FIRST MERCHANTS CORP
Form DEF 14A
February 25, 2004

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [_]

Check the appropriate box:

[_] Preliminary Proxy Statement
[_] Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[_] Definitive Additional Materials
[_] Soliciting Material Under Rule 14a-12

First Merchants Corporation

(Name of Registrant as Specified In Its Charter)

Larry R. Helms

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.
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1) Title of each class of securities to which transaction applies:

Common Stock

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

FIRST MERCHANTS CORPORATION
200 EAST JACKSON STREET
MUNCIE, INDIANA 47305

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 22, 2004

The annual meeting of the shareholders of First Merchants Corporation (the "Corporation") will be held at the Horizon Convention Center, 401 South High Street, Muncie, Indiana 47305, on Thursday, April 22, 2004, at 3:30 p.m. for the following purposes:

(1) To elect four directors, to hold office for a term of three years and until their successors are duly elected and qualified.

(2) To act on a proposal to approve the First Merchants Corporation 2004 Employee Stock Purchase Plan.

(3) To ratify the appointment of the firm of BKD, LLP as the independent public accountants for 2004.

(4) To transact such other business as may properly come before the meeting.

Only those shareholders of record at the close of business on February 13, 2004 shall be entitled to notice of and to vote at the meeting.

By Order of the Board of Directors

Larry R. Helms
Secretary

Muncie, Indiana
March 5, 2004

YOUR VOTE IS IMPORTANT!

YOU ARE URGED TO SUBMIT YOUR PROXY VIA THE TELEPHONE OR INTERNET, OR TO SIGN, DATE AND RETURN YOUR PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE, AS SOON AS POSSIBLE SO THAT YOUR SHARES CAN BE VOTED AT THE MEETING IN ACCORDANCE WITH YOUR INSTRUCTIONS.

March 5, 2004

FIRST MERCHANTS CORPORATION

PROXY STATEMENT FOR
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD APRIL 22, 2004

This Proxy Statement is furnished in connection with the solicitation of the enclosed proxy by and on behalf of the Board of Directors (the "Board") of First Merchants Corporation (the "Corporation") for use at the annual meeting of shareholders of the Corporation to be held April 22, 2004. The distribution of these proxy materials is expected to commence on March 5, 2004.

Please sign, date and return your proxy card or submit your proxy via the telephone or Internet as soon as possible, so that your shares can be voted at the meeting in accordance with your instructions. If you plan to vote by telephone or Internet, you should have your control number, which is imprinted on your proxy card, available when you call or access the web page.

- o To vote by telephone, please call toll-free 1-800-PROXIES (1-800-776-9437) on a touch-tone telephone and follow the instructions.

- o To vote by Internet, please access the web page "www.voteproxy.com" and follow the on-screen instructions.

Similar instructions are included on the enclosed proxy card.

Any shareholder giving a proxy has the right to revoke it any time before it is exercised by giving written notice of revocation to the Secretary received prior to the meeting, by voting again in writing or via the telephone or Internet, or by voting in person at the meeting. The shares represented by proxies will be voted in accordance with the instructions on the proxies. In the absence of specific instructions to the contrary, proxies will be voted for election to the Board of Directors of all nominees listed in Item 1 of the proxy, for approval of the First Merchants Corporation 2004 Employee Stock Purchase Plan, and for ratification of the appointment of BKD, LLP as the Corporation's independent public accountants for 2004. If any director nominee named in this proxy statement shall become unable or declines to serve (an event which the Board does not anticipate), the persons named as proxies will have discretionary authority to vote for a substitute nominee named by the Board, if the Board determines to fill such nominee's position.

VOTING SECURITIES

Only shareholders of record at the close of business on February 13, 2004 will be entitled to notice of and to vote at the annual meeting. 18,535,682 shares of common stock were outstanding and entitled to vote as of February 13, 2004.

Each share of the Corporation's common stock is entitled to one vote. Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. Shareholders do not have a right to cumulate their votes for directors. The affirmative vote of a majority of the shares present and voting at the meeting in person or by proxy is required for approval of all items submitted to the shareholders for their consideration other than the election of directors. The Secretary will count the votes and announce the results of the voting at the meeting. Abstentions will be counted for the purpose of determining whether a quorum is present but for no other purpose. Broker non-votes will not be counted.

The Corporation's subsidiaries held 1,709,268 shares of the Corporation's common stock as of February 13, 2004 in various fiduciary capacities, in regular, nominee or street name accounts, consisting of 9.22% of the Corporation's outstanding shares. Beneficial ownership of shares so held is disclaimed by the Corporation. It is the practice of the respective subsidiaries when holding shares as sole trustee or sole executor to vote the shares but, where shares are held as co-executor or co-trustee, approval is obtained from the co-fiduciary prior to voting.

ELECTION OF DIRECTORS

Four directors will be elected at the annual meeting.

The persons named below have been nominated for election to the Board of Directors, with terms expiring as of the 2007 annual meeting of shareholders. All of the nominees are currently members of the Board.

Those persons nominated as directors include:

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Name and Age	Present Occupation
Class I (Terms expire 2007):	
Michael L. Cox age 59	President and Chief Executive Officer of the Corporation
Norman M. Johnson age 69	Chairman of the Board, The Union County National Bank of Liberty ("Union County"), a wholly owned subsidiary of the Corporation, and retired Executive Vice President of Stein Roe & Farnham, Investment Counsel
Thomas D. McAuliffe(1) age 54	President and Chief Executive Officer, Commerce National Bank ("Commerce"), a wholly owned subsidiary of the Corporation
Robert M. Smitson age 67	Chairman of the Board, Maxon Corporation (Maxon Corporation designs and manufactures specialty industrial combustion systems and valves.)

Those persons named below continue to serve as directors:

Class II (Terms expire 2005)	
Stefan S. Anderson	Chairman of the Board of the Corporation and First

Age 69	Merchants Bank, National Association ("First Merchants"), a wholly owned subsidiary of the Corporation
Frank A. Bracken age 69	Retired attorney, Bingham McHale LLP
Blaine A. Brownell Age 61	CEO, U21pedagogica, Ltd. (U21pedagogica, Ltd. is an international supplier of quality assurance services to higher education)

Name and Age	Present Occupation
Thomas B. Clark age 58	Retired Chairman of the Board, President and Chief Executive Officer, Jarden Corporation (Jarden Corporation manufactures metal and plastic products.)
Class III (Terms expire 2006)	
Roger M. Arwood age 52	Executive Vice President and Chief Operating Officer of the Corporation
James F. Ault age 68	Chairman of the Board, The Madison Community Bank, National Association ("Madison"), a wholly owned subsidiary of the Corporation, and retired executive of General Motors Corporation
Richard A. Boehning(2) age 66	Attorney, Bennett, Boehning & Clary
Barry J. Hudson age 64	Chairman of the Board, First National Bank of Portland ("First National"), a wholly owned subsidiary of the Corporation
Robert T. Jeffares(2) age 68	Retired Executive Vice President and Chief Financial Officer, Great Lakes Chemical Corporation

(1) Under an Agreement of Reorganization and Merger between the Corporation and CNBC Bancorp, the Board appointed Mr. McAuliffe as a member of the Board on April 15, 2003 and agreed to nominate him for election to a full 3-year term as a director at the 2004 annual meeting of shareholders.

(2) Under an Agreement of Reorganization and Merger between the Corporation and Lafayette Bancorporation, the Board appointed Messrs. Boehning and Jeffares as members of the Board on May 14, 2002 and agreed to nominate them for election to full 3-year terms as directors at the 2003 annual meeting of shareholders.

The occupations set forth above have been the principal occupations of the director-nominees and continuing directors during the past 5 years except as follows:

Mr. Anderson was also President of the Corporation from 1982 to 1998 and CEO from 1982 to 1999, and he was President of First Merchants from 1979 to 1996 and CEO from 1979 to 1999. Mr. Arwood was Executive Vice President and Chief Credit Officer of Boatmen's Bank from 1988 until 1997, when he became Executive Vice President, Credit Risk Management, of NationsBank/Bank of America. He joined the Corporation and First Merchants in 2000 and served as Executive Vice President of the Corporation and President and CEO of First Merchants from 2000 to 2002. He became Executive Vice President and COO of the Corporation in 2002. Mr. Ault became Chairman of the Board of Anderson Community Bank when it was formed in 1995, and he became Chairman of the Board of Madison in 1999, when Anderson Community Bank was merged into Pendleton Banking Company to form Madison. Mr. Bracken was Of Counsel with the Bingham Summers Welsh & Spilman LLP law firm from 1994 to 2001. The firm changed its name to Bingham McHale LLP in 2002. Dr. Brownell was Executive Director of the Center for International Programs and Services at the University of Memphis from 1998 to 2000, and he was President of Ball State University from 2000 to 2004. He became CEO of U21pedagogica, Ltd. in

2004. Mr. Clark served as President and CEO of Alltrista Corporation from 1995 to 2001, and as Chairman of the Board from 2000 to 2001. Alltrista Corporation changed its name to Jarden Corporation in 2002. Mr. Cox was President of First Merchants from 1996 to 2000 and CEO from 1999 to 2000. He has served as President of the Corporation since 1998 and as its CEO since 1999. Mr. Hudson has served as Chairman of the Board of First National since 1982, and he was also President of First National from 1982 to 1998 and CEO from 1982 until 2000. Mr. Johnson became Chairman of the Board of Union County in 2002.

Mr. Bracken is also a director of Ball Corporation.

MEETINGS OF THE BOARD

The Board of Directors of the Corporation held 7 meetings during 2003. All of the directors attended at least 75% of the total number of meetings of the Board and the committees on which they served.

COMPENSATION OF DIRECTORS

The directors of the Corporation who are employees of the Corporation or one of its subsidiaries received no separate compensation for their services as directors in 2003, except that, for his services as a director and Chairman of the Board of First National, Mr. Hudson was paid $6,426 in 2003, of which $4,356 was deferred compensation under an insurance-funded deferred compensation plan maintained by First National. The directors of the Corporation who are not employees were paid an annual retainer of $7,600 in 2003, except that Mr. Anderson was paid an annual retainer of $15,000 for his services as Chairman of the Board of Directors of the Corporation. The directors who are not employees also received $600 for each Board meeting and $400 for each committee meeting they attended, except that the Board and committee chairmen received $800 and $600, respectively, for each meeting they attended. Messrs. Anderson and Smitson also serve as directors of First Merchants, for which Mr. Smitson received an annual retainer of $5,000 in 2003 and Mr. Anderson, as Chairman of the First Merchants Board, received an annual retainer of $10,000. They also received $500 for each First Merchants Board meeting they attended, except that Mr. Anderson, as Board Chairman, received $800. Messrs. Anderson and Smitson served on committees of First Merchants and were paid $300 for each committee meeting they attended, except that Mr. Smitson, as Chairman of the First Merchants Executive Committee, received $400 per meeting. For his services as a director and Chairman of the Board of Directors of Madison, Mr. J. F. Ault was paid $375 for each Board meeting and $50 for each committee meeting he attended in 2003. Messrs. Boehning and Jeffares also serve as directors of Lafayette Bank and Trust Company, National Association ("Lafayette"), a wholly owned subsidiary of the Corporation, for which they received a retainer of $19,800 in 2003. Lafayette also provided them life insurance coverage in the amount of $6,000 for these services. For his services as a director and Chairman of the Board of Directors of Union County, Mr. Johnson was paid a retainer of $3,800 and an additional $5,025 for attending Board and committee meetings during 2003. Union County also paid him a bonus of $1,324 and provided him life insurance coverage in the amount of $30,000 for these services.

On July 1, 2003, options were granted under the provisions of the Corporation's 1999 Long-term Equity Incentive Plan to each of the non-employee directors to purchase shares of the Corporation's common stock. Taking into account the 5% common stock dividend that was distributed on September 12, 2003 to shareholders of record at the close of business on August 29, 2003, each option is for 1,157 shares at an option price of $23.46 per share, the market price on the date of the grants.

The Corporation maintains an unfunded deferred compensation plan which gives each director an annual election to defer the receipt of director's fees. Any amounts reflected in a director's account under the plan are credited with interest at a rate equal to First Merchants' 18-month variable rate IRA account rate. Payments commence when the participant is no longer a director of the Corporation or First Merchants. During 2003, one of the Corporation's directors participated in the plan, deferring fees totaling $13,400.

BOARD INDEPENDENCE

The Board has determined that each of the director-nominees and continuing directors is an "independent director," as defined in Marketplace Rule 4200(a)(15) of the Nasdaq Stock Market, Inc. ("Nasdaq"), except for Mr. Cox, the President and Chief Executive Officer of the Corporation, Mr. Arwood, the Executive Vice President and Chief Operating Officer of the Corporation, Mr. Hudson, the Chairman of the Board of First National, and Mr. McAuliffe, the President and Chief Executive Officer of Commerce. All of the members of the Nominating and Governance Committee, the Compensation and Human Resources Committee, and the Audit Committee are "independent directors," as defined in Nasdaq Marketplace Rule 4200(a)(15).

COMMITTEES OF THE BOARD

Nominating and Governance Committee

The Corporation has a Nominating and Governance Committee whose purpose is to seek to ensure continuation of the effectiveness and independence of the Board of Directors. The Committee is responsible for reviewing the credentials of persons suggested as prospective directors, nominating persons to serve as directors and as officers of the Board of Directors, including the slate of directors to be elected each year at the annual meeting of shareholders, making recommendations concerning the size and composition of the Board of Directors, as well as criteria for Board membership, making recommendations concerning the Board's committee structure and makeup, providing for continuing education of the directors and self-assessment of the Board's effectiveness, and overseeing the Corporate-wide Code of Conduct and the Code of Ethics for senior financial officers of the Corporation. The Nominating and Governance Committee's Charter is available in the "Corporate Governance Disclosure" section of the Corporation's web site at www.firstmerchants.com. The members of the Nominating and Governance Committee are Messrs. Clark (Chairman), Ault, Boehning and Smitson. Mr. Anderson serves ex officio on the Committee as Chairman of the Board of the Corporation. The Nominating and Governance Committee met 2 times during 2003.

Identifying and Evaluating Nominees for Directors

The Nominating and Governance Committee is presently developing written criteria for membership on the Board of Directors but has not yet finalized these criteria. The Committee's process for identifying and evaluating nominees is as follows: (a) for incumbent directors whose terms are expiring, it reviews the quality of their prior service to the Corporation, including the nature and extent of their participation in the Corporation's governance and their contributions of management and financial expertise and experience to the Board and the Corporation; and (b) for new director candidates, in addition to their expertise, experience, reputation and stature, it considers whether their skills are complementary to those of existing Board members, whether they will fulfill the Board's needs for management, financial, technological or other expertise, and whether they are likely to have sufficient time to responsibly perform all of their duties as directors. The Nominating and Governance Committee considers candidates coming to its attention through current Board members, search firms, shareholders and other persons. Suggestions for nominees from shareholders are evaluated in the same manner as other nominees. Any shareholder nominations must be submitted in writing and should include the nominee's name and qualifications and be addressed to the Secretary, First Merchants Corporation, 200 East Jackson Street, Muncie, Indiana 47305. There are no nominees for election to the Corporation's Board of Directors at the 2004 annual shareholders' meeting other than directors standing for re-election.

Compensation and Human Resources Committee

The Corporation has a Compensation and Human Resources Committee whose functions are: (a) to review and approve the compensation and benefits to be paid to the executive officers and senior management employees of the Corporation and the chief executive officers of its subsidiaries, and (b) to review and approve the compensation and benefits to be paid to the executive officers and senior management employees and the compensation ranges and benefits for other officers and employees of the Corporation's subsidiaries. The authority to periodically adjust the compensation and benefits of employees, other than executive officers and senior management of the Corporation and the chief executive officers of its subsidiaries, has been delegated by the Committee to the chief executive officers of the subsidiaries. The Compensation and Human Resources Committee is responsible for the administration of the Corporation's incentive compensation and stock plans. The members of the Committee are Messrs. Smitson (Chairman), Anderson, Bracken, Clark and Johnson. The Committee met 3 times during 2003.

Compensation and Human Resources Committee Interlocks and Insider Participation

No member of the Compensation and Human Resources Committee was an officer or employee of the Corporation during 2003. Mr. Anderson was the Chief Executive Officer of the Corporation and First Merchants until his retirement on April 16, 1999.

Compensation and Human Resources Committee Report on Executive Compensation

General Compensation Policy. The Compensation and Human Resources Committee administers the Corporation's executive compensation program, which is intended to provide incentives to executive officers to achieve both current and long-term strategic management goals of the Corporation, with the ultimate objective of achieving a superior return on the shareholders' investment. To this end, the program is comprised of cash and equity-based components which recognize performance as measured against the Corporation's annual and long-term goals as well as performance evaluated in comparison to industry peers. Equity-based compensation, including the Employee Stock Purchase Plan, the Long-term Equity Incentive Plan, and Deferred Stock Units under the Senior Management Incentive Compensation Program, encourages ownership and retention of the Corporation's common stock by key employees, assuring that they have a meaningful stake in the Corporation's continued success and thereby aligning the interests of these employees and shareholders.

The executive compensation program is designed to assist the Corporation in achieving its business objectives by: maintaining a competitive compensation program to attract and retain qualified executives; providing performance-based incentive compensation that is directly related to the Corporation's financial performance and individual contributions to that performance; and linking compensation to factors which affect short-term and long-term stock performance. The manner in which the Committee establishes the compensation and incentives for Mr. Cox, the Corporation's chief executive officer, and the other executive officers listed in the Summary Compensation Table on page 10 is described below.

Cash Compensation. The annual cash compensation paid to the Corporation's executive officers for 2003, consisting of salary and incentive compensation, was determined by the Compensation and Human Resources Committee. The salaries paid to the executive officers named in the Summary Compensation Table for 2003 are shown in the "Salary" column of that Table. These salaries were subjectively determined after consideration of the executive officer's individual responsibilities, performance, experience, the chief executive officer's evaluation of the other executive officers, a review of several measurements of the Corporation's short-term and long-term financial results compared with industry peers, various industry salary surveys, and other factors such as budgetary considerations and inflation rates.

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The incentive compensation paid to the Corporation's executive officers for 2003 was determined under the Senior Management Incentive Compensation Program. This Program incorporates modern incentive plan techniques and executive retention features for the purpose of closely aligning the interests of executives with those of shareholders. Under the Program, at or near the beginning of each calendar year, the Committee assigns each of the Program participants a target bonus for the year that is a percentage of salary. The participant's incentive compensation for the year is based on accomplishment of specific performance levels set forth in the Program. The chief executive officer's and chief operating officer's bonuses depend on meeting targets with respect to the Corporation's operating return on equity and improvements in the Corporation's operating earnings per share and diluted GAAP earnings per share compared to the previous year. The other executive officers' bonuses depend on meeting targets with respect to improvement in the Corporation's operating earnings per share compared to the previous year and accomplishing individual benchmarks as determined by the chief executive officer. In order to avoid wide swings in payouts and to better focus the Program participants on long-term results, the Program provides that 60% of any bonus paid to the participants will be based on current year performance and 40% will be based on the previous year's payout. To further the purpose of executive retention, 2/3 of each participant's bonus is payable to the participant in cash following the end of the calendar year, and the other 1/3 is payable in Deferred Stock Units two years after the bonus is earned (unless the portion payable in Deferred Stock Units is less than $1,000, in which case the entire bonus is payable in cash). When payable, the Deferred Stock Units are valued at an amount equal to the fair market value of the Corporation's common stock on the December 31 preceding the payment date plus accumulated dividends. Payment is made to the participant in cash. The Deferred Stock Units are forfeited if the participant's employment is terminated for cause or is voluntarily terminated by the participant (except on account of retirement, death or disability) prior to the date of payment. The participant may elect to defer payment of all or part of the cash portion of the bonus by filing an election to do so in the manner described in the Program. Deferred amounts will be credited with interest quarterly based on the current 5-year U.S. Treasury Bond rate.

The cash portion of the bonuses for 2003 for the executive officers named in the Summary Compensation Table is set forth in the "Bonus" column of that Table, and the Deferred Stock Unit portion of these bonuses is set forth in the Long-Term Incentive Plan Awards Table on page 12. Cash amounts paid to these executive officers for Deferred Stock Units earned in 2001 are set forth in the "LTIP Payouts" column of the Summary Compensation Table. For 2003, Mr. Cox's target bonus was 45% and Mr. Arwood's was 40% of salary. The target bonuses of Messrs. Connors, Hardwick and Helms were each 30% of salary. None of the executive officers earned bonuses for 2003 based on the return on equity, operating earnings per share, and diluted GAAP earnings per share components of the Program. Messrs. Connors, Hardwick and Helms earned bonuses for 2003 based on accomplishing individual benchmarks as determined by the chief executive officer. The actual 2003 bonus payouts to Messrs. Cox, Arwood, Connors, Hardwick and Helms, based 60% on 2003 performance and 40% on 2002 payouts, were 7.20%, 5.82%, 4.68%, 7.48% and 9.55% of salary, respectively.

Equity-based Compensation. The equity-based compensation paid to the Corporation's executive officers for 2003, in addition to the Deferred Stock Units under the Senior Management Incentive Compensation Program described above, included compensation under the Corporation's Long-term Equity Incentive Plan and 1999 Employee Stock Purchase Plan.

The Long-term Equity Incentive Plan is briefly described in the paragraph on page 10 immediately preceding the Option Grants in Last Fiscal Year Table. The number of shares for which the Compensation and Human Resources Committee awarded options under the Plan to the executive officers named in the Summary Compensation Table during 2003 is set forth in the "Number of Securities Underlying Options Granted" column of the Option Grants in Last Fiscal Year Table.

The 1999 Employee Stock Purchase Plan generally provides that full-time employees of the Corporation or a participating subsidiary with more than 6 months of service may elect, prior to the offering period (July 1 to June 30), to purchase common shares of the Corporation at a price equal to 85% of the lesser of the market price of the stock at the beginning of the period and the market price at the end of the period. For the offering period ending June 30, 2003, Messrs. Cox, Arwood, Connors, Hardwick and Helms purchased 761, 0, 0, 222 and 126 shares, respectively, under the 1999 Employee Stock Purchase Plan. The 1999 Employee Stock Purchase Plan covers 5 offering periods expiring on June 30, 2004.

Other Compensation. The executive officers are also covered by medical and retirement plans that are generally applicable to full-time employees of the Corporation and its subsidiaries. The retirement plans covering each of the executive officers are the First Merchants Corporation Retirement Pension Plan, a qualified defined benefit pension plan (described on page 12 in the section entitled "Compensation of Executive Officers -- Pension Plans"), and the First Merchants Corporation Retirement Savings Plan, a qualified Internal Revenue Code ss.401(k) defined contribution pension plan (referred to in note (2) to the Summary Compensation Table). Mr. Cox and Mr. Arwood are also covered by the First Merchants Corporation Supplemental Executive Retirement Plan, a nonqualified SERP plan (described in the section entitled "Compensation of

Executive Officers -- Pension Plans").

The above report is submitted by:

FIRST MERCHANTS CORPORATION COMPENSATION
AND HUMAN RESOURCES COMMITTEE
Robert M. Smitson, Chairman
Stefan S. Anderson
Frank A. Bracken
Thomas B. Clark
Norman M. Johnson

Audit Committee

The Corporation has an Audit Committee which assists the Board (1) in its oversight of the Corporation's accounting and financial reporting principles and policies and internal accounting and disclosure controls and procedures, (2) in its oversight and supervision of the Corporation's internal audit function, (3) in its oversight of the certification of the Corporation's quarterly and annual financial statements and disclosures and assessment of internal disclosure controls by the Corporation's CEO and CFO, (4) in its oversight of the Corporation's consolidated financial statements and the independent external audit thereof, and (5) in evaluating the independence of the external auditors. The Audit Committee recommends the selection of the independent auditor for approval by the Board and ratification by the shareholders, and it approves the independent auditor's compensation. In 2003 the Board of Directors amended the written charter for the Audit Committee. A copy of the amended charter is attached as Appendix A. The members of the Audit Committee are Messrs. Ault (Chairman), Anderson, Brownell, Clark, Jeffares and Smitson. John E. Worthen, who is retiring as a director of the Corporation as of the 2004 annual meeting, was also a member of the Audit Committee during 2003. In accordance with Section 407 of the Sarbanes-Oxley Act, the Corporation has identified Mr. Jeffares as the "Audit Committee financial expert." The Audit Committee met 5 times during 2003.

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Audit Committee Report

The Audit Committee reports as follows:

(1) The Committee has reviewed and discussed the audited financial statements of the Corporation for 2003 with the Corporation's management.

(2) The Committee has discussed with BKD, LLP, the Corporation's independent auditors for 2003, the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU ss.380), as modified or supplemented.

(3) The Committee has received the written disclosures and the letter from BKD, LLP required by Independence Standards Board Standard No. 1 (Independent Discussions with Audit Committees), as modified or supplemented, and has discussed with BKD, LLP its independence from the Corporation.

(4) Based on the review and discussions referred to in paragraphs (1) through (3) above, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements of the Corporation be included in the Corporation's Annual Report on Form 10-K

for the 2003 fiscal year for filing with the Securities and Exchange Commission.

The above report is submitted by:

FIRST MERCHANTS CORPORATION AUDIT COMMITTEE
James F. Ault, Chairman
Stefan S. Anderson
Blaine A. Brownell
Thomas B. Clark
Robert T. Jeffares
Robert M. Smitson
John E. Worthen

COMPENSATION OF EXECUTIVE OFFICERS

The tables in this section of the Proxy Statement contain information concerning the compensation of the Corporation's Chief Executive Officer and its 4 most highly compensated executive officers other than the Chief Executive Officer as of the Corporation's most recent fiscal year-end, December 31, 2003. The information in these tables concerning stock options has been adjusted to give retroactive effect to the 5% common stock dividends that were distributed on September 24, 2001, September 13, 2002, and September 12, 2003 to shareholders of record at the close of business on September 3, 2001, August 30, 2002, and August 29, 2003, respectively.

Summary Compensation Table

The following table contains information concerning the compensation paid by the Corporation and its subsidiaries for the years 2001, 2002 and 2003 to the Corporation's Chief Executive Officer and its 4 most highly compensated executive officers other than the Chief Executive Officer.

SUMMARY COMPENSATION TABLE

	Annual Compensation	Long Term Compensation	
		Awards	Payouts