our businesses. 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. Our stockholder value has continued to increase due to customer satisfaction and the balanced way we manage our business risk.

RESULTS OF OPERATIONS

Net income for the three months ended September 30, 2006, equaled \$7,739,000, compared to \$8,220,000 in the same period of 2005. Diluted earnings per share were \$.42, a decrease of 4.5 percent from the \$.44 reported for the third quarter 2006. The decrease in earnings per share is primarily a result of the decrease in the net interest margin of 34 basis points from the same period of 2005.

Net income for the nine months ended September 30, 2006, equaled \$22,539,000, compared to \$22,708,000 during the same period in 2005. Diluted earnings per share were \$1.22 for the nine month period in 2006 and 2005.

Annualized returns on average assets and average stockholders' equity for the three months ended September 30, 2006, were .90 percent and 9.72 percent, respectively, compared with 1.03 percent and 10.38 percent for the same period of 2005.

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

of Operations continued

RESULTS OF OPERATIONS (continued)

Annualized returns on average assets and average stockholders' equity for the nine months ended September 30, 2006 were .90 percent and 9.47 percent, respectively, compared with .95 percent and 9.62 percent for the same period of 2005. For further analysis, see the respective sections of Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 7.5 percent at September 30, 2006 and 7.7 percent at year end 2005. In addition, at September 30, 2006, we had a Tier I risk-based capital ratio of 9.4 percent and total risk-based capital ratio of 11.4 percent. Regulatory capital guidelines require

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a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent.

Our GAAP capital ratio, defined as total stockholders' equity to total assets, equaled 9.3 percent at September 30, 2006 and 9.7 percent at December 31, 2005. 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 5.7 percent as of September 30, 2006, and 5.8 percent at December 31, 2005.

We believe that all of the above capital ratios are meaningful measurements for 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, 2006	December 31, 2005
Average Goodwill	\$ 121,380	\$ 120,867
Average Core Deposit Intangible (CDI)	16,406	19,087
Average Deferred Tax on CDI	(4,779)	(7,141)
	-----	-----
Intangible Adjustment	\$ 133,007	\$ 132,813
	=====	=====
Average Stockholders' Equity (GAAP Capital)	\$ 317,282	\$ 315,907
Intangible Adjustment	(133,007)	(132,813)
	-----	-----
Average Tangible Capital	\$ 184,275	\$ 183,094
	=====	=====
Average Assets	\$ 3,328,120	\$ 3,195,784
Intangible Adjustment	(133,007)	(132,813)
	-----	-----
Average Tangible Assets	\$ 3,195,113	\$ 3,062,971
	=====	=====
Net Income	\$ 22,539	\$ 30,239
CDI Amortization, net of tax	1,440	1,952
	-----	-----
Tangible Net Income	\$ 23,979	\$ 32,191
	=====	=====
Diluted Earnings per Share	\$ 1.22	\$ 1.63
Diluted Tangible Earnings per Share	\$ 1.30	\$ 1.73
Return on Average GAAP Capital	9.50%	9.58%
Return on Average Tangible Capital	17.40%	17.58%
Return on Average Assets	0.90%	0.95%
Return on Average Tangible Assets	1.00%	1.05%

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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 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, 2006, non-performing loans totaled \$20,870,000, an increase of \$6,565,000 from December 31, 2005, as noted in Note 4. Loans and Allowance, included within the Notes to Consolidated Condensed Financial Statements of this Form 10-Q. Our top ten largest non-performers total \$8.5 million. Of those top ten, only two have balances in excess of \$1 million.

At September 30, 2006, impaired loans totaled \$64,809,000, an increase of \$12,429,000 from December 31, 2005. At September 30, 2006, an allowance for losses was not deemed necessary for impaired loans totaling \$47,539,000, but an allowance of \$3,905,000 was recorded for the remaining balance of impaired loans of \$17,270,000 and is included in our allowance for loan losses.

At September 30, 2006, the allowance for loan losses was \$26,975,000, an increase of \$1,787,000 from year end 2005. As a percent of loans, the allowance was 1.02 percent at September 30, 2006 and December 31, 2005.

The provision for loan losses for the first nine months of 2006 was \$5,013,000, a decrease of \$1,396,000 from \$6,409,000 for the same period in 2005.

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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 for us and our subsidiaries 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 the asset/liability committees at each subsidiary and 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.

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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, 2006, total borrowings from the FHLB were \$229,729,000. Our bank subsidiaries have pledged certain mortgage loans and certain investments to the FHLB. The total available remaining borrowing capacity from the FHLB at September 30, 2006, was \$124,035,000. At September 30, 2006, our revolving line of credit had a balance of \$10,500,000 and a remaining borrowing capacity of \$9,500,000.

The principal source of asset-funded liquidity is investment securities classified as available-for-sale, the market values of which totaled \$458,784,000 at September 30, 2006, an increase of \$36,157,000 or 9.0 percent over December 31, 2005. 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 \$125,000 at September 30, 2006. 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.

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, 2006 are as follows:

(Dollars in thousands)	At September 30, 2006
=====	
Amounts of commitments:	
Loan commitments to extend credit	\$ 622,352
Standby letters of credit	30,586

	\$ 652,938
	=====

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 long-term debt at September 30, 2006 are as follows:

(Dollars in thousands)	2006 remaining	2007	2008	2009	2010	2011 and after	
=====							
Operating leases	\$ 522	\$ 1,828	\$ 1,346	\$ 1,162	\$ 1,087	\$ 1,680	\$
Long-term debt	99,796	53,995	32,395	23,368	35,148	174,444	4
	-----	-----	-----	-----	-----	-----	-----
Total	\$100,318	\$ 55,823	\$ 33,741	\$ 24,530	\$ 36,235	\$176,124	\$4
	=====	=====	=====	=====	=====	=====	=====

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INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK

Asset/Liability Management has been an important factor in our ability to record consistent earnings growth through periods of interest rate volatility and product deregulation. 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, our 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 Asset Liability function to provide optimum and stable net interest income. To accomplish this, we use two asset liability tools. GAP/Interest Rate Sensitivity Reports and Net Interest Income Simulation Modeling are both constructed, presented, and monitored quarterly.

We believe that our liquidity and interest sensitivity position at September 30, 2006, remained adequate to meet our primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

We place our greatest credence in net interest income simulation modeling. The GAP/Interest Rate Sensitivity Report is believed by our management to have two major shortfalls. The GAP/Interest Rate Sensitivity Report fails to precisely gauge how often an interest rate sensitive product reprices, nor is it able to measure the magnitude of potential future rate movements.

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 below. 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.

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The comparative rising and falling scenarios for the period ended August 31, 2007 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 for the period ended August 31, 2007 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	(190)
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 August 31, 2006. 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	\$106,608	\$105,471	\$109,931
Variance from base		\$ (1,137)	\$ 3,323
Percent of change from base		(1.07)%	3.12%

The comparative rising and falling scenarios for the period ended December 31, 2006 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 for the period ended December 31, 2006 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	(89)
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 November 30, 2005. 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)		

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Net Interest Income	\$111,989	\$114,930	\$109,220
Variance from base		\$ 2,941	\$ (2,769)
Percent of change from base		2.63%	(2.47)%

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EARNING ASSETS

The following table presents the earning asset mix as of September 30, 2006, and December 31, 2005.

Loans increased approximately \$182,702,000 from December 31, 2005 to September 30, 2006, and investment securities increased by approximately \$33,808,000 during the same period. All loan categories increased except leases, which decreased slightly. The largest increases were in commercial and farmland of \$100,538,000 and commercial and industrial of \$36,178,000.

EARNING ASSETS

(Dollars in thousands)

	September 30, 2006	December 2005
Interest-bearing time deposits	\$ 8,717	\$ 8,74
Investment securities available for sale	458,784	422,62
Investment securities held to maturity	9,290	11,63
Mortgage loans held for sale	3,395	4,91
Loans	2,641,644	2,457,42
Federal Reserve and Federal Home Loan Bank stock	23,620	23,20
	-----	-----
Total	\$3,145,450	\$2,928,55
	=====	=====

DEPOSITS AND BORROWINGS

The table below reflects the level of deposits and borrowed funds (federal funds purchased; repurchase agreements; Federal Home Loan Bank advances; and subordinated debentures, revolving credit lines and term loans) based on period ending amounts as of September 30, 2006 and December 31, 2005.

(Dollars in thousands)	September 30, 2006	December 31, 2005
Deposits	\$2,694,291	\$2,382,576

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Federal funds purchased.....	41,500	50,000
Securities sold under repurchase agreements.....	48,461	106,415
Federal Home Loan Bank advances	229,729	247,865
Subordinated debentures, revolving credit lines and term loans.....	99,456	103,956
	-----	-----
	\$3,113,437	\$2,890,812
	=====	=====

We have continued to leverage our capital position with Federal Home Loan Bank advances, as well as repurchase agreements which are pledged against acquired investment securities as collateral for the borrowings. The interest rate risk is included as part of our interest simulation discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations under the headings "LIQUIDITY" and "INTEREST SENSITIVITY AND DISCLOSURES ABOUT MARKET RISK".

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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, 2006 and 2005.

During the nine months ended September 30, 2006, asset yields increased 72 basis points (FTE) and interest costs increased 90 basis points, resulting in an 18 basis point (FTE) decrease in net interest income as compared to the same period in 2005. The increases in interest income and interest expense were primarily a result of eight 25 basis point overnight federal funds rate increases by the Federal Open Market Committee during this period.

(Dollars in Thousands)	Three Months Ended September 30,		Nine Month Septemb
	2006	2005	2006
Annualized Net Interest Income.....	\$ 110,499	\$ 112,560	\$ 110,639
Annualized FTE Adjustment.....	\$ 3,953	\$ 3,781	\$ 3,944
Annualized Net Interest Income On a Fully Taxable Equivalent Basis.....	\$ 114,452	\$ 116,341	\$ 114,583
Average Earning Assets.....	\$3,125,079	\$2,908,431	\$3,036,748
Interest Income (FTE) as a Percent of Average Earning Assets.....	7.08%	6.40%	6.87%
Interest Expense as a Percent of Average Earning Assets.....	3.42%	2.40%	3.09%
Net Interest Income (FTE) as a Percent			

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of Average Earning Assets.....	3.66%	4.00%	3.78%
--------------------------------	-------	-------	-------

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 will be amortized on an allocated fair value basis over the three-year term of the agreements. During the quarter, the fair value of the floors increased by \$172,934 to \$672,934. No ineffectiveness was required to be recognized. The Corporation's objective in using interest rate floors is to add stability to interest income by reducing its exposure to decreases in cash flows on its prime-based loans. An interest rate floor agreement involves the receipt of cash payments when the underlying interest rate falls below the floor strike rate over the life of the agreement without exchange of the underlying principal (notional) amount. The interest rate floors are designated as cash flow hedges and will be accounted for in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended.

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OTHER INCOME

Total other income in the third quarter of 2006 was \$55,000 or .6 percent higher than the same quarter of 2005.

Two items account for most of the change:

1. Service charged increased by \$219,000 in the third quarter of 2006 compared with the third quarter in 2005 due to mid-year fee increases.
2. Gains on loan sales decreased by \$277,000 or 36.0% from the same third quarter in 2005 due to a reduction in mortgage originations.

Total other income in the first nine months of 2006 was \$745,000 or 2.8 percent lower than the same period of 2005.

Two items primarily account for the change:

1. Gains on loan sales decreased by \$668,000 or 30.0 percent from the same period in 2005 due to a reduction in mortgage loan originations.
2. A cash payment was received in the first quarter of 2005 of approximately \$200,000, related to the Corporation's membership in a credit card network that was merged with another card network. No such payment was received during the same period in 2006.

OTHER EXPENSES

Total other expenses represent non-interest expenses of the Corporation. Total other expenses during the third quarter of 2006 increased from the third quarter

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of 2005 by \$654,000 or 2.8 percent. Salary expenses were \$408,000 higher than the same period in 2005, primarily due to staff additions and normal annual increases. In addition, salary expenses of \$212,000 were recorded in the quarter due to share-based compensation expense recorded.

Total other expenses in the first nine months of 2006 were \$906,000 or 1.3 percent higher than the same period of 2005.

Three areas account for most of the change:

1. A pension accounting loss, totaling approximately \$1,630,000, was recorded during the first quarter of 2005. The loss resulted from the curtailment of the accumulation of defined benefits in our defined benefit pension plan.
2. Salary expenses were \$2,126,000 higher than the same period in 2005, primarily due to staff additions and normal annual increases. In addition, salary expenses of \$564,000 were recorded in the first nine months of 2006, due to share-based compensation expense recorded.
3. A fixed asset write off \$300,000 was recognized in the second quarter of 2006 as a result of closed branches.

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INCOME TAXES

Income tax expense, for the nine months ended September 30, 2006, decreased by \$110,000 from the same period in 2005. The effective tax rate was 29.9 and 30.0 percent for the 2006 and 2005 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

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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.

There have been no changes in our internal controls over financial reporting identified in connection with the evaluation referenced above that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1.A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Corporation's December 31, 2005 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity
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, 2006, as follows(1):

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF BOARD AUTHORIZATION(1)	MAX SHAR BE BOARD
07/01/06 - 07/31/06	9,246(2)	\$23.66	0	
08/01/06 - 08/31/06	0	\$0	0	
09/01/06 - 09/30/06	0	\$0	0	

(1) On February 14, 2006, the Corporation's Board authorized management to repurchase up to 250,000 shares of the Corporation's Common Stock. This authorization was not publicly announced and expires February 13, 2007. There were 30,000 remaining shares that may yet be purchased pursuant to such authorizations as of September 30, 2006.

(2) These shares were purchased in connection with the exercise of certain outstanding stock options.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

a. None

b. None

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PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit No.:	Description of Exhibit:	Form 10-Q Page No.:
3(ii)	Bylaws of First Merchants Corporation, as most recently amended on July 25, 2006	32
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	42
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002	43
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	44

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SIGNATURES

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

First Merchants Corporation

(Registrant)

Date: November 8, 2006

by /s/ Michael L. Cox

Michael L. Cox
President and
Chief Executive Officer
(Principal Executive Officer)

Date: November 8, 2006

by /s/ Mark K. Hardwick

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

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INDEX TO EXHIBITS

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(a)3. Exhibits:

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18 U.S.C. Section 1350, as
Adopted Pursuant to Section
906 of the Sarbanes-Oxley
Act of 2002

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EXHIBIT-3(ii)

BYLAWS OF
FIRST MERCHANTS CORPORATION

Following are the Bylaws, amended and restated as of February 8, 2005, of First Merchants Corporation (hereinafter referred to as the "Corporation"), a corporation existing pursuant to the provisions of the Indiana Business Corporation Law, as amended (hereinafter referred to as the "Act"):

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 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.

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,

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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.

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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 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.

Section 7. Transfer of Shares. The shares of capital stock of the

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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.

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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

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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 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.

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

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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.

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(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.

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

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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 twelve (12) 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, each class shall have four (4) Directors. No decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director.

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 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.

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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

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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, 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

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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.

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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.

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 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

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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.

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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 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

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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.

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 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.

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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

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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,

- (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.

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.

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

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.

EXHIBIT-31.1

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

CERTIFICATION

I, Michael L. Cox, 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

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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;
 - (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 8, 2006

by /s/ Michael L. Cox

Michael L. Cox
President and
Chief Executive Officer
(Principal Executive Officer)

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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;
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

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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 8, 2006

by: /s/Mark K. Hardwick

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

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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, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael L. Cox, 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 8, 2006

by /s/ Michael L. Cox

Michael L. Cox
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

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"Corporation") on Form 10-Q for the period ending September 30, 2006 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 8, 2006

by /s/ Mark K. Hardwick

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

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