

FARMERS & MERCHANTS BANCORP
Form 10-Q
November 06, 2009

UNITED STATES
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 September 30, 2009
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: 000-26099

FARMERS & MERCHANTS BANCORP
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

94-3327828
(I.R.S. Employer Identification No.)

111 W. Pine Street, Lodi, California
(Address of principal Executive offices)

95240
(Zip Code)

Registrant's telephone number, including area code (209) 367-2300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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(Do not check if a smaller reporting company)

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

Number of shares of common stock of the registrant: Par value \$0.01, authorized 20,000,000 shares; issued and
outstanding 781,405 as of October 31, 2009.

FARMERS & MERCHANTS BANCORP

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Consolidated Balance Sheets (Unaudited)

(in thousands)	Sept. 30, 2009	December 31, 2008	Sept. 30, 2008
Assets			
Cash and Cash Equivalents:			
Cash and Due From Banks	\$27,954	\$46,774	\$51,900
Federal Funds Sold	1,982	14,000	28,300
Total Cash and Cash Equivalents	29,936	60,774	80,200
Investment Securities:			
Available-for-Sale	362,350	291,839	211,222
Held-to-Maturity	69,016	71,890	105,413
Total Investment Securities	431,366	363,729	316,635
Loans			
Loans	1,215,173	1,177,364	1,161,506
Less: Allowance for Loan Losses	25,818	20,034	18,486
Loans, Net	1,189,355	1,157,330	1,143,020
Premises and Equipment, Net	24,469	21,653	22,039
Bank Owned Life Insurance	43,317	41,965	41,537
Interest Receivable and Other Assets	46,468	38,986	49,811
Total Assets	\$1,764,911	\$1,684,437	\$1,653,242
Liabilities			
Deposits:			
Demand	\$283,169	\$319,318	\$281,873
Interest Bearing Transaction	162,454	146,879	135,529
Savings	433,613	353,055	356,206
Time	617,793	613,450	627,095
Total Deposits	1,497,029	1,432,702	1,400,703
Securities Sold Under Agreement to Repurchase	60,000	60,000	60,000
Federal Home Loan Bank Advances	663	703	716
Subordinated Debentures	10,310	10,310	10,310
Interest Payable and Other Liabilities	31,175	24,177	28,394
Total Liabilities	1,599,177	1,527,892	1,500,123
Shareholders' Equity			
Preferred Stock	-	-	-
Common Stock	8	8	8
Additional Paid-In Capital	76,386	78,527	80,508
Retained Earnings	83,549	72,350	71,921
Accumulated Other Comprehensive Gain	5,791	5,660	682
Total Shareholders' Equity	165,734	156,545	153,119
Total Liabilities & Shareholders' Equity	\$1,764,911	1,684,437	\$1,653,242

The accompanying notes are an integral part of these unaudited consolidated financial statements

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FARMERS & MERCHANTS BANCORP

Consolidated Statements of Income (Unaudited)

(in thousands except per share data)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2009	2008	2009	2008
Interest Income				
Interest and Fees on Loans	\$18,931	\$19,294	\$56,238	\$58,837
Interest on Federal Funds Sold and Securities Purchased				
Under Agreements to Resell	10	137	78	181
Interest on Investment Securities:				
Taxable	3,412	3,122	10,373	8,434
Tax-Exempt	722	757	2,201	2,293
Total Interest Income	23,075	23,310	68,890	69,745
Interest Expense				
Deposits	3,164	5,349	11,436	17,541
Borrowed Funds	552	552	1,637	1,219
Subordinated Debentures	90	149	315	491
Total Interest Expense	3,806	6,050	13,388	19,251
Net Interest Income	19,269	17,260	55,502	50,494
Provision for Loan Losses	2,215	765	10,345	5,370
Net Interest Income After Provision for Loan Losses	17,054	16,495	45,157	45,124
Non-Interest Income				
Service Charges on Deposit Accounts	1,840	1,866	5,183	5,381
Net Gain on Investment Securities	510	1	2,982	536
Credit Card Merchant Fees	0	20	0	1,109
Increase in Cash Surrender Value of Life Insurance	444	464	1,352	1,356
ATM Fees	423	321	1,209	1,072
Net Gain (Loss) on Deferred Compensation Investments	790	(1,113)	1,197	(1,316)
Other	522	904	1,853	5,152
Total Non-Interest Income	4,529	2,463	13,776	13,290
Non-Interest Expense				
Salaries & Employee Benefits	7,237	6,405	21,637	20,211
Net Gain (Loss) on Deferred Compensation Investments	790	(1,113)	1,197	(1,316)
Occupancy	719	665	2,098	2,009
Equipment	567	862	1,917	1,985
Credit Card Merchant Expense	-	0	0	828
ORE Holding Costs	603	564	1,269	583
FDIC Insurance	195	139	1,996	396
Other	1,566	1,773	5,056	5,239
Total Non-Interest Expense	11,677	9,295	35,170	29,935
Income Before Income Taxes	9,906	9,663	23,763	28,479
Provision for Income Taxes	3,728	3,606	8,575	10,696
Net Income	\$6,178	\$6,057	\$15,188	\$17,783
Earnings Per Share	\$7.90	\$7.63	\$19.39	\$22.34

The accompanying notes are an integral part of these unaudited consolidated financial statements

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FARMERS & MERCHANTS BANCORP

Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2009	2008	2009	2008
Net Income	\$6,178	\$6,057	\$15,188	\$17,783
Other Comprehensive Loss -				
Unrealized Gains on Securities:				
Unrealized holding gains arising during the period, net of income tax provision of \$1,436 and \$894 for the quarters ended September 30, 2009 and 2008, respectively, and of \$1,349 and \$7 for the nine months ended September 30, 2009 and 2008, respectively.	1,979	1,232	1,859	10
Reclassification adjustment for realized (gains) included in net income, net of related income tax effects of \$(215) and \$0 for the quarters ended September 30, 2009 and 2008, respectively, and of \$(1,254) and \$(225) for the nine months ended September 30, 2009 and 2008, respectively.	(295)	(1)	(1,728)	(311)
Total Other Comprehensive Gain (Loss)	1,684	1,231	131	(301)
Comprehensive Income	\$7,862	\$7,288	\$15,319	\$17,482

The accompanying notes are an integral part of these unaudited consolidated financial statements

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FARMERS & MERCHANTS BANCORP

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(in thousands except share data)

	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2007	800,112	\$8	\$84,437	\$57,990	\$ 983	\$ 143,418
Net Income		-	-	17,783	-	17,783
Cash Dividends Declared on Common Stock		-	-	(3,852)	-	(3,852)
Repurchase of Stock	(8,590)	-	(3,929)	-	-	(3,929)
Change in Net Unrealized Gain on Securities Available for Sale		-	-	-	(301)	(301)
Balance, September 30, 2008	791,522	\$8	\$80,508	\$71,921	\$ 682	\$ 153,119
Balance, December 31, 2008	786,960	\$8	\$78,527	\$72,350	\$ 5,660	\$ 156,545
Net Income		-	-	15,188	-	15,188
Cash Dividends Declared on Common Stock		-	-	(3,989)	-	(3,989)
Repurchase of Stock	(5,555)	-	(2,141)	-	-	(2,141)
Change in Net Unrealized Gain on Securities Available for Sale		-	-	-	131	131
Balance, September 30, 2009	781,405	\$8	\$76,386	\$83,549	\$ 5,791	\$ 165,734

The accompanying notes are an integral part of these unaudited consolidated financial statements

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FARMERS & MERCHANTS BANCORP

Consolidated Statements of Cash Flows (Unaudited)
(in thousands)Nine Months Ended
Sept 30, Sept 30,
2009 2008

Operating Activities:

Net Income	\$15,188	\$17,783
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Loan Losses	10,345	5,370
Depreciation and Amortization	1,418	838
Net Amortization of Investment Security Discounts & Premium	(2,691)	88
Net Gain on Investment Securities	(2,982)	(536)
Net Gain on Sale of Property & Equipment	(10)	(8)
Net Change in Operating Assets & Liabilities:		
Net Increase in Interest Receivable and Other Assets	(8,929)	(13,659)
Net Increase in Interest Payable and Other Liabilities	6,998	2,694
Net Cash Provided by Operating Activities	19,337	12,570

Investing Activities:

Securities Available-for-Sale:

Purchased	(217,825)	(131,979)
Sold, Matured or Called	153,224	62,808
Securities Held-to-Maturity:		
Purchased	(50)	(4,500)
Matured or Called	2,913	4,602
Net Loans Originated or Acquired	(42,545)	(26,183)
Principal Collected on Loans Previously Charged Off	175	279
Net Additions to Premises and Equipment	(4,237)	(2,689)
Proceeds from Sale of Property and Equipment	13	8
Net Cash Used by Investing Activities	(108,332)	(97,654)

Financing Activities:

Net Increase in Demand, Interest-Bearing Transaction, and Savings Accounts	59,984	25,966
Increase in Time Deposits	4,343	63,947
Net Increase in Securities Sold Under Agreement to Repurchase	-	60,000
Net Decrease in Federal Home Loan Bank Advances	(40)	(28,238)
Cash Dividends	(3,989)	(3,852)
Stock Repurchases	(2,141)	(3,929)
Net Cash Provided by Financing Activities	58,157	113,894
(Decrease) Increase in Cash and Cash Equivalents	(30,838)	28,810
Cash and Cash Equivalents at Beginning of Year	60,774	51,390
Cash and Cash Equivalents as of Sept. 30, 2009 and Sept. 30, 2008	\$29,936	\$80,200

The accompanying notes are an integral part of these unaudited consolidated financial statements

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FARMERS & MERCHANTS BANCORP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Significant Accounting Policies

Farmers & Merchants Bancorp (the Company) was organized March 10, 1999. Primary operations are related to traditional banking activities through its subsidiary Farmers & Merchants Bank of Central California (the Bank) which was established in 1916. The Bank's wholly owned subsidiaries include Farmers & Merchants Investment Corporation and Farmers/Merchants Corp. Farmers & Merchants Investment Corporation has been dormant since 1991. Farmers/Merchants Corp. acts as trustee on deeds of trust originated by the Bank.

The Company's other subsidiaries include F & M Bancorp, Inc. and FMCB Statutory Trust I. F & M Bancorp, Inc. was created in March 2002 to protect the name F & M Bank. During 2002 the Company completed a fictitious name filing in California to begin using the streamlined name "F & M Bank" as part of a larger effort to enhance the Company's image and build brand name recognition. In December 2003 the Company formed a wholly owned subsidiary, FMCB Statutory Trust I. FMCB Statutory Trust I is a non-consolidated subsidiary per generally accepted accounting principles (GAAP) and was formed for the sole purpose of issuing Trust Preferred Securities.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and prevailing practice within the banking industry. The following is a summary of the significant accounting and reporting policies used in preparing the consolidated financial statements.

Basis of Presentation

The accompanying unaudited consolidated interim financial statements and notes thereto have been prepared in accordance with accounting principles generally accepted in the United States of America for financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. All adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01. All such adjustments are of a normal, recurring nature.

The accompanying unaudited consolidated interim financial statements include the accounts of the Company and the Company's wholly owned subsidiaries, F & M Bancorp, Inc. and the Bank, along with the Bank's wholly owned subsidiaries, Farmers & Merchants Investment Corporation and Farmers/Merchants Corp. Significant inter-company transactions have been eliminated in consolidation.

The preparation of unaudited consolidated interim financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

In May 2009, the FASB issued ASC 855 (formerly Statement No. 165), "Subsequent Events". ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC 855 is effective for interim or annual periods ending after June 15, 2009. The Company adopted the provisions of ASC 855 and has evaluated subsequent events for potential recognition and/or disclosure through the date the consolidated financial statements were issued or November 9, 2009. The Company does not believe any subsequent events have occurred that would require further disclosure or adjustment to the financial statements.

Certain amounts in the prior periods' unaudited consolidated interim financial statements and related footnote disclosures have been reclassified to conform to the current-year presentation. These reclassifications have no effect on previously reported income.

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2. Investment Securities

The amortized cost, fair values, and unrealized gains and losses of the securities available-for-sale are as follows:

(in thousands) September 30, 2009	Amortized Cost	Gross Unrealized Gains Losses		Fair/Book Value
Securities of U.S. Government Agencies	\$105,346	\$340	\$46	\$105,640
Obligations of States and Political Subdivisions	8,404	3	-	8,407
Mortgage-backed Securities	229,137	9,678	-	238,815
Other	9,470	19	1	9,488
Total	\$352,357	\$10,040	\$47	\$362,350

(in thousands) December 31, 2008	Amortized Cost	Gross Unrealized Gains Losses		Fair/Book Value
Obligations of States and Political Subdivisions	\$10,224	\$7	\$-	\$10,231
Mortgage-backed Securities	266,416	9,761	1	276,176
Other	5,432	-	-	5,432
Total	\$282,072	\$9,768	\$1	\$291,839

Included with the September 30, 2009 available-for-sale "Other Securities Fair/Book Value" total of \$9.5 million was \$5.4 million of FHLB stock. Included with the December 31, 2008 available-for-sale "Other Securities Fair/Book Value" total of \$5.4 million was \$5.1 million of FHLB stock.

The book values, estimated fair values and unrealized gains and losses of investments classified as held-to-maturity are as follows:

(in thousands) September 30, 2009	Book Value	Gross Unrealized Gains Losses		Fair Value
Obligations of States and Political Subdivisions	\$63,069	\$2,554	\$5	\$65,618
Mortgage-backed Securities	3,957	114	-	4,071
Other	1,990	-	-	1,990
Total	\$69,016	\$2,668	\$5	\$71,679

(in thousands) December 31, 2008	Book Value	Gross Unrealized Gains Losses		Fair Value
Obligations of States and Political Subdivisions	\$64,765	\$529	\$988	\$64,306
Mortgage-backed Securities	5,133	107	-	5,240
Other	1,992	-	-	1,992
Total	\$71,890	\$636	\$988	\$71,538

Fair values are based on quoted market prices or dealer quotes. If a quoted market price or dealer quote is not available, fair value is estimated using quoted market prices for similar securities.

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The remaining principal maturities of debt securities as of September 30, 2009 are shown in the following tables. Mortgage-Backed Securities are presented based on expected maturities. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities Available-for-Sale September 30, 2009 (in thousands)	Within 1 Year	After 1 but Within 5	After 5 but Within 10	Over 10 years	Total Fair Value
Securities of U.S. Government Agencies	\$-	\$100,554	\$5,086	\$-	\$105,640
Obligations of States and Political Subdivisions	1,018	-	-	7,389	8,407
Mortgage-backed Securities	-	-	21,776	217,039	238,815
Other	7,468	2,020	-	-	9,488
Total	\$8,486	\$102,574	\$26,862	\$224,428	\$362,350

Securities Held-to-Maturity September 30, 2009 (in thousands)	Within 1 Year	After 1 but Within 5	After 5 but Within 10	Over 10 years	Total Book Value
Obligations of States and Political Subdivisions	\$872	\$4,600	\$37,889	\$19,708	\$63,069
Mortgage-backed Securities	-	3,957	-	-	3,957
Other	-	-	10	1,980	1,990
Total	\$872	\$8,557	\$37,899	\$21,688	\$69,016

The following tables show those investments with gross unrealized losses and their market value aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at the dates indicated.

September 30, 2009 (in thousands)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities of U.S. Government Agencies	\$24,939	\$46	\$-	\$-	\$24,939	\$46
Obligations of States and Political Subdivisions	720	5	-	-	720	5
Mortgage-backed Securities	-	-	-	-	-	-
Other	1,250	1	-	-	1,250	1
Total	\$37,146	\$52	\$-	\$-	\$37,146	\$52