

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2002

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 office)

(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

As of July 31, 2002, there were 15,475,208 outstanding common shares, without par value, of the registrant.

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX

Page No.

PART I. Financial information:

Item 1.	Financial Statements:	
	Consolidated Condensed Balance Sheets.....	3
	Consolidated Condensed Statements of Income.....	4
	Consolidated Condensed Statements of Comprehensive Income.....	5
	Consolidated Condensed Statements of Stockholders' Equity.....	6
	Consolidated Condensed Statements of Cash Flows.....	7
	Notes to Consolidated Condensed Financial Statements.....	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.....	25

PART II. Other Information:

Item 1.	Legal Proceedings.....	26
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Item 2.	Changes in Securities and Use of Proceeds.....	26
Item 3.	Defaults Upon Senior Securities.....	26
Item 4.	Submission of Matters to a Vote of Security Holders.....	26
Item 5.	Other Information.....	26
Item 6.	Exhibits and Reports of Form 8-K.....	27
Signatures.....		30
Certifications.....		30
Exhibit Index.....		31

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CONSOLIDATED CONDENSED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	June 30, 2002	December 31, 2001
	-----	-----
	(Unaudited)	
ASSETS:		
Cash and due from banks	\$ 93,420	\$ 68,743
Federal funds sold	43,587	34,285
	-----	-----
Cash and cash equivalents	137,007	103,028
Interest-bearing deposits.....	14,577	3,871
Investment securities available for sale	350,207	231,668
Investment securities held to maturity	10,869	8,654
Mortgage loans held for sale.....	6,518	307
Loans, net of allowance for loan losses of \$21,963 and \$15,141.	1,945,896	1,344,445
Premises and equipment	39,292	27,684
Federal Reserve and Federal Home Loan Bank Stock.....	11,036	8,350
Interest receivable	17,701	12,024
Goodwill	85,511	26,081
Core deposit intangibles	21,111	6,096
Cash surrender value of life insurance.....	13,976	6,470
Other assets	10,283	8,357
	-----	-----
Total assets	\$ 2,663,984	\$ 1,787,035
	=====	=====
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$ 259,353	\$ 186,987
Interest-bearing	1,797,188	1,234,264
	-----	-----
Total deposits	2,056,541	1,421,251
Borrowings	337,525	174,404
Interest payable	7,248	5,488
Other liabilities.....	11,240	6,764
	-----	-----
Total liabilities	2,412,554	1,607,907
STOCKHOLDERS' EQUITY:		
Perferred stock, no-par value:		
Authorized and unissued - 500,000 shares		
Common Stock, \$.125 stated value:		
Authorized --- 50,000,000 shares		
Issued and outstanding - 15,437,655 and 12,670,307 shares....		
	1,930	1,584
Additional paid-in capital	114,160	50,642
Retained earnings	131,222	124,304
Accumulated other comprehensive income	4,118	2,598
	-----	-----
Total stockholders' equity	251,430	179,128
	-----	-----
Total liabilities and stockholders' equity .	\$ 2,663,984	\$ 1,787,035
	=====	=====

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q
 CONSOLIDATED CONDENSED STATEMENTS OF INCOME
 (Dollars in thousands, except per share amounts)
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Interest Income:				
Loans receivable				
Taxable	\$34,875	\$24,980	\$ 59,142	\$50,170
Tax exempt	126	112	234	204
Investment securities				
Taxable	2,641	2,777	4,544	6,316
Tax exempt	1,670	1,024	2,657	2,051
Federal funds sold	84	206	265	295
Deposits with financial institutions	84	10	106	20
Federal Reserve and Federal Home Loan Bank stock	198	158	321	299
	-----	-----	-----	-----
Total interest income	39,678	29,267	67,269	59,355
	-----	-----	-----	-----
Interest expense:				
Deposits	10,842	11,446	19,070	24,147
Borrowings	3,754	2,551	5,739	5,248
	-----	-----	-----	-----
Total interest expense	14,596	13,997	24,809	29,395
	-----	-----	-----	-----
Net Interest Income	25,082	15,270	42,460	29,960
Provision for loan losses	1,284	695	2,476	1,348
	-----	-----	-----	-----
Net Interest Income After Provision for Loan Losses	23,798	14,575	39,984	28,612
	-----	-----	-----	-----
Other Income:				
Net realized gains on sales of available-for-sale securities.	290		408	
Other income	6,761	4,617	11,807	9,011
	-----	-----	-----	-----
Total other income	7,051	4,617	12,215	9,011
Total other expenses	18,938	10,505	31,942	20,979
	-----	-----	-----	-----
Income before income tax	11,911	8,687	20,257	16,644
Income tax expense	3,971	3,113	6,844	5,964
	-----	-----	-----	-----
Net Income	\$ 7,940	\$ 5,574	\$13,413	\$10,680
	=====	=====	=====	=====
Per share:				
Diluted Cash Earnings(1).....	\$.52	\$.49	\$.95	\$.93
Basic .....	.52	.46	.95	.88
Diluted .....	.51	.46	.94	.88
Dividends .....	.23	.23	.46	.46

(1) Net income excluding goodwill, core deposit and other intangible assets amortization.

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

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

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Net Income.....	\$ 7,940	\$ 5,574	\$13,413	\$10,680
Other comprehensive income, net of tax:				
Unrealized gains on securities available for sale:				
Unrealized holding gains arising during the period, net of				
income tax expense of \$1,991, \$41, \$1,176, and \$1,228.....	2,987	62	1,764	1,843
Less: Reclassification adjustment for gains included				
in net income, net of income tax expense of \$116 and \$163.....	174		245	
	-----	-----	-----	-----
	2,813	62	1,519	1,843
	-----	-----	-----	-----
Comprehensive income.....	\$ 10,753	\$ 5,636	\$14,932	\$12,523
	=====	=====	=====	=====

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

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

	2002	2001
	-----	-----
Balances, January 1	\$ 179,128	\$ 156,063
Net income	13,413	10,680
Cash dividends	(6,494)	(5,294)
Other comprehensive income, net of tax.....	1,519	1,843
Stock issued under dividend reinvestment and stock purchase plan	449	373
Stock options exercised	160	92
Stock redeemed	(4,296)	(4,492)
Issuance of stock in acquisitions.....	67,551	-----
	-----	-----
Balances, June 30	\$ 251,430	\$ 159,265
	=====	=====

See notes to consolidated condensed financial statements

FIRST MERCHANTS CORPORATION

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

	Six Months Ended June 30,	
	2002	2001
Cash Flows From Operating Activities:		
Net income.....	\$ 13,413	\$ 10,680
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses.....	2,476	1,348
Depreciation and amortization.....	2,996	2,124
Securities amortization, net.....	149	(173)
Securities gains, net.....	(408)	
Gain on sale of premises and equipment.....		(64)
Mortgage loans originated for sale.....	(35,457)	(6,942)
Proceeds from sales of mortgage loans.....	36,805	6,132
Change in interest receivable.....	408	1,398
Change in interest payable.....	(89)	(31)
Other adjustments.....	(2,366)	(2,206)
Net cash provided by operating activities.....	\$ 17,927	\$ 12,266
Cash Flows From Investing Activities:		
Net change in interest-bearing deposits.....	(280)	(377)
Purchases of		
Securities available for sale.....	(86,970)	(10,761)
Proceeds from maturities of		
Securities available for sale.....	63,281	57,182
Securities held to maturity.....	1,562	2,707
Proceeds from sales of		
Securities available for sale.....	8,724	
Net change in loans.....	(59,888)	(36,746)
Net cash paid in acquisitions.....	(12,532)	
Purchases of premises and equipment.....	(3,104)	(706)
Proceeds from sale of fixed assets.....		156
Net cash provided (used) by investing activities.....	(89,207)	11,455

(continued)

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

	Six Months Ended June 30,	
	2002	2001
Cash Flows From Financing Activities:		
Net change in		
Demand and savings deposits.....	\$ 938	\$ 4,460
Certificates of deposit and other time deposits.....	27,071	(2,796)
Borrowings.....	87,431	10,851
Cash dividends.....	(6,494)	(5,294)
Stock issued under dividend reinvestment and stock purchase plan.....	449	373
Stock options exercised.....	160	92
Stock repurchased.....	(4,296)	(4,492)
	105,259	3,194
Net Change in Cash and Cash Equivalents.....	33,979	26,915
Cash and Cash Equivalents, January 1.....	103,028	67,463
	\$ 137,007	\$ 94,378
	=====	=====

See notes to consolidated condensed financial statements.

FIRST MERCHANTS CORPORATION

FORM 10-Q

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

NOTE 1. General

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 for the change in method of accounting or adoption of accounting pronouncements discussed more fully in Note 2. 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, 2001 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 period are not necessarily indicative of the results to be expected for the year.

NOTE 2. Accounting Matters

ACCOUNTING FOR A BUSINESS COMBINATION

Statement of Financial Accounting Standards ("SFAS") No. 141 requires that most all business combinations should be accounted for using the purchase method of accounting; use of the pooling method is prohibited.

This Statement requires that goodwill be initially recognized as an asset in the financial statement and measured as the excess of the cost of an acquired entity over the net of the amounts assigned to identifiable assets acquired and liabilities assumed. In addition, SFAS No. 141 requires all other intangibles, such as core deposit intangibles for a financial institution, to be identified.

The provisions of Statement No. 141 were effective for any business combination that was initiated after June 30, 2001.

ACCOUNTING FOR GOODWILL

Under the provisions of SFAS No. 142, goodwill should not be amortized but should be tested for impairment at the reporting unit level. Impairment test of goodwill should be done on an annual basis unless events or circumstances indicate impairment has occurred in the interim period. The annual impairment test can be performed at any time during the year as long as the measurement date is used consistently from year to year.

Impairment testing is a two step process, as outlined within the statement. If the fair value of goodwill is less than its carrying value, then the goodwill is deemed impaired and a loss recognized. Any impairment loss recognized as a result of completing the transitional impairment test should be treated as a change in accounting principle and recognized in the first interim period financial statements.

The Corporation adopted these new accounting rules on January 1, 2002. As a result, the Corporation will not amortize the goodwill it has recorded, but will make an annual assessment of any impairment in goodwill and, if necessary, recognize an impairment loss at that time. The Corporation had goodwill of \$85,511,000 at June 30, 2002 and identified no impairment loss.

FIRST MERCHANTS CORPORATION

FORM 10-Q

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

NOTE 3. Business Combinations

On April 1, 2002, the Corporation acquired 100% of the outstanding stock of Lafayette Bancorporation, the holding company of Lafayette Bank and Trust Company, Lafayette, Indiana ("Lafayette"). Lafayette is a state chartered bank with branches located in central Indiana. Lafayette Bancorporation was merged into the Corporation, and Lafayette maintained its state charter as a subsidiary of First Merchants Corporation. The Corporation issued approximately 2,773,059 shares of its common stock at a cost of \$23.48 per share and approximately \$50,867,000 in cash to complete the transaction. As a result of the acquisition, the Corporation will have an opportunity to increase its customer base and continue to increase its market share. The purchase had a recorded acquisition price of \$115,978,000, including goodwill of \$57,893,000 none of which is deductible for tax purposes. Additionally, core deposit intangibles totaling \$15,458,000 were recognized and will be amortized over 10 years using the 150% declining balance method.

The combination was accounted for under the purchase method of accounting. All assets and liabilities were recorded at their fair values as of April 1, 2002. The purchase accounting adjustments will be amortized over the life of the respective asset or liability. Lafayette's results of operations are included in the Corporation's consolidated income statement beginning April 1, 2002. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Investments.....	\$104,717
Loans.....	552,016
Premises and equipment.....	10,447
Core deposit intangibles.....	15,458
Goodwill.....	57,893
Other.....	64,490

Total assets acquired.....	805,021

Deposits.....	607,281
Other.....	81,762

Total liabilities acquired.....	689,043

Net assets acquired.....	\$115,978

The following proforma disclosures, including the effect of the purchase accounting adjustments, depict the results of operations as though the merger had taken place at the beginning of each period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Net Interest Income.....	\$25,082	\$20,742	\$48,201	\$40,526
Net Income.....	7,940	6,988	13,493	13,336
Per Share - combined:				
Basic Net Income.....	.52	.52	.87	.90
Diluted Net Income.....	.51	.52	.86	.89

Effective January 1, 2002, the Corporation acquired Delaware County Abstract Company, Inc. and Beebe & Smith Title Insurance Company, Inc., which were merged into Indiana Title Insurance Company, a wholly-owned subsidiary of the Corporation. The title insurance operations were subsequently contributed to Indiana Title Insurance Company, LLC in which the Corporation has a 52.12% ownership interest. This acquisition was deemed to be an immaterial acquisition.

FIRST MERCHANTS CORPORATION

FORM 10-Q

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

NOTE 4. Investment Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at June 30, 2002				
U.S. Treasury	\$ 125			\$ 125
Federal agencies.....	36,553	\$ 705		37,258
State and municipal	148,511	3,627	\$ (30)	152,108
Mortgage-backed securities	128,581	2,709	(28)	131,262
Other asset-backed securities.....	9,058	98		9,156
Corporate obligations.....	13,079	379		13,458
Marketable equity securities.....	6,933	14	(107)	6,840
	-----	-----	-----	-----
Total available for sale	342,840	7,532	(165)	350,207
	-----	-----	-----	-----
Held to maturity at June 30, 2002				
State and municipal.....	10,702	407	(5)	11,104
Mortgage-backed securities.....	167			167
	-----	-----	-----	-----
Total held to maturity	10,869	407	(5)	11,271
	-----	-----	-----	-----
Total investment securities ..	\$353,709	\$ 7,939	\$ (170)	\$361,478
	=====	=====	=====	=====

FIRST MERCHANTS CORPORATION

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale at December 31, 2001				
U.S. Treasury	\$ 124			\$ 124
Federal agencies	30,808	\$ 767	\$ (2)	31,573
State and municipal	74,776	1,644	(215)	76,205
Mortgage-backed securities	100,811	1,710	(1)	102,520
Other asset-backed securities	10,116	167		10,283
Corporate obligations	3,498	116		3,614
Marketable equity securities	7,472		(123)	7,349
	-----	-----	-----	-----
Total available for sale	227,605	4,404	(341)	231,668
	-----	-----	-----	-----
Held to maturity at December 31, 2001				
State and municipal	8,426	166	(58)	8,534
Mortgage-backed securities	228			228
	-----	-----	-----	-----
Total held to maturity	8,654	166	(58)	8,762
	-----	-----	-----	-----
Total investment securities	\$236,259	\$ 4,570	\$ (399)	\$240,430
	=====	=====	=====	=====

FIRST MERCHANTS CORPORATION

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

NOTE 5. Loans and Allowance

	June 30, 2002 ----	December 31, 2001 ----
Loans:		
Commercial and industrial loans	\$ 380,097	\$ 301,962
Agricultural production financing and other loans to farmers	86,585	29,645
Real estate loans:		
Construction	123,251	58,316
Commercial and farmland	449,845	230,233
Residential	693,784	544,028
Individuals' loans for household and other personal expenditures	213,712	179,325
Other loans	20,585	16,077
	-----	-----
Allowance for loan losses	1,967,859	1,359,586
	(21,963)	(15,141)
	-----	-----
Total Loans	\$ 1,945,896	\$ 1,344,445
	=====	=====
	Six Months Ended June 30	
	2002	2001
	-----	-----
Allowance for loan losses:		
Balances, January 1	\$ 15,141	\$ 12,454
Allowance acquired in acquisition	6,902	
Provision for losses	2,476	1,348
Recoveries on loans	613	292
Loans charged off	(3,169)	(1,589)
	-----	-----
Balances, June 30	\$ 21,963	\$ 12,505
	=====	=====

FIRST MERCHANTS CORPORATION

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

NOTE 6. Net Income Per Share

	Three Months Ended June 30,					
	2002			2001		
	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:						
Net income available to common stockholders.....	\$ 7,940	15,530,474	\$.52	\$ 5,574	12,024,871	\$.46
Effect of dilutive stock options.....		157,973			80,302	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions.....	\$ 7,940	15,688,447	\$.51	\$ 5,574	12,105,173	\$.46

Options to purchase 12,285 and 188,078 shares for the three months ended June 30, 2002 and 2001 were not included in the earnings per share calculation because the exercise price exceeded the average market price.

	Six Months Ended June 30,					
	2002			2001		
	Income	Weighted-Average Shares	Per Share Amount	Income	Weighted-Average Shares	Per Share Amount
Basic net income per share:						
Net income available to common stockholders.....	\$ 13,413	14,162,023	\$.95	\$ 10,680	12,101,016	\$.88
Effect of dilutive stock options.....		136,971			82,069	
Diluted net income per share:						
Net income available to common stockholders and assumed conversions.....	\$ 13,413	14,298,994	\$.94	\$ 10,680	12,183,085	\$.88

Options to purchase 75,598 and 108,489 shares for the six months ended June 30, 2002 and 2001 were not included in the earnings per share calculation because the exercise price exceeded the average market price.

FIRST MERCHANTS CORPORATION

FORM 10-Q

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

Note 7. Cumulative Trust Preferred Securities

On April 12, 2002, the Corporation and First Merchants Capital Trust I (the "Trust") entered into an Underwriting Agreement with Stifel, Nicolaus & Company, Incorporated and RBC Dain Rauscher Inc. for themselves and as co-representatives for several other underwriters (the "Underwriting Agreement"). On April 17, 2002 and pursuant to the Underwriting Agreement, the Trust issued 1,850,000 8.75% Cumulative Trust Preferred Securities (liquidation amount \$25 per Preferred Security) (the "Preferred Securities") with an aggregate liquidation value of \$46,250,000. On April 23, 2002 and pursuant to the Underwriting Agreement, the Trust issued an additional 277,500 Preferred Securities with an aggregate liquidation value of \$6,937,500 to cover over-allotments. The proceeds from the sale of the Preferred Securities were invested by the Trust in the Corporation's 8.75% Junior Subordinated Debentures due June 30, 2032 (the "Debentures"). The proceeds from the issuance of the Debentures were used by the Corporation to fund a portion of the cash consideration payable to the shareholders of Lafayette Bancorporation in connection with the acquisition referenced in Note 3. The Preferred Securities are recorded as borrowings in the Corporation's consolidated June 30, 2002, balance sheet.

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

Forward-Looking Statements

The Corporation from time to time includes forward-looking statements in its oral and written communication. The Corporation 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. The Corporation intends 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 the Corporation is including this statement for purposes of these safe harbor provisions. Forward-looking statements can often be identified by the use of words like "estimate," "project," "intend," "anticipate," "expect" and similar expressions. These forward-looking statements include:

- * statements of the Corporation's goals, intentions and expectations;
- * statements regarding the Corporation's business plan and growth strategies;
- * statements regarding the asset quality of the Corporation's loan and investment portfolios; and
- * estimates of the Corporation's 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 the Corporation's net interest margin, asset valuations and expense expectations;
- * adverse changes in the Indiana economy, which might affect the Corporation's business prospects and could cause credit-related losses and expenses;
- * adverse developments in the Corporation's loan and investment portfolios;
- * competitive factors in the banking industry, such as the trend towards consolidation in the Corporation's market; and
- * changes in the banking legislation or the regulatory requirements of federal and state agencies applicable to bank holding companies and banks like the Corporation's affiliate banks.

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

Critical Accounting Policy

Certain policies are important to the portrayal of the Corporation's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management believes that its critical accounting policy includes determining the allowance for loan losses, ("ALL"). The Critical Accounting Policy 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.

Allowance for Loan Losses

The ALL is a significant estimate that can and does change based on management's assumptions about specific borrowers and applicable economic and environmental conditions, among other factors. The ALL is maintained to absorb losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the probable estimated losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of chargeoffs, net of recoveries. The Corporation's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances for identified problem loans, and the unallocated allowance.

The formula allowance is calculated by applying loss factors to outstanding loans and certain unused commitments, in each case based on the internal risk grade of such loans, pools of loans or commitments. Changes in risk grades of both performing and nonperforming loans affect the amount of the formula allowance. Loss factors are based on our historical loss experience and may be adjusted for significant factors that, in management's judgement, affect the collectibility of the portfolio as of the evaluation date.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a credit that management believes indicate the probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance.

The unallocated allowance is based upon management's evaluation of various conditions, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific credits. The conditions evaluated in connection with the unallocated allowance may include existing general economic and business conditions affecting the Banks' key lending areas, credit quality trends, collateral values, loan volumes and concentrations, seasoning of the loan portfolio, specific industry conditions within portfolio segments, recent loss experience in particular segments of the portfolio, duration of the current business cycle, bank regulatory examination results, and findings of an independent third party conducting reviews of the loan portfolio.

Results of Operations

Net income for the three months ended June 30, 2002, equaled \$7,940,000, compared to \$5,574,000 earned in the same period of 2001. Diluted earnings per share were \$.51 an increase of \$.05 over the \$.46 reported for the second quarter 2002.

Net income for the six months ended June 30, 2002, equaled \$13,413,000, compared to \$10,680,000 during the same period in 2001. Diluted earnings per share were \$.94, a 6.8% increase over \$.88 in 2001.

Annualized returns on average assets and average stockholders' equity for six months ended June 30, 2002 were 1.24 percent and 12.49 percent, respectively, compared with 1.34 percent and 13.51 percent for the same period of 2001.

FIRST MERCHANTS CORPORATION

FORM 10-Q

Capital

The Corporation's capital continues to exceed regulatory minimums and management believes that its capital levels continue to be a distinct advantage in the competitive environment in which the Corporation operates.

The Corporation's Tier I capital to average assets ratio was 8.7 percent at year-end 2001 and 7.9 percent at June 30, 2002. At June 30, 2002, the Corporation had a Tier I risk-based capital ratio of 10.1 percent and total risk-based capital ratio of 11.3 percent. Regulatory capital guidelines require a Tier I risk-based capital ratio of 4.0 percent and a total risk-based capital ratio of 8.0 percent. Banks with Tier I risk-based capital ratios of 6.0 percent and total risk-based capital ratios of 10.0 percent are considered "well capitalized."

Asset Quality/Provision for Loan Losses

Asset quality has been a major factor in the Corporation's ability to generate consistent profit improvement. 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 independent loan review provided by an outside accounting firm. The evaluation takes into consideration identified credit problems, as well as the possibility of losses inherent in the loan portfolio that cannot be specifically identified.

The following table summarizes the non-accrual, contractually past due 90 days or more other than non-accruing and restructured loans for the Corporation.

(Dollars in Thousands)	June 30, 2002	December 31, 2001
Non-accrual loans	\$10,911	\$ 6,327
Loans contractually past due 90 days Or more other than nonaccruing	6,030	4,828
Restructured loans	2,771	3,511
	-----	-----
Total	\$19,712	\$14,666
	=====	=====

At June 30, 2002, non-performing loans totaled \$19,712,000, an increase of \$5,046,000 from December 31, 2001. This increase was primarily due to the addition of \$5,015,000 in non-performing loans related to the acquisition of Lafayette Bancorporation.

At June 30, 2002, impaired loans totaled \$28,785,000. In addition, an allowance for losses was not deemed necessary for impaired loans totaling \$12,593,000, but an allowance of \$5,943,000 was recorded for the remaining balance of impaired loans of \$16,192,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for the second quarter ended June 30, 2002 was \$28,722,000. After consideration of an additional \$12,000,000 of impaired loans as of June 30, 2002, due to the acquisition of Lafayette Bancorporation, the Corporation's impaired loans decreased by \$4,700,000 from year end 2001.

At December 31, 2001, impaired loans totaled \$21,161,000. In addition, an allowance for losses was not deemed necessary for impaired loans totaling \$10,780,000, but an allowance of \$3,251,000 was recorded for the remaining balance of impaired loans of \$10,381,000 and is included in the Corporation's allowance for loan losses. The average balance of impaired loans for 2001 was \$22,327,000.

At June 30, 2002, the allowance for loan losses increased by \$6,800,000, to \$21,963,000, from year end 2001. The increase was primarily due to the allowance acquired in the acquisition of Lafayette Bancorporation, which totaled \$6,902,000. As a percent of loans, the allowance was 1.11 percent, which remains unchanged from the 1.11 percent at year end 2001.

FIRST MERCHANTS CORPORATION

FORM 10-Q

The six month 2002 provision of \$2,476,000 was up \$1,128,000 from \$1,348,000 for the same period in 2001. Net charge offs amounted to \$2,556,000 during the period, an increase of \$1,259,000 from \$1,297,000 for the same period in 2001. The increased provision has helped improve the allowance to total loans by 8 basis points over the same period of 2001, increasing the total to 1.11% at June 30, 2002.

	Six Months Ended June 30,	
	2002	2001
	-----	-----
	(Dollars in Thousands)	
Balance at beginning of period	\$15,141	\$12,454
Chargeoffs	3,169	1,589
Recoveries	613	292
Net chargeoffs	2,556	1,297
Provision for loan losses	2,476	1,348
Allowance acquired in acquisition.....	6,902	
Balance at end of period	\$21,963	\$12,505
	=====	=====
Ratio of net chargeoffs during the period to average loans outstanding during the period .....	.31%(1)	.20%(1)

(1) First six months annualized

Liquidity, Interest Sensitivity, and Disclosures About Market Risk

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

It is the objective of the Corporation to monitor and manage risk exposure to net interest income caused by changes in interest rates. It is the goal of the Corporation's Asset/Liability function to provide optimum and stable net interest income. To accomplish this, management uses two asset liability tools. GAP/Interest Rate Sensitivity Reports and Net Interest Income Simulation Modeling are both constructed, presented, and monitored quarterly.

Management believes that the Corporation's liquidity and interest sensitivity position at June 30, 2002, remained adequate to meet the Corporation's primary goal of achieving optimum interest margins while avoiding undue interest rate risk.

FIRST MERCHANTS CORPORATION

FORM 10-Q

The Corporation places its greatest credence in net interest income simulation modeling. The GAP/Interest Rate Sensitivity Report is believed by the Corporation's 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. The Corporation's 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 management's view of future market movements. Rather, these are intended to provide a measure of the degree of volatility interest rate movements may introduce into the earnings of the Corporation.

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 management's 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 management's best estimate of expected future behavior.

The comparative rising and falling scenarios for the period ended June 30, 2003 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 management in the base simulation for the period ended June 30, 2003 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(200)Basis Points
Federal Funds	200	(75)
One-Year T-Bill	200	(92)
Two-Year T-Bill	200	(182)
Interest Checking	100	-
MMIA Savings	200	(100)
Money Market Index	200	(100)
CD's	200	(200)
FHLB Advances	200	(200)

Results for the base, rising and falling interest rate scenarios are listed below, based upon the Corporation's rate sensitive assets at June 30, 2002. 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
Net Interest Income (dollars in thousands)	\$103,628	\$101,068	\$101,015
Variance from base		\$ (2,560)	\$ (2,613)
Percent of change from base		(2.47)%	(2.52)%

FIRST MERCHANTS CORPORATION

FORM 10-Q

The comparative rising and falling scenarios for the year ended December 31, 2002 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 management in the base simulation for the year ended December 31, 2002 are as follows:

Driver Rates	RISING	FALLING
Prime	200 Basis Points	(150)Basis Points
Federal Funds	200	(100)
One-Year T-Bill	200	(100)
Two-Year T-Bill	200	(100)
Interest Checking	100	(25)
MMIA Savings	75	(25)
Money Market Index	200	(100)
CD's	170	(130)
FHLB Advances	200	(100)

Results for the base, rising and falling interest rate scenarios are listed below, based upon the Corporation's rate sensitive assets at December 31, 2001. 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
Net Interest Income (dollars in thousands)	\$ 74,029	\$ 74,356	\$ 71,540
Variance from base		\$ 327	\$ (2,489)
Percent of change from base		.44%	(3.36)%

FIRST MERCHANTS CORPORATION

FORM 10-Q

Earning Assets

The following table presents the earning asset mix as of June 30, 2002, and December 31, 2001.

Loans grew by over \$614.5 million from December 31, 2001 to June 30, 2002, while investment securities increased by \$120.7 million during the same period. Farmland related real estate loans increased \$219.6 million. Residential real estate loans increased by \$149.8 million, while commercial and industrial loans increased by more than \$78.1 million.

EARNING ASSETS (Dollars in Millions)	June 30, 2002	December 31, 2001
Federal funds sold and interest-bearing deposits	\$ 58.2	\$ 38.2
Investment securities available for sale	350.2	231.7
Investment securities held to maturity	10.9	8.7
Mortgage loans held for sale	6.5	.3
Loans	1,967.9	1,359.6
Federal Reserve and Federal Home Loan Bank stock	11.0	8.4
	-----	-----
Total	\$ 2,404.7	\$ 1,646.9
	=====	=====

Deposits and Borrowings

The following table presents the level of deposits and borrowed funds (Federal funds purchased, repurchase agreements, U.S. Treasury demand notes, Federal Home Loan Bank advances, trust preferred securities and other borrowed funds) at December 31, 2001 and June 30, 2002.

(Dollars in Millions)	June 30, 2002	December 31, 2001
Deposits	\$ 2,056.5	\$ 1,421.3
Securities sold under repurchase agreements.....	87.2	45.6
Other short-term borrowings		16.8
Federal Home Loan Bank advances	171.0	103.5
Trust preferred securities.....	53.2	
Other borrowed funds	26.2	8.5

The Corporation has continued to leverage its 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. Trust preferred securities are classified as Tier I Capital when computing risk based capital ratios due to the long-term nature of the investment. The interest rate risk is included as part of the Corporation's interest simulation discussed in Management's Discussion and Analysis under the heading Liquidity, Interest Sensitivity, and Disclosures about Market Risk.

FIRST MERCHANTS CORPORATION

FORM 10-Q

Net Interest Income

Net Interest Income is the primary source of the Corporation's earnings. It is a function of net interest margin and the level of average earning assets. The table below presents the Corporation's asset yields, interest expense, and net interest income as a percent of average earning assets for the three and six months ended June 30, 2002 and 2001.

Annualized net interest income (FTE) for the six months ended June 30, 2002 increased by \$40,671,000, or 64.0 percent over the same period in 2001, due to an increase in average earning assets of over \$823 million. For the same period interest income and interest expense, as a percent of average earning assets, decreased 99 basis points and 123 basis points respectively.

(Dollars in Thousands)

	Interest Income (FTE) as a Percent of Average Earning Assets	Interest Expense as a Percent of Average Earning Assets	Net Interest Income (FTE) as a Percent of Average Earning Assets	Average Earning Assets	Annualized Net Interest Income On a Fully Taxable Equivalent Basis
For the three months Ended June 30,					
2002	7.02%	2.52%	4.50%	\$2,315,288	\$104,194
2001	8.01%	3.75%	4.26%	\$1,492,034	\$ 63,523

(Dollars in Thousands)

	Interest Income (FTE) as a Percent of Average Earning Assets	Interest Expense as a Percent of Average Earning Assets	Net Interest Income (FTE) as a Percent of Average Earning Assets	Average Earning Assets	Annualized Net Interest Income On a Fully Taxable Equivalent Basis
For the six months Ended June 30,					
2002	6.96%	2.51%	4.45%	\$1,977,412	\$88,032
2001	8.12%	3.94%	4.18%	\$1,491,688	\$62,348

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.

FIRST MERCHANTS CORPORATION

FORM 10-Q

Other Income

The Corporation has placed emphasis on the growth of non-interest income in recent years by offering a wide range of fee-based services. Fee schedules are regularly reviewed by a pricing committee to ensure that the products and services offered by the Corporation are priced to be competitive and profitable.

Other income in the second quarter of 2002 exceeded the same quarter in the prior year by \$2,144,000, or 46.4 percent.

Two major areas account for most of the increase:

1. Service charges on deposit accounts increased \$1,216,000 or 90.3 percent due to increased number of accounts and price adjustments. Also, a portion of the additional service charge income is related to the July 1, 2001, acquisition of Frances Slocum Bank and Trust Company ("Frances Slocum") and the April 1, 2002 acquisition of Lafayette Bank and Trust Company ("Lafayette").
2. Revenues from fiduciary activities increased \$312,000 or 21.7 percent due primarily to additional fees received related to the acquisition of Lafayette Bank and Trust Company.

Other income in the first six months of 2002 exceeded the same period in the prior year by \$2,796,000 or 31.0 percent.

Two major areas account for most of the increase:

1. Service charges on deposit accounts increased \$1,406,000 or 54.0 percent due to increased number of accounts and price adjustments. Also, a portion of the additional service charge income is related to the July 1, 2001, acquisition of Frances Slocum and the April 1, 2002 acquisition of Lafayette.
2. Net realized gains on sales of available-for-sale securities totaled \$408,000 in the first six months of 2002. No sales occurred during the same period in the prior year.

Other Expenses

Total other expenses represent non-interest operating expenses of the Corporation. Total other expense during the second quarter of 2002 exceeded the same period of the prior year by \$8,433,000, or 80.3 percent.

Three major areas account for most of the increase:

1. Salaries and benefit expense grew \$4,644,000 or 80.4 percent, due to normal salary increases, staff additions and additional salary cost related to the July 1, 2001, acquisition of Frances Slocum and the April 1, 2002 acquisition of Lafayette.
2. Core deposit intangible amortization increased by \$742,000, due to utilization of the purchase method of accounting for the Corporation related to the July 1, 2001, acquisition of Frances Slocum and the April 1, 2002 acquisition of Lafayette.
3. Equipment expense increased by \$818,000 or 76.2%, primarily related to the July 1, 2001, acquisition of Frances Slocum and the April 1, 2002 acquisition of Lafayette.

Total other expenses during the first six months in 2002 exceeded the same period of the prior year by \$10,963,000, or 52.3 percent.

Three major areas account for most of the increase:

1. Salaries and benefit expense grew \$6,051,000, or 52.0 percent, due to normal salary increases, staff additions and additional salary cost related to the July 1, 2001, acquisition of Frances Slocum and the April 1, 2002 acquisition of Lafayette.
2. Telephone expenses increased by \$666,000 or 124.3%, primarily due to additional telephone costs related to the acquisition of Frances Slocum and Lafayette. In addition, increased service contract charges related to greater usage of telephone lines contributed to this increase.
3. Equipment expenses increased by \$826,000 or 38.6%, primarily related to the July 1, 2001, acquisition of Frances Slocum and the April 1, 2002 acquisition of Lafayette.

FIRST MERCHANTS CORPORATION

FORM 10-Q

Income Taxes

Income tax expense, for the six months ended June 30, 2002, increased by \$880,000 over the same period in 2001. The effective tax rate was 33.8 and 35.8 percent for the 2002 and 2001 periods. The 2.0 percent decrease is primarily a result of the April 1, 2002 acquisition of Lafayette Bank and Trust Company.

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 the Corporation, 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 heading Liquidity, Interest Sensitivity, and Disclosures About Market Risk.

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

- a. None
- b. None
- c. None
- d. None

Item 3. Defaults Upon Senior Securities

None

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

At the April 11th, 2002, Annual Meeting of Shareholders of the Corporation, the following matters were submitted to a vote of the shareholders.

Election of Directors - The following directors were elected for a term of three years.

	Vote Count		
	Vote For	Vote Against	Vote Abstained
Stefan S. Anderson	10,637,676.2044	0	90,378.7953
Jerry M. Ault	10,586,023.8919	0	142,031.1078
Dr. Blaine A. Brownell	10,669,550.8737	0	58,504.1260
Thomas B. Clark	10,585,954.8343	0	142,100.1654
Dr. John E. Worthen	10,665,772.9551	0	62,282.0446

The broker non-vote shares totaled 381,277 shares.

Item 5. Other Information

None

FIRST MERCHANTS CORPORATION

FORM 10-Q

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit No.:	Description of Exhibit:	Form 10-Q Page No.:
3(ii)	Bylaws of First Merchants Corporation, as most recently amended on May 14, 2002	32
4.1	Certificate of Trust of First Merchants Capital Trust I dated December 12, 2001	*
4.2	Amended and Restated Trust Agreement of First Merchants Capital Trust I dated April 17, 2002	*
4.3	Agreement as to Expenses and Liabilities dated April 17, 2002	*
4.4	Cumulative Trust Preferred Security Certificate	*
4.5	Preferred Securities Guarantee Agreement dated April 17, 2002	*
4.6	Indenture dated April 17, 2002	*
4.7	First Supplemental Indenture dated April 17, 2002	*
4.8	8.75% Junior Subordinated Debenture due June 30, 2002	*
10	First Merchants Corporation Change of Control Agreement with Mark K. Hardwick dated May 14, 2002	41

*Incorporated by reference to Registrant's Current Report on Form 8-K filed April 19, 2002.

Item 6. Exhibits and Reports on Form 8-K continued

b. Reports on Form 8-K

A report on Form 8-K, dated April 1, 2002, was filed on April 2, 2002 under report item number 2, announcing that the Corporation had acquired all of the assets of Lafayette Bancorporation through the merger of Lafayette Bancorporation with and into the Corporation. Lafayette Bancorporation's principal asset was the shares of common stock of its wholly-owned subsidiary, Lafayette Bank and Trust Company.

Under report items number 7, the following financial statements of Lafayette Bancorporation and exhibits were included in this Form 8-K.

(a) Financial Statements of Business Acquired.

- (i) Report of Independent Auditors.
- (ii) Consolidated Balance Sheets as of December 31, 2001 and 2000.
- (iii) Consolidated Statements of Income for the Years Ended December 31, 2001, 2000 and 1999.
- (iv) Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2001, 2000 and 1999.
- (v) Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999.
- (vi) Notes to Consolidated Financial Statements.

(b) Pro Forma Financial Information.

- (i) Unaudited Pro Forma Combined Consolidated Financial Information Including Balance Sheet as of December 31, 2001, Statement of Income for the Year Ended December 31, 2001 and the notes thereto.

(c) Exhibits.

- (2.1) Agreement of Reorganization and Merger by and between First Merchants Corporation and Lafayette Bancorporation dated October 14, 2001 (the "Merger Agreement"). (Incorporated by reference to Exhibit 2 to First Merchants Corporation's Current Report on Form 8-K filed October 15, 2001.)
- (2.2) Undertaking by First Merchants Corporation to furnish supplementally the Disclosure Letters referenced in the Merger Agreement.
- (23) Consent of Crowe, Chizek and Company LLP
- (99) Press release dated April 1, 2002

PART II. OTHER INFORMATION

A report on Form 8-K dated April 12, 2002, was filed on April 19, 2002, under report item number 5, announcing that the Corporation and First Merchants Capital Trust I (the "Trust") entered into an Underwriting Agreement with Stifel, Nicolaus & Company, Incorporated and RBC Dain Rauscher Inc. for themselves and as co-representatives of the several underwriters named in Schedule I thereto (the "Underwriting Agreement"). On April 17, 2002 and pursuant to the Underwriting Agreement, the Trust issued 1,850,000 8.75% Cumulative Trust Preferred Securities (liquidation amount \$25 per Preferred Security) (the "Preferred Securities") with an aggregate liquidation value of \$46,250,000. The proceeds from the sale of the Preferred Securities were invested by the Trust in the Corporation's 8.75% Junior Subordinated Debentures due June 30, 2032 (the "Debentures"). The proceeds from the issuance of the Debentures were used by the Corporation to fund a portion of the cash consideration payable to the shareholders of Lafayette Bancorporation as part of the Corporation's April 1, 2002 acquisition of Lafayette Bank and Trust Company.

In addition, under report item number 7, the following exhibits were attached to this form 8-K.

Exhibits.

- 1.1 Underwriting Agreement dated April 12, 2002
- 4.1 Certificate of Trust of First Merchants Capital Trust I dated December 12, 2001
- 4.2 Amended and Restated Trust Agreement of First Merchants Capital Trust I dated April 17, 2002
- 4.3 Agreement as to Expenses and Liabilities dated April 17, 2002
- 4.4 Cumulative Trust Preferred Security Certificate
- 4.5 Preferred Securities Guarantee Agreement dated April 17, 2002
- 4.6 Indenture dated April 17, 2002
- 4.7 First Supplemental Indenture dated April 17, 2002
- 4.8 8.75% Junior Subordinated Debenture due June 30, 2032

FIRST MERCHANTS CORPORATION

FORM 10-Q

SIGNATURES AND CERTIFICATIONS

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 08/14/02

by /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

Date 08/14/02

by /s/ Mark K. Hardwick

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

CERTIFICATION 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 10Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Michael L. Cox, President & 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 08/14/02

by /s/ Michael L. Cox

Michael L. Cox
President and Chief Executive Officer

CERTIFICATION 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 10Q for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Mark K. Hardwick, Senior 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 08/14/02

by /s/ Mark K. Hardwick

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

FIRST MERCHANTS CORPORATION

FORM 10-Q

INDEX TO EXHIBITS

INDEX TO EXHIBITS

(a)3. Exhibits:

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4.8	8.75% Junior Subordinated Debenture due June 30, 2002	*
10	First Merchants Corporation Change of Control Agreement with Mark K. Hardwick dated May 14, 2002	41

*Incorporated by reference to Registrant's Current Report on Form 8-K filed April 19, 2002.

FIRST MERCHANTS CORPORATION

FORM 10-Q

Exhibit 3 (ii)

BYLAWS OF
FIRST MERCHANTS CORPORATION

Following are the Bylaws, as amended, 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

Section 1. Name. The name of the Corporation is First Merchants Corporation.

Section 2. Principal Office and Resident Agent. The post office address of the principal office of the Corporation is 200 East Jackson Street, Muncie, Indiana 47305, and the name of its Resident Agent in charge of such office is Larry R. Helms.

Section 3. 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 AFirst Merchants Corporation@ and about the lower periphery thereof the word AMuncie, Indiana@. In the center of the seal shall appear the word ASeal@.

ARTICLE II

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, 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. Certificate for Shares. Each 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, with the seal of the Corporation thereto affixed, 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 certificates 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.

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 Corporation shall be transferable only on the books of the Corporation upon surrender of the certificate or certificates representing the same, properly endorsed by the registered holder or by his duly authorized attorney or accompanied by proper evidence of succession, assignment or authority to transfer.

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 his legal representative, to give the Corporation a bond in such sum and in such form as it may direct to indemnify against any claim that may be made against the Corporation with respect to the certificates alleged to have been lost, stolen or destroyed or the issuance of such new certificate. The Corporation, in its discretion, may authorize the issuance of such new certificates without any bond when in its judgment it is proper to do so.

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

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

ARTICLE IV

Meetings of Shareholders

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

Section 2. Annual Meeting. The annual meeting of shareholders for the election of Directors, and for the transaction of such other business as may properly come before the meeting, shall be held on the third Tuesday in April of each year, if such day is not a holiday, and if a holiday, then on the first following day that is not a holiday, or in lieu of such day may be held on such other day as the Board of Directors may set by resolution, but not later than the end of the fifth month following the close of the fiscal year of the Corporation. Failure to hold the annual meeting at the designated time shall not work any forfeiture or a dissolution of the Corporation, and shall not affect otherwise valid corporate acts.

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 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 his 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 in writing by the shareholder or a duly authorized attorney in fact and bearing a date not more than eleven (11) months prior to its execution, unless a longer time is expressly provided therein.

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

Section 7. Voting List. The Corporation or its transfer agent shall make, at least five (5) days before each election of directors, a complete list of the shareholders entitled by the Articles of Incorporation, as now or hereafter amended, to vote at such election, arranged in alphabetical order, with the address and number of shares so entitled to vote held by each, which list shall be on file at the principal office of the Corporation and subject to inspection by any shareholder. Such list shall be produced and kept open at the time and place of election and subject to the inspection of any shareholder during the holding of such election. The original stock register or transfer book, or a duplicate thereof kept in the State of Indiana, shall be the only evidence as to who are the shareholders entitled to examine such list or the stock ledger or transfer book or to vote at any meeting of the shareholders.

Section 8. Fixing of Record Date to Determine Shareholders Entitled to Vote. The Board of Directors may prescribe a period not exceeding fifty (50) days prior to meetings of the shareholders, during which no transfer of stock on the books of the Corporation may be made; or, in lieu of prohibiting the transfer of stock may fix a day and hour not more than fifty (50) days prior to the holding of any meeting of shareholders as the time as of which shareholders entitled to notice of, and to vote at, such meeting shall be determined, and all persons who are holders of record of voting stock at such time, and no others, shall be entitled to notice of, and to vote at, such meeting. In the absence of such a determination, such date shall be ten (10) days prior to the date of such meeting.

Section 9. Nominations for Director. Nominations for election to the Board of Directors may be made by the Board of Directors or by a shareholder of any outstanding class of capital stock of the Corporation entitled to vote for the election of directors. Nominations, other than those made by or on behalf of the existing management of the Corporation, shall be made in writing and shall be delivered or mailed to the President of the Corporation not less than ten (10) days nor more than fifty (50) days prior to any meeting of shareholders called for the election of Directors. Such notification shall contain the following information to the extent known to the notifying shareholder: (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the total number of shares of capital stock of the Corporation that will be voted for each proposed nominee; (d) the name and residence address of the notifying shareholder; and (e) the number of shares of capital stock of the Corporation owned by the notifying shareholder. Nominations not made in accordance herewith may, in his discretion, be disregarded by the chairman of the meeting, and upon his instructions, the vote tellers may disregard all votes cast for each such nominee.

ARTICLE V

Board of Directors

Section 1. Election, Number and Term of Office. The number of Directors of the Corporation to be elected by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors shall be sixteen (16) unless changed by amendment of this Section by a two-thirds (2/3) vote of the Board of Directors.

The Directors shall be divided into three (3) classes as nearly equal in number as possible, all Directors to serve three (3) year terms except as provided in the third paragraph of this Section. One class shall be elected at each annual meeting of the shareholders, by the holders of the shares of stock entitled by the Articles of Incorporation to elect Directors. Unless the number of Directors is changed by amendment of this Section, Classes I and II shall each have five (5) Directors, and Class III shall have six (6) 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.

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

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

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

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President, or by not less than a majority of the members of the Board of Directors. Notice of the time and place, either within or without the State of Indiana, of a special meeting shall be served upon or telephoned to each Director at least twenty-four (24) hours, or mailed, telegraphed or cabled to each Director at his 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) his dissent shall be affirmatively stated by him 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) he 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 his 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 day and hour not exceeding fifty (50) days preceding the date fixed for payment of any dividend or for the delivery of evidence of rights, or for the distribution of other corporate benefits, or for a determination of shareholders for any other purpose, as a record time for the determination of the shareholders entitled to receive any such dividend, rights or distribution, 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 or 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 are identical or that some or all of the Directors or officers, or both, are also directors or officers of such other corporation.

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

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

During the intervals between meetings of the Board of Directors, any executive committee so appointed, unless expressly provided otherwise by law or these Bylaws, shall have and may exercise all the authority of the Board of Directors, including, but not limited to, the authority to issue and sell or approve any contract to issue or sell, securities or shares of the Corporation or designate the terms of a series or class of securities or shares of the Corporation. The terms which may be affixed by the executive committee include, but are not limited to, the price, dividend rate, and provisions of redemption, a sinking fund, conversion, voting, or preferential rights or other features of securities or class or series of a class of shares. Such committee may have full power to adopt a final resolution which sets forth these terms and to authorize a statement of such terms to be filed with the Secretary of State. However, such executive committee shall not have the authority to declare dividends or distributions, amend the Articles of Incorporation or the Bylaws, approve a plan of merger or consolidation, even if such plan does not require shareholder approval, reduce earned or capital surplus, authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors, or recommend to the shareholders a voluntary dissolution of the Corporation or a revocation thereof.

The Board of Directors may, in its discretion, constitute and appoint other committees, in addition to an executive committee, to assist in the management and control of the affairs of the Corporation, with responsibilities and powers appropriate to the nature of the several committees and as provided by the Board of Directors in the resolution of appointment or in subsequent resolutions and directives. Such committees may include, but are not limited to, 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. However, where deemed in the best interests of the Corporation, to facilitate communication and utilize special expertise, directors of the Corporation's affiliated banks and corporations may be appointed to serve on such committees, as Affiliate representatives. Such affiliate representatives may attend and participate fully in meetings of such committees, but they shall not be entitled to vote on any matter presented to the meeting nor shall they be counted for the purpose of determining whether a quorum exists. The calling and holding of meetings of any such committee and its method of procedure shall be determined by the Board of Directors. To the extent permitted by law, a member of the Board of Directors, and any affiliate representative, serving on any such committee shall not be liable for any action taken by such committee if he has acted in good faith and in a manner he reasonably believes is 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, Vice Chairman of the Board, a President, one (1) or more 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. Any two (2) or more offices may be held by the same person, except the duties of President and Secretary shall not be performed by the same person. No person shall be eligible for the office of Chairman of the Board, Vice Chairman of the Board, or President who is not a Director of the Corporation.

Section 2. Election and Term of Office. The principal officers of the Corporation shall be chosen annually by the Board of Directors at the annual meeting thereof. Each such officer shall hold office until his successor shall have been duly chosen and qualified, or until his death, or until he 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 of whom shall hold office for such period, may be removed with or without cause, have such authority, and perform such duties as the President, 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 any such subordinate officers, agents or employees.

Section 5. Resignations. Any officer may resign at any time by giving written notice to the Chairman of the Board of Directors, or to the President, or to 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, who shall be chosen from among the Directors, shall preside at all meetings of shareholders and at all meetings of the Board of Directors. He shall perform such other duties and have such other powers as, from time to time, may be assigned to him by the Board of Directors.

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

Section 9. President. The President, who shall be chosen from among the Directors, shall be the chief executive officer of the Corporation and as such shall have general supervision of the affairs of the Corporation, subject to the control of the Board of Directors. He shall be an ex officio member of all standing committees. In the absence or disability of the Chairman of the Board and Vice Chairman of the Board, the President shall preside at all meetings of shareholders and at all meetings of the Board of Directors. Subject to the control and direction of the Board of Directors, the President may enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation. In general, he shall perform all duties and have all powers incident to the office of President, as herein defined, and all such other duties and powers as, from time to time, may be assigned to him by the Board of Directors.

Section 10. Vice Presidents. The Vice Presidents in the order of their seniority, unless otherwise determined by the Board of Directors, shall, in the absence or disability of the President and Executive Vice President, perform the duties and exercise the powers of the President. They shall perform such other duties and have such other powers as the President or the Board of Directors may from time to time assign.

Section 11. 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. He shall upon request exhibit at all reasonable times his 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 him by the President or the Board of Directors. The Treasurer shall give such bond, if any, for the faithful discharge of his duties as the Board of Directors may require.

Section 12. 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 him by the President or the Board of Directors.

Section 13. Salaries. The salaries of the principal officers shall be fixed from time to time by the Board of Directors, and the salaries of any subordinate officers may be fixed by the President.

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

ARTICLE VII

Indemnification

Section 1. Indemnification of Directors, Officers, Employees

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

The terms Liability@ and Aexpense@ 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 him 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 he 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 him and incurred by him in any capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him 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.

FIRST MERCHANTS CORPORATION

Exhibit 10

CHANGE OF CONTROL AGREEMENT

This Agreement is made and entered into as of May 14, 2002, by and between First Merchants Corporation, an Indiana corporation (hereinafter referred to as "Corporation"), with its principal office located at 200 East Jackson Street, Muncie, Indiana, and Mark K. Hardwick (hereinafter referred to as 'Executive'), of Muncie, Indiana.

WHEREAS, the Corporation considers the continuance of proficient and experienced management to be essential to protecting and enhancing the best interests of the Corporation and its shareholders; and

WHEREAS, the Corporation desires to assure the continued services of the Executive on behalf of the Corporation; and

WHEREAS, the Corporation recognizes that if faced with a proposal for a Change of Control, as hereinafter defined, the Executive will have a significant role in helping the Board of Directors assess the options and advising the Board of Directors on what is in the best interests of the Corporation and its shareholders; and it is necessary for the Executive to be able to provide this advice and counsel without being influenced by the uncertainties of the Executive's own situation; and

WHEREAS, the Corporation desires to provide fair and reasonable benefits to the Executive on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and undertakings herein contained and the continued employment of the Executive by the Corporation as its Senior Vice President and Chief Financial Officer, the Corporation and the Executive, each intending to be legally bound, covenant and agree as follows:

1. Term of Agreement.

This Agreement shall continue in effect through December 31, 2003; provided, however, that commencing on December 31, 2003 and each December 31 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than October 31, 2003 or October 31 immediately preceding any December 31 thereafter, the Corporation shall have given the Executive notice that it does not wish to extend this Agreement; and provided further, that if a Change of Control of the Corporation, as defined in Section 2, shall have occurred during the original or extended term of this Agreement, this Agreement shall continue in effect for a period of not less than twenty-four (24) months beyond the month in which such Change of Control occurred.

2. Definitions.

For purposes of this Agreement, the following definitions shall apply:

- A. Cause: "Cause" shall mean:
- (1) professional incompetence;
 - (2) willful misconduct;
 - (3) personal dishonesty;
 - (4) breach of fiduciary duty involving personal profit;
 - (5) intentional failure to perform stated duties;
 - (6) willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease and desist orders; and
 - (7) any intentional material breach of any term, condition or covenant of this Agreement.

- (B) Change of Control: "Change of Control" shall mean:
- (1) any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 ["Exchange Act"]), other than the Corporation, is or becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act) directly or indirectly of securities of the Corporation representing twenty-five percent (25%) or more of the combined voting power of the Corporation's then outstanding securities;
 - (2) persons constituting a majority of the Board of Directors of the Corporation were not directors of the Corporation for at least the twenty-four (24) preceding months;
 - (3) the stockholders of the Corporation approve a merger or consolidation of the Corporation with any other corporation, other than (a) a merger or consolidation which would result in the voting securities of the Corporation outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Corporation or such surviving entity outstanding immediately after such a merger or consolidation, or (b) a merger or consolidation effected to implement a recapitalization of the Corporation (or similar transaction) in which no person acquires fifty percent (50%) or more of the combined voting power of the Corporation's then outstanding securities; or
 - (4) the stockholders of the Corporation approve a plan of complete liquidation of the Corporation or an agreement for the sale or disposition by the Corporation of all or substantially all of the Corporation's assets.
- (C) Date of Termination: "Date of Termination" shall mean the date stated in the Notice of Termination (as hereinafter defined) or thirty (30) days from the date of delivery of such notice, as hereinafter defined, whichever comes first.
- (D) Disability: "Disability" shall mean the definition of such term as used in the disability policy then in effect for the Corporation, and a determination of full disability by the Corporation; provided that in the event there is no disability insurance then in force, "disability" shall mean incapacity due to physical or mental illness which will have caused the Executive to have been unable to perform his duties with the Corporation on a full time basis for one hundred eighty (180) consecutive calendar days.
- (E) Notice of Termination: "Notice of Termination" shall mean a written notice, communicated to the other parties hereto, which shall indicate the specific termination provisions of this Agreement relied upon and set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provisions so indicated.
- (F) Retirement: "Retirement" shall mean termination of employment by the Executive in accordance with the Corporation's normal retirement policy generally applicable to its salaried employees in effect at the time of a Change of Control.

3. Termination.

- (A) General. If any of the events described in Section 2 constituting a Change in Control of the Corporation shall have occurred, the Executive shall be entitled to the benefits described in Section 4 upon the subsequent termination of the Executive's employment during the term of this Agreement, unless such termination is (a) because of the death or Disability of the Executive, (b) by the Corporation for Cause, or (c) by the Executive other than on account of Constructive Termination (as hereinafter defined).
- (B) If, following a Change of Control, the Executive's employment shall be terminated for Cause, the Corporation shall pay him his salary through the Date of Termination at the rate in effect on the date of the Notice of Termination, and the Corporation shall have no further obligations under this Agreement. If, following a Change of Control, the Executive's employment shall be terminated as a result of death or Disability, compensation to the Executive shall be made pursuant to the Corporation's then existing policies on death or Disability, and the Corporation shall have no further obligations under this Agreement. If, following a Change of Control, the Executive's employment is terminated by and at the request of the Executive as a result of Retirement, compensation to the Executive shall be made pursuant to the Corporation's normal retirement policy generally applicable to its salaried employees at the time of the Change of Control, and the Corporation shall have no further obligations under this Agreement.
- (C) Constructive Termination. The Executive shall be entitled to terminate his employment upon the occurrence of Constructive Termination. For purposes of this Agreement, "Constructive Termination" shall mean, without the Executive's express written consent, the occurrence, after a Change of Control of the Corporation, of any of the following circumstances:
- (1) the assignment to the Executive of any duties inconsistent (unless in the nature of a promotion) with the position in the Corporation that the Executive held immediately prior to the Change of Control of the Corporation, or a significant adverse reduction or alteration in the nature or status of the Executive's position, duties or responsibilities or the conditions of the Executive's employment from those in effect immediately prior to such Change of Control;
 - (2) a reduction in the Executive's annual base salary, as in effect immediately prior to the Change of Control of the Corporation or as the same may be adjusted from time to time, except for across-the-board salary reductions similarly affecting all management personnel of the Corporation;
 - (3) the Corporation requires the Executive to be relocated anywhere other than its offices in Muncie, Indiana;
 - (4) the taking of any action to deprive the Executive of any material fringe benefit enjoyed by him at the time of the Change of Control, or the failure to provide him with the number of paid vacation days to which he is entitled on the basis of years of service with the Corporation and in accordance with the Corporation's normal vacation policy in effect at the time of the Change of Control;

- (5) the failure to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Corporation's life insurance, medical, health and accident, or disability plans in which the Executive was participating at the time of the Change of Control of the Corporation, or the taking of any action which would directly or indirectly materially reduce any of such benefits; or
- (6) the failure of the Corporation to continue this Agreement in effect, or to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 hereof.

4. Compensation Upon Termination.

Following a Change of Control, if his employment by the Corporation shall be terminated by the Executive on account of Constructive Termination or by the Corporation other than for Cause, death, Disability, or Retirement (by and at the request of the Executive), then the Executive shall be entitled to the benefits provided below:

- (A) No later than the fifth day following the Date of Termination, the Corporation shall pay to the Executive his full base salary through the Date of Termination, at the rate in effect at the time Notice of Termination is given, plus all other amounts to which the Executive is entitled under any incentive, bonus or other compensation plan of the Corporation in effect at the time such payments are due;
- (B) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, no later than the fifth day following the Date of Termination, the Corporation shall pay to the Executive a lump sum severance payment, in cash, equal to two (2.00) times the sum of (a) the Executive's annual base salary rate as in effect on the date of the Notice of Termination, and (b) the largest bonus received by the Executive during the two (2) years immediately preceding the Date of Termination under the Corporation's Management Incentive Plan covering the Executive;
- (C) During the period beginning with the Executive's Date of Termination and continuing until the earlier of (a) the second anniversary of such Date of Termination, or (b) Executive's sixty-fifth (65th) birthday, the Corporation shall arrange to provide the Executive with life, disability, accident and health insurance benefits substantially similar to those which the Executive was receiving immediately prior to the Notice of Termination and shall pay the same percentage of the cost of such benefits as the Corporation was paying on the Executive's behalf on the date of such Notice;
- (D) In lieu of shares of common stock of the Corporation ("Corporation Shares") issuable upon the exercise of outstanding options ("Options"), if any, granted to the Executive under any Corporation stock option plan (which Options shall be cancelled upon the making of the payment referred to below), the Executive shall receive an amount in cash equal to the product of (a) the excess of the higher of the closing price of Corporation Shares as reported on the NASDAQ National Market System, the American Stock Exchange or the New York Stock Exchange, wherever listed, on or nearest the Date of Termination or the highest per share price for Corporation Shares actually paid in connection with any Change of Control of the Corporation, over the per share exercise price of each Option held by the Executive (whether or not then fully exercisable), times (b) the number of Corporation Shares covered by each such Option;

- (E) If the payments or benefits, if any, received or to be received by the Executive (whether under this Agreement or under any other plan, arrangement, or agreement between the Executive and the Corporation), in connection with termination or Constructive Termination of the Executive's employment following a Change of Control, constitute an "excess parachute payment" within the meaning of '280G of the Internal Revenue Code ("Code"), the Corporation shall pay to the Executive, no later than the fifth day following the Date of Termination, an additional amount (as determined by the Corporation's independent public accountants) equal to the excise tax, if any, imposed on the "excess parachute payment" under '4999 of the Code; provided, however, if the amount of such excise tax is finally determined to be more or less than the amount paid to the Executive hereunder, the Corporation (or the Executive if the finally determined amount is less than the original amount paid) shall pay the difference between the amount originally paid and the finally determined amount to the other party no later than the fifth day following the date such final determination is made;
- (F) The Corporation shall pay to the Executive all reasonable legal fees and expenses incurred by the Executive as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any right or benefit provided by this Agreement), unless the decision-maker in any proceeding, contest, or dispute arising hereunder makes a formal finding that the Executive did not have a reasonable basis for instituting such proceeding, contest, or dispute;
- (G) The Corporation shall provide the Executive with individual out-placement services in accordance with the general custom and practice generally accorded to an executive of the Executive's position.

5. Successors; Binding Agreement.

- (A) The Corporation shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Corporation to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform it if no such succession had taken place. Failure of the Corporation to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Corporation in the same amount and on the same terms to which the Executive would be entitled hereunder if the Executive terminates his employment on account of Constructive Termination following a Change of Control of the Corporation, except that for the purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "the Corporation" shall mean the Corporation and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement, by operation of law or otherwise.
- (B) This Agreement shall inure to the benefit of and be enforceable by the Executive and his personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable to the Executive hereunder had the Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the devisee, legatee or other designee or, if there is no such designee, to his estate.

6. Miscellaneous.

No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Corporation. No waiver by either party hereto at the time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Indiana without regard to its conflicts of law principles. All references to a section of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such section. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Corporation under Section 4 shall survive the expiration of the term of this Agreement.

7. Validity.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

8. Counterparts.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

9. Arbitration.

Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of three (3) arbitrators in Muncie, Indiana in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator=s award in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of his right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

10. Entire Agreement.

This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto; and any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and cancelled.

IN WITNESS WHEREOF, the Corporation and the Bank have caused this Agreement to be executed by their duly authorized officers, and the Executive has hereunder subscribed his name, as of the day and year first above written.

"CORPORATION"

"EXECUTIVE"

FIRST MERCHANTS CORPORATION

By _____
Stefan S. Anderson,
Chairman of the Board

By _____
Mark K. Hardwick