

FIRST FARMERS & MERCHANTS CORP
Form PRER14A
March 25, 2016

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. 1)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement.

Preliminary Proxy Statement.

Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2)).

Definitive Proxy Statement.

Definitive Additional Materials.

Soliciting Material Pursuant to § 240.14a-12.

FIRST FARMERS AND MERCHANTS CORPORATION
(Name of Registrant as Specified in Its Charter)

N/A

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: Common Stock, \$10 par value per share

(2) Aggregate number of securities to which transaction applies: 113,136

(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):
\$30.25

(4) Proposed maximum aggregate value of transaction: \$3,422,364

(5) Total fee paid:
\$345

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

FIRST FARMERS AND MERCHANTS CORPORATION

816 South Garden Street,

Columbia, Tennessee 38401

(931) 388-3145

March [•], 2016

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of First Farmers and Merchants Corporation (“First Farmers” or the “Company”) on April 19, 2016 beginning at 1:00 a.m., Central Time, to be held on the 2nd Floor, in the First Farmers and Merchants Bank Northside Office, 901 Nashville Highway, Columbia, Tennessee, 38401.

At the Annual Meeting of Shareholders, you will be asked to consider and vote on a proposal to approve an Agreement and Plan of Merger which provides for the merger of FFMC Merger Corporation, a newly formed, wholly-owned subsidiary of First Farmers, with and into First Farmers, with First Farmers as the surviving entity in what is commonly referred to as a “going private” transaction. The purpose of the merger is to reduce the number of First Farmers’ shareholders of record to fewer than 1,200, which will permit First Farmers to suspend filing reports with the Securities and Exchange Commission, eliminating the burden and expense associated with those reports, and eliminate smaller shareholder accounts and the expense of maintaining those accounts.

If the merger agreement is approved and the merger is subsequently completed, shareholders owning fewer than 400 shares of First Farmers common stock (other than shareholders who properly exercise their rights as dissenting shareholders) will receive \$30.25 in cash for each share they own as of the effective time of the merger. All other shares will remain outstanding and be unaffected by the merger.

At the Annual Meeting of Shareholders, you will also be asked to consider and vote on the election of 10 individuals to serve as directors of the Company until the Annual Meeting of Shareholders in 2017 or until their successors are qualified and elected.

The board of directors of First Farmers believes that the merger agreement and the election of the nominees as directors are in the best interests of First Farmers and its shareholders and unanimously recommends that you vote FOR approval of the merger agreement and FOR the election of each of the nominees for director. The approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of First Farmers common stock and directors are elected by a plurality of the votes cast by the shareholders of First Farmers common stock entitled to vote at the Annual Meeting of Shareholders. Whether or not you plan to attend the Annual Meeting of Shareholders, please complete and return the enclosed proxy card. If you sign, date and return your proxy card without indicating how you want to vote, your proxy will be counted as a vote FOR approval of the merger agreement and FOR approval of the election of the nominees as directors.

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

The enclosed Proxy Statement gives you detailed information about the Annual Meeting of Shareholders, the merger, the election of the nominees as directors and related matters. You are urged to carefully read the enclosed Proxy Statement, including the considerations discussed under “Special Factors” beginning on page 2, and the appendices to the Proxy Statement, which include the merger agreement. You may also obtain information about First Farmers from documents it has filed with the Securities and Exchange Commission. See “Where You Can Find More Information” on page 68.

As a shareholder of First Farmers, you have the right to dissent from the merger and obtain payment in cash of the fair value of your shares of First Farmers common stock under applicable provisions of Tennessee law. See “Proposal I—Approval of the Merger Agreement—Dissenters’ Rights of Shareholders” ~~Appendix~~ *Appendix C*.

Sincerely,

T. Randy Stevens

Chairman and Chief Executive Officer

FIRST FARMERS AND MERCHANTS CORPORATION

816 South Garden Street, Columbia, Tennessee 38401

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held on April 19, 2016

To the Shareholders of First Farmers and Merchants Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of First Farmers and Merchants Corporation (“First Farmers” or the “Company”) will be held on the 2nd Floor, in the First Farmers and Merchants Bank Northside Office, 901 Nashville Highway, Columbia, Tennessee, 38401 on April 19, 2016 at 11:00 a.m., Central Time, for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of February 16, 2016, by and between First Farmers and Merchants Corporation and FFMC Merger Corporation, a Tennessee corporation and wholly-owned subsidiary of First Farmers, pursuant to which FFMC Merger Corporation will merge with and into First Farmers, with First Farmers being the surviving corporation;
2. Election of Directors: Election of the following ten (10) nominees as directors of the Company:

M. Darlene Baxter

Timothy E. Pettus

Brian K. Williams

Jonathan M. Edwards

Patrick J. Riley

Dr. David S. Williams

Thomas Napier Gordon

Matthew M. Scoggins, Jr.

Dalton M. Mounger

T. Randy Stevens

3. To transact such other business as may properly come before the annual meeting or any adjournments or postponements thereof.

A list of all shareholders entitled to vote is available for inspection by a shareholder during regular business hours for 10 days prior to the Annual Meeting of Shareholders at the principal offices of First Farmers at 816 South Garden Street, Columbia, Tennessee 38401. This list will be available at the meeting.

This Proxy Statement and the Company’s 2015 Annual Report to Shareholders are available at <https://materials.proxyvote.com/320148>.

Your vote is very important. Whether or not you plan to attend the Annual Meeting of Shareholders, you are urged to vote and submit your proxy by the Internet, telephone or mail in order to ensure the presence of a quorum. If you attend the meeting, you will have the right to revoke your proxy and vote your shares in person.

Shareholders of record may vote:

1. **By Internet: go to www.proxyvote.com; or**
2. **By phone: call 1-800-690-6903 (toll-free); or**
3. **By mail: complete the enclosed proxy card and return it in the postage prepaid envelope provided.**

Shareholders of record at the close of business on February 29, 2016 are entitled to notice of and to vote at the meeting.

By order of the Board of Directors,

Michelle D. Gardner
Corporate Secretary

March [•], 2016

PRELIMINARY COPY

FIRST FARMERS AND MERCHANTS CORPORATION

816 South Garden Street

Columbia, Tennessee 38401

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

To Be Held on April 19, 2016

The accompanying proxy is solicited by and on behalf of the Board of Directors of First Farmers and Merchants Corporation ("First Farmers" or the "Company") for use at the Annual Meeting of Shareholders to be held on April 19, 2016, at 11:00 a.m., Central Time, and any adjournment thereof (the "Annual Meeting"). The time and place of the Annual Meeting are set forth in the accompanying Notice of Annual Meeting of Shareholders. All expenses incurred in preparing, printing and mailing the proxy, notices of internet availability and all materials used in the solicitation of proxies will be borne by the Company. In addition to the use of the mail, proxies may be solicited in person or by telephone by directors, officers and other personnel of the Company or its subsidiary, First Farmers and Merchants Bank (the "Bank"), none of whom will receive additional compensation for such services. The Company will also request custodians and nominees to forward soliciting materials to the beneficial owners of the Company's common stock held of record by them and will pay reasonable expenses of such persons for forwarding such material.

PURPOSES OF THE MEETING

The Annual Meeting will be held for the purposes of (i) approving the merger agreement, (ii) electing directors, and (iii) transacting such other business as may properly come before the meeting or any adjournments or postponements thereof.

Pursuant to the merger agreement, FFMC Merger Corporation will merge with and into First Farmers, with First Farmers as the surviving corporation. If shareholders approve the merger agreement and the merger is subsequently completed, shareholders owning fewer than 400 shares of First Farmers common stock, in the aggregate, whether of record or in street name (other than shareholders who properly exercise their rights as dissenting shareholders), will receive \$30.25 in cash for each share they own as of the effective time of the merger. All other shares will remain outstanding and be unaffected by the merger. After the merger, First Farmers anticipates that it will have fewer than 1,200 shareholders of record. As a result, First Farmers will be able to terminate its registration under the Securities Exchange Act of 1934, as amended, and suspend its reporting obligations, thereby eliminating the significant expense required to comply with the periodic reporting and related requirements under the Exchange Act.

The merger cannot occur unless the merger agreement is approved by the holders of a majority of the outstanding shares of First Farmers' common stock. As of the record date, the directors and executive officers of First Farmers (13 persons) were entitled to vote 296,001 shares, or 6.2% of the outstanding shares of First Farmers common stock entitled to vote at the Annual Meeting of Shareholders. These shares are expected to be voted for approval of the merger agreement and for the election of all nominees for directors.

QUORUM AND VOTING

At the close of business on February 29, 2016, the Company had 4,739,502 shares of common stock issued and outstanding. Only holders of record of common stock at the close of business on February 29, 2016 are entitled to notice of and to vote on matters that properly come before the Annual Meeting or any adjournment thereof. A shareholder is entitled to one vote at the Annual Meeting for each share of common stock held of record in his or her name, voted in person or by proxy.

The presence in person or by proxy of the holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting or any adjournment thereof. Abstentions and broker non-votes are included for purposes of determining if a quorum exists. Abstentions will not constitute a vote "FOR" or to "WITHHOLD" the shareholder vote for the proposal for election of the nominees as directors presented for shareholder approval at the annual meeting and will be disregarded in the calculation of a plurality or of "votes cast" for such proposal. Because approval of the merger agreement requires the approval of at least a majority of the outstanding shares of common stock entitled to vote, abstentions and broker non-votes have the same effect as if you voted against the merger agreement, unless you attend the Annual Meeting and vote in person. Broker non-votes occur when a broker or nominee returns a proxy but does not have discretionary authority to vote on a particular proposal because the proposal does not concern a routine matter and the broker has not received voting instructions from the beneficial holder. Your broker or other nominee *will not* be able to vote your shares for the merger agreement or the election of directors, or any other matters properly brought before the Annual Meeting, without your specific instruction because these are not considered routine matters. For purposes of determining the outcome of any matter as to which a broker or nominee has physically indicated on the proxy that it does not have discretionary authority to vote, those shares will be treated as not entitled to vote with respect to that matter.

If a quorum is not present at the time of the Annual Meeting, the Chairman of the meeting has the power to adjourn the Annual Meeting until a quorum is present or represented by proxy.

If the enclosed proxy is properly executed, returned and not revoked, it will be voted in accordance with the instructions, if any, given by the shareholder. Unless shares are held by a broker, if a proxy is executed and returned but no specification is made, the proxy will be voted "FOR" the merger agreement and "FOR" election of all nominees as directors of the Company. If any other business is properly presented at the meeting, the proxy holders will vote your proxy in accordance with their discretion.

Any shareholder has the power to revoke his or her proxy at any time, prior to the vote being taken at the Annual Meeting, by written notice or subsequently dated proxy received by the Company, or by revocation by the shareholder in person at the Annual Meeting or any adjournment thereof. If you wish to attend the Annual Meeting and need directions to the First Farmers and Merchants Northside Branch in Columbia, Tennessee, please contact Michelle Gardner, the Secretary of the Company, at (931) 388-3145.

Please see "Where You Can Find More Information" on page 68 for additional information about First Farmers on file with the Securities and Exchange Commission.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of this transaction, passed upon the merits or fairness of this transaction, or passed upon the accuracy or adequacy of the information contained in this Proxy Statement. Any representation to the contrary is a criminal offense.

Proxy Statement dated March [•], 2016 and first mailed to First Farmers shareholders

on or about March [•], 2016.

TABLE OF CONTENTS

<u>SUMMARY TERM SHEET</u>	5
<u>A WARNING ABOUT FORWARD LOOKING STATEMENTS</u>	9
<u>QUESTIONS AND ANSWERS</u>	10
<u>SPECIAL FACTORS</u>	12
Purpose and Reasons for the Merger	12
<u>Alternatives Considered</u>	13
<u>Background of the Going Private Merger Proposal</u>	14
<u>Recommendation of the Board of Directors; Fairness of the Merger Proposal</u>	17
<u>Determination of Fairness by Merger Subsidiary and Filing Persons</u>	19
<u>Opinion of Independent Financial Advisor</u>	20
<u>Potential Disadvantages of the Merger</u>	23
<u>Effects of the Merger on First Farmers</u>	23
<u>Effects of the Merger on Shareholders Generally</u>	23
<u>Effects of the Merger on Affiliated Shareholders</u>	25
<u>Examples of Merger Results</u>	26
<u>Interests of Executive Officers and Directors in the Merger</u>	26
<u>Conduct of First Farmers' Business After the Merger</u>	27
<u>Fees and Expenses</u>	27
<u>Anticipated Accounting Treatment</u>	27
<u>Material U.S. Federal Income Tax Consequences</u>	27
<u>Regulatory Requirements</u>	28
<u>SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA</u>	30
<u>UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION</u>	32
<u>THE ANNUAL MEETING</u>	35
<u>Purpose</u>	35
<u>Date, Place and Time of Annual Meeting</u>	35
<u>Shares Entitled to Vote; Quorum and Vote Required</u>	35
<u>Voting Procedures and Revocation of Proxies</u>	36
<u>Attending the Annual Meeting</u>	36
<u>Solicitation of Proxies and Expenses</u>	36
<u>PROPOSAL I: APPROVAL OF THE MERGER AGREEMENT</u>	37
<u>Parties to the Merger</u>	37
<u>Structure of the Merger</u>	37
<u>Conversion of Shares in the Merger</u>	37
<u>Effective Time of the Merger</u>	38
<u>Exchange of Shares</u>	38
<u>Termination of Exchange Act Registration</u>	39

<u>Source of Funds and Expenses</u>	39
<u>Conditions to the Completion of the Merger</u>	39
<u>Termination of Merger Agreement</u>	40
<u>Dissenters' Rights of Shareholders</u>	40
<u>PROPOSAL 2: ELECTION OF DIRECTORS</u>	44
<u>INFORMATION ABOUT FIRST FARMERS AND ITS AFFILIATES</u>	47
<u>Directors and Executive Officers of First Farmers</u>	47
<u>Market for Common Stock and Dividends</u>	47
<u>First Farmers Common Stock Purchase and Sale Information</u>	48
<u>Security Ownership of Certain Beneficial Owners and Management</u>	49
<u>Corporate Governance</u>	50
<u>Compensation Discussion and Analysis</u>	53
<u>Compensation Committee Report</u>	58
<u>Executive Compensation</u>	59
<u>Compensation of Directors</u>	62
<u>Compensation Committee Interlocks and Insider Participation</u>	63
<u>Related Person Transactions</u>	63
<u>Audit Committee Report</u>	64
<u>Independent Registered Public Accounting Firm</u>	65
<u>GENERAL INFORMATION</u>	66
<u>Other Matters</u>	66
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	66
<u>Items of Business for 2017 Annual Meeting of Shareholders</u>	66
<u>Shareholder Comments at 2016 Annual Meeting of Shareholders</u>	67
<u>Annual Report</u>	67
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	68
Merger Agreement - Appendix A	A-1
Opinion of Sheshunoff & Co. - Appendix B	B-1
Chapter 23 of the Tennessee Business Corporation Act - Appendix C	C-1

SUMMARY TERM SHEET

The following summary term sheet, together with the “Questions and Answers” following this summary term sheet, highlight selected information from this Proxy Statement and may not contain all of the information that is important to you. We urge you to carefully read this entire document and the other documents that we refer to in this document. These documents will give you a more complete description of the transaction that we are proposing. We have included page references in this summary to direct you to other places in this Proxy Statement where you can find a more complete description of the matters that we have summarized.

Structure of the Merger (page 37)

The merger agreement provides for the merger of FFMC Merger Corporation with and into First Farmers, with First Farmers surviving the merger. FFMC Merger Corporation is a newly formed Tennessee corporation organized as a wholly owned subsidiary of First Farmers for the sole purpose of facilitating the merger. After the merger, we expect our business and operations to continue as they are currently being conducted. We will continue to operate as a bank holding company and the parent corporation for the Bank, but will no longer file reports with the Securities and Exchange Commission (the “SEC”). We expect to complete the merger in April 2016, although delays could occur.

We have attached the merger agreement to this document as Appendix A. Please read the merger agreement. It is the legal document that governs the merger.

What You Will Receive in the Merger (page 37)

If the merger is completed, shareholders who own fewer than 400 shares of First Farmers common stock in the aggregate, whether of record or in street name by a broker who holds in the aggregate fewer than 400 shares, except for dissenting shares, will receive \$30.25 in cash for each share they own as of the effective time of the merger. Shareholders who own 400 or more shares of First Farmers common stock will continue to hold their shares of First Farmers common stock and will not be entitled to receive any cash payment from us upon completion of the merger, except for dissenting shares.

If you are the holder of fewer than 400 shares of our common stock, you must surrender your stock certificates representing your shares in order to receive the cash consideration for your shares. Do not send in your certificates until you receive written instructions regarding the certificate exchange process after the completion of the merger.

Determination of Shares Held (page 37)

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

A shareholder who owns fewer than 400 shares of First Farmers common stock in the aggregate, whether of record or in street name, will receive \$30.25 per share in cash as a result of the merger. A shareholder "of record" is the shareholder whose name is listed on the front of the stock certificate, regardless of who ultimately has the power to vote or sell the shares. Shares held by a broker in "street name" on a shareholder's behalf are held of record by the broker. Each broker holding less than 400 shares in the aggregate for the account of one or more beneficial holders will receive cash in the merger for those shares held in "street name." Shares held by the First Farmers and Merchants Bank Profit Sharing Plan will not be affected in the merger or included for purposes of determining which shareholders are to receive cash in the merger.

Under the Securities Exchange Act of 1934, as amended (the Exchange Act) securities registered in substantially similar names where we have reason to believe, because of the address or other indications, that such names represent the same person, may be included as held of record by one person. If a shareholder holds any shares in street name, these shares may not be combined with shares held of record by the same shareholder for purposes of determining the number of shares owned.

There is a risk that the SEC may change its rules regarding shareholder counting with respect to beneficial holders and that First Farmers' number of record shareholders could be higher than it had anticipated.

Fairness of the Transaction (page 17)

We believe that the merger is fair to our unaffiliated shareholders who will receive cash in the merger and to our unaffiliated and affiliated shareholders who will retain their shares. Our Board of Directors has approved the merger agreement and the transactions contemplated thereby. The Board's decision is based on several factors, which are summarized beginning on page17. These factors include:

- *Independent Valuation:* According to an independent valuation prepared by Sheshunoff & Co., the "fair value" of our common stock as of December 31, 2015 as that term is used in the Tennessee statute governing dissenters' rights was between \$28.50 and \$30.60 per share.

- *Opinion of Independent Financial Advisor:* Sheshunoff & Co. has delivered its opinion to our Board of Directors that the \$30.25 per share price to be paid in the merger is fair, from a financial point of view, to our shareholders, both those who will receive cash in the merger and those who will retain their shares in the merger. A copy of the opinion is attached as *Appendix B*. See “Special Factors—Opinion of Independent Financial Advisor” on page 48 for additional information.
- *Historical Market Prices of First Farmers Common Stock:* Based on transactions of which we are aware, the low and high sales prices of our common stock over the past two years have ranged from \$25.00 to \$29.00 per share, with trades during 2015 within that same range. See “Information about First Farmers and its Affiliates— First Farmers Common Stock Purchase and Sale Information” on page 49, and “—Market for Common Stock and Dividends” on 48 for more specific information regarding prices at which our shares have been sold.
- *Premium to Book Value:* The price per share to be paid in the merger reflects a multiple of 1.22 times our December 31, 2015 book value per share, representing a 21.8% premium over book value.
- *Going Concern Value:* The price per share to be paid in the merger reflects First Farmers’ value as a going concern and was not based on an amount that might be realized in a sale of 100% of our stock, because the merger will not result in a change in control of First Farmers.
- *Earnings Multiple:* The price per share to be paid in the merger reflects a multiple of 14.2 times our earnings per share for the year ended December 31, 2015.
- *Liquidity Event:* The merger will allow our shareholders owning fewer than 400 shares to liquidate their holdings without incurring brokerage costs. The Board believes this provides a benefit to our shareholders, particularly given the limited trading volume for our shares.

In addition, based on the same factors discussed above, each of the other persons who filed the Schedule 13E-3, which consists of each of the directors and executive officers of First Farmers and FFMC Merger Corporation, believe that the merger is fair to First Farmers’ unaffiliated shareholders who will receive cash in the merger and to unaffiliated shareholders who will retain their shares.

Effects of the Merger on Shareholders (pages 25 and 26)

The merger will have various effects on our shareholders:

For shareholders who retain their shares in the merger, these effects include:

- continued ownership of our common stock;

- decreased access to publicly available information about First Farmers;
- a reduction in book value as of December 31, 2015, on a pro forma basis;
- an increase in earnings per share for the year ended December 31, 2015, on a pro forma basis; and
- a slight increase in their respective percentage ownership of our common stock.

For shareholders receiving cash in the merger, these effects include:

- receipt of \$30.25 per share in cash, the price determined by our Board;
- loss of their equity and voting interest in First Farmers and loss of the ability to sell their shares at the time and for the price they choose;
- federal income tax liability for any cash received in the merger;
- loss of future dividends; and
- liquidation of their ownership interest in First Farmers without incurring brokerage costs.

Additional Effects of the Merger on Affiliated Shareholders (page 26)

Because of their positions, the directors and executive officers of First Farmers and FFMC Merger Corporation are deemed affiliates engaged in the transaction and are filing persons on the Schedule 13E-3 transaction statement filed by First Farmers and FFMC Merger Corporation in connection with the merger. Our directors and executive officers have no financial interests in the merger that differ from the interests of our unaffiliated shareholders. The merger will, however, have the following additional effects on our directors and executive officers:

- elimination of individual reporting obligations under federal securities laws; and
- potential elimination of a “safe harbor” for dispositions of their shares under federal securities laws.

Effects of the Merger on First Farmers (page 23)

As a result of the merger:

- we will no longer be classified as a public company and will suspend indefinitely our filing of annual and periodic reports and proxy statements with the SEC;
- the number of record shareholders, measured as of February 29, 2016, will be reduced from approximately 2,099 to approximately 1,102, and the number of outstanding shares of our common stock will decrease from 4,739,502 to approximately 4,626,366;
- the percentage of ownership of our common stock beneficially held by executive officers and directors (13 persons) as a group as of February 29, 2016, will increase from 6.2% to approximately 6.4%;
- earnings per share of our common stock for the year ended December 31, 2015, would increase by approximately 2.8% from \$2.13 on a historical basis to approximately \$2.19 on a pro forma basis;
- total shareholders’ equity as of December 31, 2015, would be reduced from approximately \$117.8million on a historical basis by approximately \$3.4 million on a pro forma basis, assuming 113,136 shares are cashed out in the merger;
- the book value per share of our common stock as of December 31, 2015, would be reduced from \$24.83 per share on a historical basis to approximately \$24.71 per share on a pro forma basis, assuming 113,136 shares are cashed out in the merger; and
- the reduction in our shareholders’ equity described above will cause a corresponding decrease in our regulatory capital ratios. Assuming 113,136 shares are cashed out in the merger, our common equity tier 1 capital ratio would decrease from 13.28% as of December 31, 2015, to approximately 12.87% on a pro forma basis; our leverage capital ratio would decrease from 8.87% as of December 31, 2015, to approximately 8.57% on a pro forma basis; our tier 1 capital to risk-weighted assets ratio would be reduced from 13.28% as of December 31, 2015, to approximately 12.87% on a pro forma basis; and our total risk-based capital ratio would decrease from 14.32% as of December 31, 2015, to approximately 13.91% on a pro forma basis.

First Farmers Plans to Continue to Pay Semi-Annual Dividends (page 47)

Following the merger, subject to applicable statutory and regulatory restrictions, First Farmers intends to continue its practice of paying semi-annual cash dividends. For the semi-annual period ended December 31, 2015, First Farmers paid a cash dividend of \$0.37 per share. First Farmers expects that because of the projected cost savings, the merger will have no adverse effect on First Farmers' ability to pay cash dividends in the near future.

Conditions to the Completion of the Merger (page 39)

The completion of the merger depends upon the satisfaction of a number of conditions, unless waived, including:

- approval of the merger agreement by the holders of a majority of the outstanding shares of our common stock;
- all of the representations and warranties made in the merger agreement must be true and correct in all material respects as of the effective time of the merger;
- absence of pending or threatened litigation regarding the merger; and
- that the aggregate number of shares to be cashed out in the merger, plus the number of shares held by shareholders who delivered their notice to exercise their rights to dissent from the merger pursuant to the provisions of the Tennessee Business Corporation Act ("TBCA"), does not exceed 150,000 shares.

Material U.S. Federal Income Tax Consequences (page 28)

The receipt of cash in the merger will be taxable for United States federal income tax purposes. You will be treated as either having sold your shares of our common stock for the cash received or as having received the cash as a dividend. In general, your receipt of cash in exchange for your shares of our common stock will be treated as a sale or exchange and you will recognize gain or loss in an amount equal to the cash received less your adjusted tax basis of your shares exchanged for such cash if you actually and constructively own no shares of our common stock immediately after the exchange. If you actually or constructively own shares of our common stock after the exchange, your receipt of cash in exchange for your shares of our common stock may be taxed as a dividend. Shareholders who do not receive cash should not recognize any gain or loss on continuing to hold their shares of First Farmers common stock as a result of the merger.

For a more complete description of the United States federal income tax consequences to you as a result of the merger, please read the discussion under “Special Factors—Material U.S. Federal Income Tax Consequences.”

Reasons for the Merger (page 12)

Our principal reasons for effecting the merger are:

- the direct and indirect cost savings of approximately \$250,000 per year that we expect to experience as a result of the deregistration of our common stock under the Exchange Act and suspension of our SEC filings; and
- our belief that our shareholders have not benefited proportionately from the costs relating to the registration of our common stock, principally as a result of the thin trading market for our stock.

Dissenters’ Rights of Shareholders (page40)

As a shareholder of First Farmers, under the provisions of the TBCA you have the right to dissent from the merger. If the merger is approved by the shareholders and consummated, any shareholder who properly perfects his or her right to dissent to the merger will be entitled to receive an amount of cash equal to the fair value of his or her shares rather than the consideration provided by the merger agreement. Shareholders of First Farmers are cautioned that if they dissent, they may receive a “fair value” that is less than the value received by shareholders cashed out in the merger.

Shares Entitled to Vote and Vote Required (page 35)

Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock on February 29, 2016, and directors are elected by a plurality of the votes cast by the shares of our common stock entitled to vote at the Annual Meeting. As of the close of business on February 29, 2016, there were 4,739,502 shares of our common stock entitled to notice of and to vote at the Annual Meeting. As of the record date, our directors and executive officers were entitled to vote 296,001 shares, or 6.2% of our outstanding common stock at the Annual Meeting. These shares are expected to be voted for approval of the merger agreement and for approval of the election of the nominees as directors. Accordingly, 2,073,751 shares held by unaffiliated shareholders, or 43.8% of our outstanding common stock, must be voted in favor of the merger agreement in order to approve the transaction.

Effective Time of the Merger (page 38)

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

The merger will be effective at the date and time specified in the Articles of Merger to be filed with the Secretary of State of Tennessee. As soon as practicable after shareholder approval of the merger agreement, we will file Articles of Merger with the Secretary of State of Tennessee and will send a Letter of Transmittal to all record holders of First Farmers common stock who are entitled to receive cash in the merger. We anticipate that this will occur on or around April 20, 2016, although delays could occur.

Financing of the Merger (page 39)

We estimate that approximately \$3.4 million will be required to pay for the shares to be exchanged in the merger and that the expenses related to the merger will be approximately \$165,000. We intend to use existing cash generated from our operations to fund the merger. Although it is not anticipated that we will need funds in excess of cash on hand to finance the merger, if additional funds are required, it is likely we will borrow such funds from the Federal Home Loan Bank of Cincinnati.

A WARNING ABOUT FORWARD LOOKING STATEMENTS

Some of the statements contained in this Proxy Statement discuss future expectations, contain projections of our plan of operation or financial condition or state other forward looking information. In this Proxy Statement, forward-looking statements are generally identified by the words such as “anticipate”, “plan”, “believe”, “expect”, “estimate”, and the like. Forward-looking statements involve future risks and uncertainties, there are factors that could cause actual results or plans to differ materially from those expressed or implied. These statements are subject to known and unknown risks, uncertainties, and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and is derived using numerous assumptions. A reader should not place undue reliance on these forward-looking statements, which apply only as of the date of this Proxy Statement. Important factors that may cause actual results to differ from projections include, for example:

- the success or failure of our efforts to implement our plan of operation;
- our ability to fund our operating expenses;
- our ability to compete with other companies that have a similar plan of operation;
- the effect of changing economic conditions impacting our plan of operation;
- changes in the interest rate environment may reduce our interest margins;
- our ability to meet the other risks as may be described in our filings with the SEC;
- deposit attrition, operating costs, customer loss and business disruption may be greater than expected;
- our actual cost savings resulting from the transaction are less than expected or we are unable to realize those cost savings as soon as expected;
- legislative or regulatory changes may adversely affect our businesses; and
- operational risks may occur, including data processing system failures or fraud.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Proxy Statement, any supplement to this Proxy Statement and the documents we have incorporated by reference. We will not update these statements unless the securities laws require us to do so, such as in the event of a material change in information previously disclosed.

QUESTIONS AND ANSWERS

Q: What is the time and place of the Annual Meeting?

A: The Annual Meeting will be held on April 19, 2016, beginning at 11:00 a.m., Central Time, on the 2nd Floor, in the First Farmers and Merchants Bank Northside Office, 901 Nashville Highway, Columbia, Tennessee, 38401.

Q: What are the shareholders being asked to vote upon?

A: At the Annual Meeting, the shareholders are being asked:

- to consider and vote upon a proposal to approve the merger agreement that provides for the merger of FFMC Merger Corporation with and into First Farmers;
- to consider and vote upon a proposal to elect ten individuals to serve as directors of the Company until the annual meeting of shareholders in 2017 or until their successors are qualified and elected; and
- to act on any other matters that may be submitted to a vote at the Annual Meeting or any adjournments or postponements of the Annual Meeting.

Q: What votes are required for approval?

A: Approval of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock on February 29, 2016, and directors are elected by a plurality of the votes cast by the shares of our common stock entitled to vote at the Annual Meeting. As of this date, there were 4,739,502 shares of our common stock outstanding.

Q: How does the board of directors recommend that I vote?

A: Our board of directors has approved and authorized the merger agreement and recommends that you vote FOR approval of the merger agreement and FOR approval of the election of the nominees as directors.

In considering the recommendation of the Board of Directors, you should be aware that the members of our Board and the executive officers (13 persons) beneficially own approximately 6.2% of the outstanding shares of our common stock as of February 29, 2016, and all of such persons are expected to continue as shareholders and beneficially own approximately 6.4% of our common stock following the merger. Also, our current executive officers and directors will continue as our executive officers and directors following the merger. See “Special Factors—Interests of Executive Officers and Directors in the Merger” and “Information About First Farmers and its Affiliates—Security Ownership of Certain Beneficial Owners and Management.”

Q: What happens if I transfer my shares after the record date?

A: The record date for the Annual Meeting is earlier than the expected date of the merger. Therefore, if you transfer your shares of First Farmers common stock after the record date, but prior to the merger, you will retain the right to vote at the Annual Meeting, but the right to receive any merger consideration will transfer with the shares of our common stock.

Q: What do I need to do now?

A: After you have thoroughly reviewed this Proxy Statement, simply indicate on your proxy card how you want to vote and sign, date and complete your proxy card and mail it in the enclosed envelope so that your shares can be represented at the Annual Meeting. You may also vote by the Internet at www.proxyvote.com or by telephone by calling 1-800-6903.

Q: What happens if I don't return a proxy card?

A: Because approval of the merger agreement requires the approval of at least a majority of the outstanding shares of our common stock entitled to vote, the failure to return your proxy card has the same effect as if you voted against the merger agreement, unless you attend the Annual Meeting and vote in person. The failure to return your proxy card will not constitute a vote "FOR" or to "WITHHOLD" the shareholder vote for the proposal for election of the nominees as directors presented for shareholder approval at the annual meeting and will be disregarded in the calculation of a plurality or of "votes cast" for such proposal.

Q: May I change my vote after I have mailed my signed proxy card?

A: Yes. Just send by mail a written revocation or a later-dated, completed and signed proxy card before the Annual Meeting or attend the Annual Meeting and notify the Secretary of the Company that you want to vote in person. You may not change your vote by facsimile or telephone.

Q: If my shares are held in “street name” by my broker, how will my shares be voted?

A: Your broker will vote your shares only if you provide instructions on how to vote. You should instruct your broker how to vote your shares, following the directions your broker provides. If you do not provide instructions to your broker, your shares will not be voted, which (i) will have the same effect as a vote against the merger agreement and (ii) will not constitute a vote “FOR” or to “WITHHOLD” the shareholder vote for the proposal for election of the nominees as directors presented for shareholder approval at the annual meeting and will be disregarded in the calculation of a plurality or of “votes cast” for such proposal.

Q: Will my shares held in “street name” or another form of record ownership be combined for voting purposes with shares I hold of record?

A: No. Because any shares you may hold in street name will be deemed to be held by a different shareholder than any shares you hold of record, any such shares will not be combined for voting purposes with shares you hold of record. Similarly, if you own shares in various registered forms, such as jointly with your spouse, as trustee of a trust or as custodian for a minor, you will receive, and will need to sign and return, a separate proxy card for those shares because they are held in a different form of record ownership. Shares held by corporation or business entity must be voted by an authorized officer of the entity, and shares held in an IRA account must be voted under the rules governing the account.

Q: Do I have any rights to avoid participating in the merger?

A: Yes. You have the right to withhold your vote for the merger agreement, dissent from the merger and seek the fair value of your shares as described in “Proposal I: Approval of the Merger Agreement—Dissenters’ Rights of Shareholders” beginning on ~~42~~ 43. Shareholders of First Farmers are cautioned that if they dissent, they may receive a “fair value” that is less than the value received by shareholders cashed out in the merger. In order to perfect your right to dissent, you must provide us written notice of your intent to dissent from the merger prior to the Annual Meeting and you must not vote in favor of the merger agreement.

Q: If I am receiving cash in the merger, when will I get my money?

A: After the Annual Meeting and the completion of the merger, we will mail you instructions on how to exchange your stock certificate(s) for cash. After you sign the forms provided and return your stock certificate(s), we will send you your payment.

Q: If I hold shares in street name, how will they be treated in the merger?

A: Any shares you hold in street name will not be added to the number of shares you hold directly in record name in determining the number of shares you hold. Shares held of record by street name holders will be accounted for in the aggregate; a street name holder holding less than 400 shares in all accounts for beneficial holders will be cashed out. The merger agreement has detailed provisions regarding the treatment of shares held in street name. Please read the discussion under “Proposal I: Approval of the Merger Agreement—Conversion of Shares in the Merger” for a description of these provisions generally as well as the terms of the merger agreement.

Q: How will shares held by the First Farmers and Merchants Bank Profit Sharing Plan be treated in the merger?

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

A: Any shares held by the First Farmers and Merchants Bank Profit Sharing Plan will not be affected by the merger. Because the Plan is counted as a single record holder holding more than 400 shares of First Farmers common stock, the Plan will continue to hold those shares after the merger.

Q: What if I cannot find my stock certificate?

A: The materials we will send you will include an affidavit and indemnity agreement that you will need to sign attesting to the loss of your certificate. First Farmers and its transfer agent will also require that you provide a bond to cover any potential loss to First Farmers.

Q: Who can help answer my questions?

A: If you have additional questions about the merger or the Annual Meeting, you should contact Robert E. Krimmel, Chief Financial Officer and Treasurer, at First Farmers and Merchants Corporation, P.O. Box 1148, Columbia, Tennessee 38402-1148, telephone (931) 388-3145.

SPECIAL FACTORS

Purpose and Reasons for the Merger

The primary purpose of the merger is to enable us to terminate the registration of our common stock under Section 12(g) of the Exchange Act. Although we intend to keep our shareholders informed regarding our business operations and financial results after the merger, we anticipate that such termination will enable us to save significant legal, accounting and administrative expenses relating to our public disclosure and reporting requirements under the Exchange Act. As a secondary matter, it is likely to decrease the administrative expense we incur in servicing a large number of shareholders of record who own relatively small numbers of shares.

Our shares of common stock are registered with the SEC because we have over 1,200 common shareholders of record and more than \$10 million in total assets. As a locally owned community bank holding company whose shares are not listed on any exchange or traded on any quotation system, we have incurred the costs associated with being a public company, while not enjoying many of the benefits associated with being a public company.

On April 5, 2012, the Jumpstart Our Business Startups Act (the "JOBS Act") was enacted, which, among other things, raises the threshold for the number of shareholders that a company must have to be required to register a class of securities. The JOBS Act also raised the threshold number of shareholders that banks and bank holding companies must fall below to deregister their securities under the Exchange Act. Specifically, the JOBS Act amended the Exchange Act to permit banks and bank holding companies to deregister under the Exchange Act if their shares are held by less than 1,200 record holders.

We had approximately 2,099 shareholders of record as of February 29, 2016, but approximately 97.6% of the outstanding shares as of that date were held by approximately 1,102 shareholders of record. As a result, there is a limited market for our shares and our Board of Directors believes there is little likelihood that a more active market will develop. However, because we have more than 1,200 shareholders of record and our common stock is registered under Section 12(g) of the Exchange Act, we are required to comply with the disclosure and reporting requirements under the Exchange Act and the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). These requirements include preparing and filing current and periodic reports with the SEC regarding our business, financial condition, Board of Directors and management team, having these reports reviewed by outside counsel and independent auditors and documenting our internal controls in preparation for an internal control assessment, the results of which must be filed with the SEC.

After the merger, we intend to keep our shareholders informed about our business operations and financial results by delivering annual audited financial statements and quarterly unaudited financial statements to them. We also plan to post these financial statements on our website at www.myfirstfarmers.com, which also contains other information about our business. Moreover, our business operations are primarily conducted through our banking subsidiary, First Farmers and Merchants Bank, which is required to file quarterly financial reports with the Federal Deposit Insurance Corporation ("FDIC"). These reports are available online at www.fdic.gov. Further, for a period of 90 days following the filing of a Form 15 with the SEC, we and our shareholders will continue to be subject to certain provisions of the Exchange Act, such as the reporting and short-swing profit provisions of Section 16 and the reporting obligations under Section 13 with respect to certain acquisitions of shares of our common stock.

We are currently required to comply with many of the same securities law requirements that apply to large public companies with substantially greater compliance resources. Our resources are more limited and securities law compliance activities represent a significant administrative and financial burden to a company of our relatively small size and market capitalization. Our efforts to comply with these

requirements also cause us to incur less tangible, but nonetheless significant, costs in management time and attention that could otherwise be deployed toward revenue enhancing activities. The cost of compliance is substantial, representing an estimated direct and indirect annual cost to us of approximately \$250,000. See page 13 for a detailed break-down of these estimated costs. In light of this expense and the limited trading volume in our common stock, our Board of Directors believes that we and our shareholders receive little relative benefit from being registered under the Exchange Act.

In light of the relatively small benefit we believe our shareholders have received as a result of our status as a public company, we believe the merger will provide a more efficient means of using our capital to benefit our shareholders. As a locally owned community bank holding company whose shares are not listed on any exchange or traded on any quotation system, we have incurred the costs associated with being a public company, while not enjoying many of the benefits associated with being a public company. We determined that the cost savings and reduced burden on management to be achieved by terminating registration of our common stock under the Exchange Act outweighed any potential detriment from terminating such registration.

The merger is designed to substantially reduce the number of our shareholders of record. As of February 29, 2016, we had approximately 997 shareholders who owned fewer than 400 shares of record. By reducing our number of record shareholders to fewer than 1,200, thereby allowing us to terminate our registration under the Exchange Act and suspend our reporting obligations, the merger will result in a reduction of the significant administrative, accounting, and legal expenses incurred in complying with disclosure, reporting and compliance requirements under the Exchange Act and the Sarbanes-Oxley Act.

In addition to relieving us of the administrative burden and costs associated with our public disclosure and otherwise complying with the periodic reporting requirements of the Exchange Act as well as decreasing the expense and burden of dealing with our large number of shareholders holding relatively small positions in our common stock, the merger will also allow us to:

- permit cashed-out shareholders to receive cash for their shares, without having to pay brokerage commissions, at a price that our Board believes to be fair that represents a premium of 4.3% over the most recent sales price reported to us of our common stock prior to announcement of the merger of \$29.00 and a premium of 10.8% over the median sales price in the three-month period prior to announcement of the merger of \$27.29. If the merger is completed, our executive officers and directors (and all other holders of 400 or more shares) will benefit by a slight increase in their percentage ownership of our common stock and an increase in earnings per share, although the net book value of their holdings will decrease; and
- increase management's flexibility to consider and initiate actions that may produce long-term benefits and growth.

Our Board of Directors considered that some shareholders may prefer to continue as shareholders of a public company. There are certain advantages to being a public company, including potentially a more active trading market and the enhanced ability to use company stock to raise capital or make acquisitions. There is a limited market for our common stock; therefore, a more active trading market has not been of benefit to our shareholders. Another potential advantage of being a public company is the ability to access capital to meet additional capital needs. Since becoming a SEC-reporting company in 1983, however, we have not made any public offerings of common stock or any other equity or debt securities. We used our common stock as consideration for a single acquisition which occurred in 1999.

Nonetheless, the Board believes that the disadvantages of having us continue to be a public company outweigh the advantages of being a public company. The Board has no present intention to raise capital through sales of securities in a public offering or to acquire other business entities using our stock as the consideration for any such acquisition. Accordingly, we are not likely to make use of any advantage that our status as a public company may offer.

We incur significant direct costs attributable to our compliance with the SEC's filing and reporting requirements imposed on public companies. We also incur substantial indirect costs as a result of, among other things, the executive time spent to prepare and review such filings. Although it is impossible to specifically quantify these indirect costs, we estimate that our management and staff spend an average of 4% of their time (equating to approximately 16 days per quarter) on activities directly related to compliance with federal securities laws such as preparing and reviewing SEC-compliant financial statements and periodic reports, maintaining and overseeing our disclosure and internal controls, monitoring and reporting transactions and other data related to insiders' stock ownership and consulting with independent auditors and counsel on compliance matters. Our direct and indirect costs related to being a public company are estimated to approximate \$250,000 annually, as follows:

Direct Costs

Independent registered public accounting firm	\$	100,000
SEC counsel		30,000
Accounting/internal controls consulting fees		40,000

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

Other related services		18,000
Shareholder relations services		15,000
SEC filing service		12,000
<i>Indirect Costs</i>		
Management staff and time	\$	35,000
Total Costs	\$	250,000

Alternatives Considered

The 400-share level for shareholders to be cashed out was chosen by management and recommended to our Board of Directors based on an analysis of our shareholder list as of September 30, 2015. Because shareholders are free to buy or transfer shares until the effective time of the merger, we expect that some shareholders will acquire additional shares before the effective time through market purchases or other transactions in order to own more than the threshold number of shares and thus remain a shareholder after the merger. Because the number of shareholders above the threshold could increase before the effective time, it was necessary to select a threshold high enough to allow for possible changes in the composition of the shareholder list without defeating the purpose of the proposed transaction.

In making our determination, we considered other means of achieving the same result, but rejected these alternatives because we believed that the merger would be the means that is most efficient, most cost-effective, and least disruptive to our shareholders and would be most likely to achieve the desired result. These other alternatives considered included:

- **Issuer Tender Offer.** We considered an issuer tender offer to repurchase shares of our outstanding common stock. Because acceptance of the tender offer would be voluntary, the results would be unpredictable and we were uncertain as to whether this alternative would result in participation by a sufficient number of shareholders to accomplish the going private objective. Accordingly, we rejected this alternative.
- **Reverse Stock Split.** We also considered the use of a process known as a reverse stock split as an alternative to the merger. In a reverse stock split, we would reduce the number of issued and outstanding shares of our common stock through an amendment to our charter, so that shareholders owning a certain number of shares would own less than one full share of our common stock, and we would pay cash for the resulting fractional share interests. While the reverse stock split and the merger would both achieve the same objective of reducing the number of shareholders in a predictable manner, we chose the merger because we concluded that a reverse stock split would be disruptive to all of our shareholders and cost us more in that we would have to pay cash to large shareholders for their fractional shares, even though they would remain shareholders after the transaction. We also considered structuring the transaction as a reverse stock split coupled with a forward stock split, but we determined these structures to be too expensive and disruptive to shareholders.
- **Share Reclassification.** In addition, the Board considered a share reclassification, which would involve authorization of a new class of stock and the exchange by certain shareholders of common stock for the new stock. However, the Board rejected this alternative because it would not provide any liquidity for shareholders owning a small number of shares and would not reduce our costs with respect to servicing a large number of shareholders.
- **Stock Repurchase Program.** We currently have in place a stock repurchase program that the Board has authorized the Company to purchase up to 200,000 shares at a market rate through December 31, 2016. Because the stock repurchase plan is voluntary, the Board concluded that it was highly unlikely the Company could acquire shares from a sufficient number of holders through a stock repurchase program to accomplish the Board's objectives.

We did not consider other methods to reduce expenses other than going private because (1) these types of transactions are inconsistent with the narrower purpose of the proposed transaction, which is to discontinue our SEC reporting obligations and (2) we were not aware of other methods of achieving expense reductions that were comparable with those reductions possible through the merger. In addition, we did not consider the possibility of a third-party buyout because we believe that we can best maximize shareholder value by remaining an independent banking organization. Remaining independent will enable us to focus our growth in our target markets and capitalize on our local market presence, which we believe will enhance our earnings.

Other Considerations. In approving and recommending the proposed merger transaction, our directors were aware of potential conflicts of interest, or appearances of conflicts of interest issues. The transaction will result in an increase in the percentage of ownership of all directors and executive officers. As a group, our directors and officers beneficially own approximately 6.2% of the outstanding shares of our common stock and following the effective time of the merger, our directors and executive officers would beneficially own approximately 6.4% of the shares. However, this benefit is shared proportionally by all remaining shareholders. In addition, it is expected that the transaction will, after it is concluded, reduce the risk of litigation and liability to which directors and officers of public companies are exposed.

While the foregoing narration of the factors considered by our Board of Directors is intended to discuss in reasonable detail the material factors on which the Board relied, it does not necessarily reflect all factors involved in the process. In view of the variety of factors

considered in connection with the Board's evaluation of the merger proposal, we did not find it practicable to quantify or otherwise assign relative weights to the specific factors considered in reaching our determination. We considered all the factors as a whole in reaching our determination. In addition, individual members of our Board of Directors may have given different weights to different factors.

The merger proposal is being made at this time because the sooner the proposal can be implemented, the sooner we will cease to incur the expenses and burdens associated with the reporting requirements of the Exchange Act and the sooner shareholders who are to receive cash in the merger will receive and be able to reinvest or otherwise make use of such cash payments. We determined that the merger proposal was the best choice for the shareholders and us. We estimate that following the proposed merger approximately 1,102 shareholders of record will remain, which will leave us comfortably below the maximum of 1,200 shareholders of record necessary to terminate our registration under the Exchange Act and no longer be subject to the related reporting requirements.

Background of the Going Private Merger Proposal

First Farmers was incorporated under the laws of the State of Tennessee in 1982 to serve as the bank holding company for First Farmers and Merchants Bank, which was chartered as a bank in 1909.

As of December 31, 2015, there were 4,739,502 shares of First Farmers common stock issued and outstanding held by 2,099 record holders. Approximately 991 of these record shareholders held fewer than 400 shares (not including beneficial owners whose shares may be registered in "street" name). Collectively, these 991 record holders own an aggregate of approximately 112,491 shares, representing approximately 2.4% of our issued and outstanding shares. Additionally, based on available information, we estimate that approximately 645 shares are held in street name by brokers or other nominees who each hold in the aggregate fewer than 400 shares of our common stock. These shares will also be cashed out in the merger.

Our common stock has never traded on a national securities exchange and we have filed reports under the Exchange Act since 1983. These reports include: annual, quarterly and current reports presenting and analyzing our business, financial condition, results of operations and management structure; ongoing reports regarding insiders' stock transactions and potential short-swing profit liability; and proxy statements disclosing information about our directors and executive officers, their compensation and our corporate governance process. Although we have been subject to public reporting obligations since 1983, the costs of meeting all legal and accounting requirements for maintaining our status as a public company have grown significantly, particularly after passage of the Sarbanes-Oxley Act in 2002. As a result of a number of changes in federal law and regulations, we have become subject to heightened compliance and documentation requirements in a variety of areas, including disclosure and internal controls, internal and external audit relationships, and the duties and qualifications of our Board committees. We have also become subject to accelerated and expanded disclosure requirements relating to our corporate and trading activities. As a result of these new requirements, our cost of compliance has increased, particularly relative to our limited personnel resources and market capitalization. See "—Purpose and Reasons for the Merger" on page 12. Since becoming a public reporting company, however, we have not raised any capital through the issuance of equity or debt securities in public markets and have only used our common equity as acquisition currency in a single business combination that closed in 1999.

Before passage of the JOBS Act in April 2012, our senior management and Board of Directors began to discuss generally the relative benefits and costs, both direct and indirect, relating to continuing our status as a public company. The Board authorized a committee comprised of certain independent Board members and members of our senior management team to review First Farmers' options and to make recommendations to the Board as to alternatives. This committee considered the pros and cons of listing First Farmers' common stock on a national securities exchange, establishing an Employee Stock Ownership Plan, implementing a stock repurchase program, and effecting various "going private" strategies such as a reverse stock split, a recapitalization and an issuer tender offer. This effort was eventually abandoned, because a "going private" transaction prior to the JOBS Act would have had a larger impact on First Farmers' shareholder base (5,330,000 shares held by more than 2,200 record holders at the end of 2011) and capital position than the currently proposed transaction. The JOBS Act increased the number of record holders that bank holding companies can have before being required to file reports with the SEC from 300 to 1,200.

In July 2012 a newly formed Board committee (the Corporate Vision Committee) consisting of Board members Dalton Mounger, Jonathan Edwards and Lacy Upchurch was formed to consider various options to decrease the costs and management time associated with Exchange Act compliance in a post-JOBS Act environment. The Corporate Vision Committee consulted with outside legal counsel and other parties as to the advantages and disadvantages as well as the possible methods First Farmers could use to eliminate the burden of First Farmers' status as a public reporting company. This Committee explored the possibility of implementing a reverse stock split, then considered a cash merger, which would have applied to all holders of less than 1,000 shares, a threshold that would take the number of record holders below 1,200 with a reasonable cushion to absorb fluctuations in the record holder count. This transaction as proposed would have affected approximately 1,500 record holders owning approximately 423,000 shares. After considering this and other information provided by outside counsel, the Corporate Vision Committee recommended to the Board at a meeting on June 18, 2013, that First Farmers not proceed with a going private transaction at that time due to the number of shares that would need to be purchased and the number of record holders impacted. The Corporate Vision Committee was then dissolved.

In the second quarter of 2015, senior management began to re-evaluate the expense and burden of First Farmers' status as a public company against any benefits it was getting from this status. Management concluded that any benefits First Farmers received as a result of SEC registration was far outweighed by the expense and burden of being a public company. Management reviewed First Farmers' history and determined that, since becoming a public reporting company, First Farmers had not raised any capital through the issuance of equity or debt securities in public markets and had only used common equity as acquisition currency in a single business combination. After weighing the disadvantages of remaining public against the advantages, management consulted with outside legal counsel and other third parties and concluded that a going private transaction through a cash merger would be desirable. In addition, senior management examined the shareholder list of First Farmers to evaluate the effects of various cash-out thresholds.

At a Board meeting on October 27, 2015, First Farmers' senior management presented a report regarding its recommendation as to the appropriate cash-out threshold and on the costs and benefits of proceeding with a going private transaction. Management reported to the Board that management had considered the four alternative structures described under "Alternatives Considered" on page 15 in addition to the merger proposal, but determined that the merger proposal was the best choice for First Farmers and its shareholders. At that meeting, the Board authorized management to proceed with any additional steps necessary to bring this proposal to the point where it could be considered and voted upon. As a result, senior management selected Sheshunoff & Co. to prepare an initial "fair value" report for presentation at the November board meeting. Sheshunoff & Co. was selected based on senior management's prior experience with this firm, which includes prior consulting engagements on behalf of First Farmers, attendance by senior management at various conferences sponsored by Sheshunoff & Co. and its general reputation in the financial services industry.

Sheshunoff & Co. delivered a report dated November 17, 2015 on the “fair value” of First Farmers common stock as that term is described in the dissenters’ rights provisions of the Tennessee Business Corporation Act. Sheshunoff & Co.’s valuation indicated that the fair value of First Farmers common stock was between \$28.25 and \$29.30 per share. Sheshunoff & Co.’s report provided a detailed explanation of the financial analyses supporting the value. At a Board meeting held on November 17, 2015, members of senior management of First Farmers described to the Board their discussions with Sheshunoff & Co. and presented the preliminary “fair value” determination by Sheshunoff & Co. Management also described the additional steps it had taken since the October 27, 2015 meeting to prepare the merger proposal to be considered and voted upon by the Board. The Board then renewed its discussions as to whether it was in the best interests of First Farmers and its shareholders to engage in the going private transaction. Legal counsel apprised the Board members of their duties under Tennessee law in making this determination. Barry White, First Farmers General Counsel, reviewed the resolutions authorizing a going private transaction as proposed by management, following which the Board unanimously approved the going private transaction by means of a merger transaction and authorized the retention of Sheshunoff & Co. to serve as First Farmers’ financial advisor based on the recommendation of senior management and Sheshunoff & Co.’s reputation as a nationally recognized investment banking firm with substantial expertise in transactions similar to the proposed transaction. The Board selected Sheshunoff & Co. based on its experience in rendering valuations and fairness opinions, its knowledge of the financial services industry and the business of First Farmers, and the overall terms, including fees, of the engagement. The Board also considered that Sheshunoff & Co. completes over 100 bank stock appraisals annually for public and private financial institutions with total assets ranging from \$20 million to \$9.6 billion.

In determining the number of shares a shareholder needed to own in order to remain a shareholder after the merger, the Board’s primary consideration was how best to achieve the goal of becoming a private company while cashing out the fewest number of shareholders. The Board selected 400 shares as the minimum number of shares required to remain as a shareholder because it provided a sufficient cushion in order to ensure that, after completion of the merger, the number of record shareholders would be less than the 1,200 shareholder limit necessary to terminate our registration under the Exchange Act, while at the same time providing that a relatively small number of shares (estimated at approximately 114,464, or 2.4% of our outstanding shares at the time of the meeting) would be cashed out in the proposed merger.

At its December 15, 2015 meeting, the Board discussed the possibility that our number of shareholders of record could increase following the merger as a result of certain share transfers, whether by sale, gift or otherwise. Under the provisions of the Exchange Act, if, after completion of the merger, the number of our shareholders of record did increase to 1,200 or greater, then we would be required to resume our reporting obligations under the Exchange Act. At this meeting, the Board discussed and approved management’s recommendation to continue the stock repurchase program in 2016 to help us control any potential future increases in the number of our record shareholders to enable us to avoid becoming subject to the reporting requirements under the Exchange Act in the future and to provide some potential for liquidity to our remaining shareholders after completion of the merger.

On February 16, 2016 Sheshunoff & Co. delivered to the Board of Directors its updated report based on year end 2015 preliminary numbers, on the “fair value” of First Farmers common stock. Sheshunoff & Co. reported that the fair value of First Farmers common stock was between \$28.50 and \$30.60 per share. Sheshunoff’s & Co. report provided the Board with a detailed explanation of the financial analyses supporting the range.

At the February 16, 2016 Board meeting, outside legal counsel advised the Board with respect to certain matters related to the transaction, including possibly forming an independent committee comprised of independent members of the Board to review and evaluate the proposed transaction on behalf of the shareholders as well as possibly structuring the transaction to include “neutralized voting,” whereby separate approval by a majority of those shareholders who are not executive officers or directors of First Farmers would be required in order to consummate the transaction. Following discussion, the Board unanimously determined not to form an independent committee to evaluate the proposed transaction because a majority of our Board of Directors is comprised of independent members and all of the directors (including all of our independent directors) held an interest in the transaction as shareholders who owned at least 400 shares of common stock. The Board also unanimously determined not to offer neutralized voting because the executive officers and directors own a relatively small amount of the

outstanding common stock (6.2%) and because a neutralized voting requirement would usurp the power of the holders of all our outstanding shares to consider and approve the merger agreement as provided under Tennessee law, our charter documents and the terms of the merger agreement. We also considered such provision unnecessary in light of the rights of shareholders, whether affiliated or unaffiliated, to dissent from the merger under Tennessee corporate law, regardless of the number of shares that they own. While the Board of Directors believes that this procedural safeguard was not necessary in rendering its determination, the Board did consider that the members of the Board and our executive officers beneficially own approximately 6.2% of our outstanding common stock and would beneficially own an increased percentage following the merger. However, because affiliated and unaffiliated shareholders are treated identically under the terms of the transaction as proposed, the Board did not believe that this procedural safeguard was a necessary measure.

Outside legal counsel also reviewed in detail with the Board the definitive merger agreement and all related documents, copies of which were delivered to each director before the date of the meeting. After a discussion of these factors, and Sheshunoff & Co.'s February 16, 2016 valuation report, our Board of Directors, including the independent directors, unanimously approved the merger agreement pursuant to which shareholders owning fewer than 400 shares would receive cash for their shares of our common stock. Given the involuntary nature of the merger and the fact that the low and high sales prices of our common stock over the past two years have ranged from \$25.00 to \$29.00 per share, with trades during the last three months of 2015 ranging from \$26.50 to \$29.00, the Board set the cash-out price at \$30.25. The Board also made a determination that the merger was fair, from a financial and procedural point of view, to our affiliated and unaffiliated shareholders receiving cash under the merger agreement and to our affiliated and unaffiliated shareholders retaining their shares, and directed that the merger agreement be submitted to the shareholders with a recommendation for approval.

On February 16, 2016, Sheshunoff & Co. also delivered its preliminary oral opinion to the Board stating that the \$30.25 per share price to be paid in the merger was fair, from a financial point of view, to our shareholders, both those who will receive cash and those who will retain their shares in the merger. (See “—Opinion of Independent Financial Advisor”). In rendering its opinion, Sheshunoff & Co. reviewed, among other things, its written valuation report dated February 16, 2016. The written opinion was dated February 23, 2016, approximately one week later than the valuation report, because Sheshunoff & Co. could not prepare an opinion as to the fairness of the \$30.25 per share cash out price until the Board established the cash-out price, which, as described above, did not occur until the February 16, 2016 Board meeting.

Recommendation of the Board of Directors; Fairness of the Merger Proposal

The structure and terms of the merger were determined by our current management and our Board of Directors. Our Board of Directors currently consists of ten (10) persons, eight (8) of whom are independent directors and two (2) of whom are officers of First Farmers or the Bank. We retained Sheshunoff & Co., an independent financial advisor experienced in the financial analysis of and valuation of financial institutions, to value our common stock. The cash consideration to be paid for our common stock under the merger was determined by us, based, in part, on Sheshunoff & Co.’s valuation report.

After considerable discussion, our Board of Directors unanimously determined and believes that the merger agreement is in the best interests of us and our shareholders. In reaching its conclusion, our Board of Directors also determined that the transaction is in the best interests of and substantively fair to shareholders who will receive cash in the merger as well as those shareholders who will retain their shares of common stock after the merger. Our Board of Directors also believes that the process by which the transaction was approved is fair to all of our shareholders, including unaffiliated shareholders receiving cash in the merger and unaffiliated shareholders who will retain their shares after the merger. Further, our Board unanimously approved the merger agreement, which included the \$30.25 per share price to be paid to shareholders whose shares are cashed out in the merger. All of the members of our Board of Directors and our executive officers have expressed an intention to vote in favor of the merger agreement for the reasons described below. As of February 29, 2016, our directors and executive officers (13 persons) owned a total of 296,001 shares of our common stock, or approximately 6.2% of the total shares entitled to vote at the Annual Meeting. Accordingly, only the approval of shareholders owning an additional 2,073,751 shares is necessary for the approval of the merger agreement.

Our Board of Directors considered a number of factors in deciding to approve the merger agreement. The Board’s primary reason for effecting the merger is to accomplish the going private transaction so that our shares will no longer be registered under the Exchange Act. We considered the views of management and that cost savings of approximately \$250,000 per year could be achieved if we terminated the registration of our common stock under the Exchange Act, including indirect savings resulting from reductions in the time and effort currently required of management to comply with the reporting and other requirements associated with continued registration of our common stock under the Exchange Act. We also considered the effect that terminating the registration of our common stock would have on the market for our common stock and the ability of shareholders to buy and sell shares. As a locally owned community bank holding company whose shares are not listed on any exchange or traded on any quotation system, we have incurred the costs associated with being a public company, while not enjoying many of the benefits associated with being a public company. We determined that the cost savings and reduced burden on management to be achieved by terminating registration of our common stock under the Exchange Act outweighed any potential detriment from terminating such registration.

We considered numerous factors in reaching our conclusion as to the fairness of the merger to all of our shareholders, including the effects described under “—Effects of the Merger on First Farmers” on page 25, “—Effects of the Merger on Shareholders Generally” on page 25, “—Effects of the Merger on Affiliated Shareholders” on page 26 and “—Purposes and Reasons for the Merger” on page 26. The Board also reviewed the federal income tax and pro forma financial effects of the merger on us and our shareholders. We did not assign any specific weights to the factors listed

below. Moreover, in their considerations individual directors may have given differing weights to different factors. The average tenure on the Company's board of directors is ten years and each member of the Company's board is familiar with the community banking industry. In addition, management of the Company provides the board with industry comparable information on at least a quarterly basis. The information includes earnings and stock prices of peer banks from which earning multiples are derived. In addition, during each of the last two years, Sheshunoff & Co. provided the Company's board with an independent third party report with industry comparable information, which included earnings and stock prices of peer banks.

- **Opinion of Independent Financial Advisor.** Our Board of Directors considered the presentation dated February 16, 2016 of Sheshunoff & Co. giving an updated valuation report as of December 31, 2015, as well as the written fairness opinion dated February 23, 2016, to the effect that, as of the date of such opinion and based upon and subject to certain matters stated therein, the cash consideration to be paid in the merger is fair, from a financial point of view, to all our shareholders, including unaffiliated shareholders who will receive cash in the merger as well as those shareholders who will retain their shares after the merger. The Board of Directors also reviewed and considered the financial analyses supporting the opinion of the financial advisor. You should read the discussion under “—Opinion of Independent Financial Advisor” and the copy of the opinion of Sheshunoff & Co., which is attached as *Appendix B* to this Proxy Statement.

- **Historical Market Prices of Our Common Stock.** Based on transactions of which we are aware, the low and high sales prices of our common stock over the past two years have ranged from \$25.00 to \$29.00 per share, with trades during the last three months of 2015 ranging from \$26.50 to \$29.00. You should read the discussion under “Information About First Farmers and its Affiliates—Market for Common Stock and Dividends” for more information about our stock prices. Based upon the limited trading history and the prices of our common stock prior to the public announcement of the merger, the Board of Directors believes that the price of \$30.25 is fair to all of our shareholders.
- **Premium to Book Value.** As of December 31, 2015, our book value per share was \$24.83. Although book value was a factor that was considered by our Board of Directors, among others, in determining the consideration to be paid to cashed-out shareholders in the merger, our Board of Directors determined that it was not directly relevant because it was the Board’s view that our value as a going concern is greater than our book value. However, the Board of Directors noted that the per share cash price of \$30.25 payable in the merger reflected a multiple of 1.22 times our \$24.83 book value per share.
- **Going Concern Value.** In determining the cash amount to be paid to cashed-out shareholders in the merger, our Board of Directors valued our shares on the basis of a going concern, without giving effect to any anticipated effects of the merger. Also, the Board of Directors did not consider the amount per share that might be realized in a sale of 100% of our stock, as our Board of Directors determined that consideration of such an amount was inappropriate in the context of a transaction that would not result in a change of control of First Farmers. In determining the going concern value of our shares, the Board of Directors adopted the analyses and conclusions of our financial advisor, which are described under “—Opinion of Independent Financial Advisor”.
- **Earnings Multiple.** Our Board of Directors reviewed our earnings for the previous three years. For the three years ended December 31, 2015, 2014 and 2013, we reported net income of approximately \$10,306,000, \$10,242,000 and \$9,611,000, respectively. The price per share to be paid in the merger reflects a multiple of 14.2 times our earnings per share for the year ended December 31, 2015. From time to time, members of First Farmers’ Board of Directors and management receive financial information from a variety of sources, including earnings and stock prices for peer banks in its market area from which earnings multiples are determined. Based on the Board’s knowledge of the community banking industry in First Farmers’ market, the Board believes that the price to be paid in the merger reflects a reasonable multiple to its earnings for the year ended December 31, 2015. Therefore, the Board viewed the earnings multiple as a factor, among others, which supported its decision to approve the merger agreement and its conclusion as to the fairness of the merger to unaffiliated shareholders, both those receiving cash for their shares and those retaining their shares following the merger.
- **Liquidity Event.** Our Board of Directors considered the opportunity that the merger presents for shareholders owning fewer than 400 shares to liquidate their holdings without incurring brokerage costs, particularly given the limited trading volume for shares of our common stock at a price that represents a premium over historical sales prices.

We also recognized that the merger consideration to be paid to the cashed-out shareholders in the merger reflected a premium over the purchase prices for our common stock prior to the announcement of the merger.

The Board of Directors also considered historical prices paid by First Farmers to repurchase its shares. Since January 1, 2014, we have repurchased a total of 281,510 shares at purchase prices ranging from \$25.00 to \$29.00 in negotiated transactions.

The Board of Directors did not consider transactions in our common stock which occurred following the announcement of the merger. Additionally, certain of our directors and executive officers have engaged in transactions involving shares of our common stock in the two years prior to the announcement of the going private transaction. The Board of Directors considered these trades, along with trades by unaffiliated

shareholders, in its review of the historical prices of our common stock. Because the transactions in our common stock by directors and executive officers were effected in the same manner as were, to management's knowledge, trades by unaffiliated shareholders, the Board of Directors did not distinguish between transactions in our common stock involving our directors and executive officers and those involving unaffiliated shareholders.

Although it is quite rare for an insured depository institution to go into voluntary liquidation, the base valuation technique that relates to our book value is, for the most part, an assumed liquidation value. Because the price to be paid to the cashed-out shareholders in the merger is in excess of our book value and because we will continue to operate our business following completion of the merger, we did not consider our liquidation value an important factor in determining the fairness of the merger.

No firm offers have been made by an unaffiliated person during the preceding two years for (1) the merger or consolidation of us into or with such person, (2) the sale or other transfer of all or any substantial part of our assets or (3) the purchase of a number of shares of our common stock that would enable the holder thereof to exercise control of us.

The transaction is not structured so that approval of at least a majority of unaffiliated shareholders is required. Our Board determined that any such voting requirement would usurp the power of the holders of a majority of our outstanding shares to consider and approve the merger agreement as provided under Tennessee law, our charter documents and the terms of the merger agreement. We also considered such a provision unnecessary in light of the rights of shareholders, whether affiliated or unaffiliated to dissent from the merger pursuant to Tennessee corporate law, regardless of the number of shares they own. See “Proposal I: Approval of the Merger Agreement—Dissenters’ Rights of Shareholders.”

A majority of our Board of Directors is comprised of independent members, and, accordingly, there was no need to form a special committee or retain any unaffiliated representative(s) to represent unaffiliated shareholders, as our Board of Directors was able to adequately balance the competing interests of the non-continuing shareholders and the continuing shareholders in accordance with their fiduciary duties. Although all of the members of our Board of Directors own more than 400 shares of our common stock, the 400 share cutoff set in the merger agreement was determined without regard to the directors’ share ownership. As this represented the sole potential conflict of interest and the Board members will be treated identically to all other shareholders in the merger, we did not feel that any additional protections that may be afforded by a special committee would be significant. See “Special Factors—Interests of Executive Officers and Directors in the Merger” and “Special Factors—Conduct of First Farmers’ Business After the Merger.”

We have not made any provision in connection with the merger to grant unaffiliated shareholders access to our corporate files or to obtain counsel or appraisal services at our expense. With respect to unaffiliated shareholders’ access to our corporate files, we determined that this Proxy Statement, together with our other filings with the SEC, provide adequate information for unaffiliated shareholders to make an informed decision with respect to the merger. We also considered the fact that under Tennessee corporate law, and subject to certain conditions set forth under Tennessee law, shareholders have the right to review our relevant books and records of account. We did not consider these steps necessary to ensure the fairness of the merger proposal. We determined that such steps would be costly and would not provide any meaningful additional benefits. We noted the fact that the financial advisor engaged by us considered and rendered its opinion as to the fairness, from a financial point of view, of the consideration payable in the merger to our shareholders, including shareholders who will receive cash in the merger and those who will retain their shares after the merger.

After consideration of the factors described above, the Board believes that the transaction is substantively fair, notwithstanding the absence of such an unaffiliated shareholder approval requirement, independent committee or unaffiliated representative. The Board also believes that the transaction is procedurally fair because, after consideration of all aspects of the proposed transaction as described above, all of the directors, including all of the members of the Board who are not employees of First Farmers, approved the merger and the merger agreement.

Determination of Fairness by Merger Subsidiary and Filing Persons

The merger subsidiary was formed for the purpose of facilitating the going private transaction. Its sole shareholder is First Farmers and its directors are T. Randy Stevens, the Chairman and Chief Executive Officer of First Farmers, and Brian K. Williams, the President of First Farmers. Under certain applicable rules and regulations promulgated by the SEC, our directors and executive officers are deemed to be “filing persons” for the purposes of the going private transaction. As a result, each filing person is required to state whether he or she reasonably believes that the transaction is fair to unaffiliated security holders. The filing persons consist of the following individuals: M. Darlene Baxter, Jonathan M. Edwards, Thomas Napier Gordon, Dalton M. Mounger, Timothy E. Pettus, Patrick J. Riley, Matthew M. Scoggins, Jr., T. Randy Stevens, W. Lucy Upchurch, Brian K. Williams, Dr. David S. Williams, Barry B. White, and Robert E. Krimmel (collectively, the “Filing Persons”).

In forming their belief as to the fairness of the transaction to the unaffiliated shareholders, the merger subsidiary and each of the Filing Persons relied upon the factors considered by and have expressly adopted the analysis and conclusions of the Board of Directors of First Farmers, including the analyses performed and opinion delivered by Sheshunoff & Co. See “—Recommendation of the Board of Directors; Fairness of the Merger Proposal.” Based on those factors, the merger subsidiary and each of the Filing Persons reasonably believes that the merger agreement and the process by which the transaction was approved are fair to each of the unaffiliated shareholders, including those who will receive cash in the merger and those who will retain their shares of common stock. Neither the merger subsidiary nor any of the Filing Persons have received any report, opinion or appraisal from an outside party that is materially related to the merger other than the report of Sheshunoff & Co. The belief of each of the Filing Persons is their individual belief and does not constitute investment advice. If shareholders are unsure of whether to vote in favor of the merger agreement, they should consider the recommendation of the Board of Directors or consult with their personal financial advisor.

During the last five years, neither FFMC Merger Corporation nor, to its knowledge, any of its directors or executive officers has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction as a result of which any such person was or is subject to a judgment, decree, or final order enjoining further violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of those laws. Each executive officer and director of First Farmers is a citizen of the United States of America. In addition, during the last five years, neither First Farmers nor, to its knowledge, any of its directors or executive officers has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction as a result of which any such person was or is subject to a judgment, decree, or final order enjoining further violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of those laws. Each executive officer and director of First Farmers is a citizen of the United States of America.

Opinion of Independent Financial Advisor

Our Board of Directors retained Sheshunoff & Co. as its financial advisor in connection with the merger because Sheshunoff & Co. is a nationally recognized investment banking firm with substantial expertise in transactions similar to the proposed transaction and is familiar with us and our business. As part of its investment banking activities, Sheshunoff & Co. is regularly engaged in the independent valuation of financial institutions and securities in connection with mergers, acquisitions, underwritings, sales and distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

Sheshunoff & Co. reported to our Board of Directors on February 16, 2016, that the fair value of the outstanding common stock of First Farmers was within a range of \$28.50 to \$30.60 per share and that the merger consideration of \$30.25 per share is fair, from a financial point of view, to our shareholders that will be cashed out and to our shareholders that will remain following the merger. A copy of Sheshunoff & Co.'s opinion dated February 23, 2016 is attached as *Appendix B* to this Proxy Statement and should be read in its entirety.

No limitations were imposed by our Board of Directors upon Sheshunoff & Co. with respect to the investigations made or procedures followed in rendering its opinion. Sheshunoff & Co.'s fairness opinion is based on the financial analysis described below. Sheshunoff & Co.'s fairness opinion is directed to our Board of Directors and addresses only the fairness, from a financial point of view, of the merger consideration to the shareholders of First Farmers. Sheshunoff & Co.'s fairness opinion is not intended to be and does not constitute a recommendation to any shareholder as to how such shareholder should vote with respect to the proposed transaction. Sheshunoff & Co.'s fairness opinion does not address our underlying business decision to proceed with the proposed transaction.

In arriving at its opinion, Sheshunoff & Co. reviewed and analyzed, among other things, the following:

- a draft of the Agreement and Plan of Merger;
- our annual reports on Form 10-K for the years ended December 31, 2014, December 31, 2013 and December 31, 2012;
- our quarterly reports on Form 10-Q for the quarters ended September 30, 2015, June 30, 2015 and March 31, 2015;
- certain other information relating to us, including financial forecasts provided to Sheshunoff & Co. or discussed with Sheshunoff & Co. by us and information from meetings with our management to discuss past and current operations, financial condition and prospects, as well as the results of regulatory examinations;
- Operating results of banks headquartered in Tennessee with total assets between \$500 million and \$5 billion;
- the trading activity for our common stock;

- operating results of selected publicly traded banking institutions;
- the Tennessee Code definition of fair value provided by First Farmers General Counsel;
- the present value of the after-tax cash flows based on five year projections on a stand-alone basis;
- the market price of selected publicly traded banking institutions; and
- certain other information, financial studies, analyses and investigations and financial, economic and market criteria which Sheshunoff & Co. deemed relevant.

In conducting its review and in rendering its opinion, Sheshunoff & Co. relied upon and assumed the accuracy and completeness of the financial and other information provided to it or publicly available, and did not attempt to independently verify the same. Sheshunoff & Co. relied upon our management as to the reasonableness of the financial and operating forecasts and projections (and the assumptions and bases therefor) provided to it, and Sheshunoff & Co. assumed that such forecasts and projections reflect the best currently available estimates and judgments of our management.

We do not publicly disclose internal management forecasts, projections or estimates of the type furnished to Sheshunoff & Co. in connection with its analysis of the financial terms of the proposed transaction, and such forecasts and estimates were not prepared with a view towards public disclosure. These forecasts and estimates were based on numerous variables and assumptions which are inherently uncertain and which may not be within the control of management, including without limitation, the general economic, regulatory and competitive conditions. Accordingly, actual results could vary materially from those set forth in such forecasts and estimates.

Sheshunoff & Co. did not make an independent evaluation of the assets or liabilities (including any contingent, derivative or off-balance-sheet assets or liabilities) of the Company or obtain any evaluations or appraisals of our assets or liabilities. Sheshunoff & Co. is not an expert in the evaluation of loan portfolios for the purposes of assessing the adequacy of the allowance for loan and lease losses and assumed that such allowance for the Company is, in the aggregate, adequate to cover such losses. In addition, Sheshunoff & Co. did not review any individual credit or customer files or make an independent evaluation, appraisal or physical inspection of the assets or individual properties of the Company, nor has Sheshunoff & Co. been furnished with any such evaluations or appraisals. For purposes of its opinion, Sheshunoff & Co. assumed that the merger would have the tax, accounting and legal effects described in the merger agreement. Sheshunoff & Co.'s opinion as expressed herein is limited to the fairness of the proposed transaction, from a financial point of view, to our shareholders.

The opinion expressed by Sheshunoff & Co. was based upon market, economic and other relevant considerations as they existed and have been evaluated as of the date of the opinion and the information made available to it through that date. Events occurring after the date of issuance of the opinion including, but not limited to, changes affecting the securities markets, the results of operations or material changes in assets or liabilities, could materially affect the assumptions used in preparing the opinion. Sheshunoff & Co. assumed that there are no material changes in the assets, financial condition, results of operation, regulatory standing, business or prospects of the Company since their review of our last financial statements provided to them. Sheshunoff & Co. assumed that all of the representations and warranties contained in the merger agreement and any related agreements are true and correct, that each party to such agreements will perform all of the covenants required to be performed by such party under such agreements and that the conditions precedent in the merger agreement are not waived.

Summary of Analysis. The following is a summary of the material financial analyses performed by Sheshunoff & Co. in connection with the preparation of its opinion and does not purport to be a complete description of all the analyses performed by Sheshunoff & Co. Sheshunoff & Co. believes that its analyses must be considered as a whole and that selecting portions of such analyses and the factors considered therein, without considering all factors and analyses, could create an incomplete view of the analyses and the processes underlying its opinion. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. In its analyses, Sheshunoff & Co. made numerous assumptions with respect to industry performance, business and economic conditions, and other matters, many of which are beyond the control of the Company and Sheshunoff & Co. Any estimates contained in Sheshunoff & Co.'s analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than such estimates. Estimates of values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold.

Sheshunoff used three approaches for analyzing the financial performance and condition of the Company, the fair value of and consequently the fairness, from a financial point of view of, to our shareholders, both those who will receive cash and those who will retain their shares in the merger.

Three approaches were used in conducting the analysis and providing the evidence in support of the fairness opinion as determined by the fair value standard of the Supreme Court of Tennessee's reliance on the "Delaware Block Method." They were:

- Income Approach: Using a discounted cash flow analysis;
- Market Approach: An analysis of publicly traded banks in the United States headquartered in either Tennessee, Kentucky, Alabama or Mississippi with total assets less than \$5 billion and traded on a major national exchange (NYSE, NYSE MKT or NASDAQ); and
- Net Asset Value Approach: Sum of the total equity of the Company as of December 31, 2015 and off-balance-sheet assets or liabilities as reported by management of the Company.

Sheshunoff & Co. gave more weight to the income approach (40%) and market approach (40%) and less to the net asset value approach (20%). Sheshunoff & Co. gave more weight to the income approach as it is an effective method to capture the value of expected future earnings in terms of present value. Sheshunoff & Co. gave more weight to the market approach as there is readily available information for publicly traded financial institutions. It is generally possible to find comparable publicly traded guideline companies based on performance, size and geography and to determine market pricing multiples to serve as a proxy for pricing. The market approach captures the value of a financial institution based on historical financial performance at a specific point in time. The net asset value reflects the equity value with an adjustment

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

for off balance sheet assets or liabilities but does not necessarily capture the market value of every assets and liability.

Per Share as of December 31, 2015	Value	Weight	Per Share
Income Approach	\$27.70	40%	\$11.08
Market Approach	\$32.37	40%	\$12.95
Net Asset Value Approach	\$25.23	20%	\$ 5.05
Estimated Fair Value			\$29.08
Estimated Fair Value Range		\$28.50 - \$30.60	

Standard of Value: Sheshunoff & Co. review the merger consideration under the fair value standard. Sheshunoff & Co. discussed the appropriate valuation standard under Tennessee law with the Company's General Counsel who provided the following definition of fair value detailed in Section 48-23-101(4) of the Tennessee Code:

“The fair value, with respect to a dissenter’s shares, means the value of the shares immediately before the effectuation of the corporate action to which the dissenter objects, excluding any appreciation or depreciation in anticipation of the corporate action.”

Income Approach - Discounted Cash Flow Analysis: The discounted cash flow analysis involves the estimation of the current or present value of expected future earnings for a firm or asset, based on an estimate of the risk those earnings, the growth rate of the earnings, and the time period and pattern on which those cash earnings are received.

Management provided projections on a stand-alone basis of assets, net income, and dividends over a five-year period. Based on management projections, the Company’s future earnings to common shareholders, were determined by estimating the Company’s optimum dividend-paying capacity to common shareholders. Optimum dividend capacity, or cash flows valued, consists of earnings available to common shareholders in excess of that which is necessary to maintain an 8% tangible common equity to tangible asset ratio but is no more than 100% of projected annual earnings. Discounting this optimum dividend-paying capacity to the common shareholders produces a going-concern value.

To capture the value of the Company’s after the five year projection period, Sheshunoff & Co. estimated a terminal value for the Company by: (1) multiplying the final period projected earnings by one plus the assumed annual long-term growth rate of the earnings of the Company of 5% (or 1.05) and (2) dividing this product by the difference between the required rate of return of 12.25% as shown below and the assumed annual long-term growth rate of earnings of 5% (7.25%) in (1) above. Sheshunoff & Co. discounted the annual cash flow streams (defined as all earnings to common shareholders in excess of that which is required to maintain a tangible common equity to tangible asset ratio of 8%) and the terminal value using a discount rate of 12.25%. This discounted cash flow analysis indicated a value of approximately \$27.70 per share based on 4,739,502 shares outstanding which is below the merger consideration of \$30.25 per share.

In addition, Sheshunoff & Co. used the mid-year convention method in order to determine the net present value factors. The mid-year convention method reflects the fact that cash flows are earned continuously over the course of the year.

In determining the discount rate, Sheshunoff & Co. used the modified capital asset pricing model as follows:

Discount Rate Calculation – December 31, 2015

Risk-free rate (20yr Treasury Constant)	2.61%
Equity Risk Premium (Duff & Phelps) * Beta ¹ (7% * 0.777)	5.44%
Size Premium (Duff & Phelps)	3.74%
Company Specific Risk Premium	0.50%
Calculated Discount Rate	12.29%
Selected Discount Rate (Rounded)	12.25%

1 Beta calculated as Median of public U.S. banks between \$1B and \$2B in assets from 2013 through 2015

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

Market Approach – Publicly Traded Guideline Companies: The second approach used to estimate and test fairness was a comparison of the merger consideration multiples with select publicly traded companies. Sheshunoff & Co. performed an analysis of trading prices for a selected group of banking organizations in the U.S. with similar asset size and comparable characteristics to the Company (the “Guideline Companies”). The Guideline Companies consisted of 16 banks headquartered in either Tennessee, Kentucky, Alabama or Mississippi with total assets less than \$5 billion (between \$432.2 million and \$4.23 billion) and traded on a major national exchange (NYSE, NYSE MKT or NASDAQ). Financial institutions that are broadly categorized as thrifts were excluded from this list.

A list of the Guideline Companies is as follows:

Auburn National Bancorp.	Community Trust Bancorp Inc.	HopFed Bancorp Inc.	Republic Bancorp Inc.
Citizens First Corp.	Farmers Capital Bank Corp.	National Commerce Corp.	SmartFinancial Inc.
Citizens Holding Co.	First Bancshares Inc.	Peoples Financial Corp.	Stock Yards Bancorp Inc.
Commerce Union Bancshares Inc.	Franklin Financial Network Inc	Porter Bancorp Inc.	United Security Bancshares

The analysis yielded trading multiples for the Guideline Companies as summarized below:

	Comparable Public Pricing Multiples				Assets	Deposits
	Book (x)	Tangible Book (x)	8% Tg. Book (x)	Core LTM EPS (x)		
Maximum	1.97	1.98	2.24	38.4	20.0%	23.8%
Minimum	0.50	0.50	0.11	9.4	4.1%	4.4%
Average	1.17	1.27	1.25	19.1	11.3%	14.3%
Median	1.15	1.27	1.22	15.2	11.4%	14.9%
FFMH*	0.90	0.97	0.97	10.9	8.4%	9.6%
First Farmers**	1.22	1.32	1.35	14.2	11.5%	13.0%

* Based on FFMH shares traded on the OTC Pink exchange

** Based on the merger consideration of \$30.25 per share

The resulting multiples based on the Company’s shares traded on the OTC Pink (ticker symbol: FFMH) exchange are significantly lower than the median multiples of the Guideline Companies. The resulting multiples at the merger consideration are similar to slightly higher than the median multiples of the Guideline Companies.

Market Approach:

Price/Earnings Valuation at Estimated Price/Earnings Ratio	\$154,405
Price/Tangible Book Valuation using Market Multiples:	
Tangible Book Value	\$152,148
8% Tangible Book Value	\$153,724
Average Market Approach Value	\$153,425
Shares Outstanding	4,739,502
Market Approach Per Share Value (\$153,425,000/4,739,502)	\$32.37

Net Asset Value Analysis. The net asset approach for determining value estimates a value by adjusting the reported values of assets and liabilities to their market values. As reported by management, the Company had off-balance-sheet assets of approximately \$1.9 million. The off-balance sheet assets consisted of the market value of premises and land owned by the Company netted against their respective balance sheet values. The net off-balance-sheet value was added to the total equity of the Company of approximately \$117.7 million as of December 31, 2015, resulting in a net asset value of \$119.6 million (rounded) or \$25.23 per share.

Fairness Opinion. After applying weighting, as determined by Sheshunoff & Co., to each of the three approaches described herein, the fair value range of the Company's common stock was determined to be \$28.50 to \$30.60 per share. The merger consideration of \$30.25 per share meets the Tennessee fair value standard and falls within Sheshunoff & Co.'s estimated fair value range. The resulting pricing multiples of the merger consideration are similar to slightly higher than the median multiples for the Guideline Companies. Therefore, the merger consideration is a reasonable indication of fair value of the Company and, thus, meets the definition of fair value in Tennessee.

	Fair Value Range				Resulting Multiples @ Merger Price \$30.25
	OTC FFMH Market Multiples	Guideline Company Median Multiples	Resulting Value Multiples @ \$28.50	Resulting Value Multiples @ \$30.60	
Comparative Multiples					
Common Book	0.90x	1.15x	1.15x	1.23x	1.22x
Tangible Common Book	0.97x	1.27x	1.24x	1.33x	1.32x
8.00% Tangible Book	0.97x	1.22x	1.26x	1.36x	1.35x
LTM Core Net Income as of December 31, 2015	10.9x	15.2x	13.6x	14.6x	14.2x
2016 Projected Net Income	NA	NA	12.2x	13.1x	13.0x
Total Assets	8.4%	11.4%	10.8%	11.6%	11.5%
Total Deposits	9.6%	14.9%	12.2%	13.1%	13.0%

Based on the foregoing and such other matters Sheshunoff & Co. deemed relevant, it is Sheshunoff & Co.'s opinion, based on financial conditions as of December 31, 2015, the merger consideration of \$30.25 per share is fair, from a financial point of view to First Farmers' shareholders.

We have paid Sheshunoff & Co. a total fee of \$17,500 in connection with Sheshunoff & Co.'s acting as our financial advisor and rendering its opinion, which is not contingent upon the completion of the merger. In addition, we have agreed to indemnify Sheshunoff & Co. against certain liabilities and expenses arising out of or incurred in connection with its engagement, including liabilities and expenses which may arise under the federal securities laws. The total fees paid to Sheshunoff & Co. over the past two fiscal years for consulting services were approximately \$38,000.

Potential Disadvantages of the Merger

As a result of the merger, shareholders owning fewer than 400 shares at the effective time will receive \$30.25 in cash for each share of First Farmers common stock they own, and will no longer have the right to sell their shares at the time and for the price of their choosing. Further, such shareholders will not have any further financial interest in First Farmers and will not have the opportunity to participate in the potential appreciation in the value of, or the payment of dividends on, First Farmers common stock.

After completion of the merger and the termination of registration of our shares of common stock under the Exchange Act, the liquidity of our shares may be reduced. A decrease in the market liquidity for the shares of First Farmers common stock may cause a decrease in the value of the shares. Conversely, however, the more limited supply of First Farmers common stock could also prompt a corresponding increase in its market price assuming stable or increased demand for the stock.

In addition, we will no longer be required to file public reports of our financial condition, results of operations and other aspects of our business with the SEC after the merger. As a result, shareholders will have less legally mandated access to information about First Farmers' business and results of operations than they had prior to the merger. Investors seeking information about us will have to review our website or contact us directly and we will provide investors with requested information that is required by law. In addition, we will no longer be subject to the liability provisions of the Exchange Act that apply to public companies or the provisions of the Sarbanes-Oxley Act, including the requirement that the Chief Executive Officer and Chief Financial Officer certify the accuracy of the financial statements contained in our Exchange Act filings.

Finally, the merger will reduce First Farmers' capital. We believe, however, that we will continue to be "well capitalized" for regulatory purposes and that the Company will have sufficient capital to support anticipated growth.

Effects of the Merger on First Farmers

The merger will have various effects on First Farmers, as described below.

Reduction in the Number of Shareholders of Record. We believe that the merger will reduce the number of shareholders of record from approximately 2,099 to approximately 1,102. As noted earlier, in addition to the approximately 112,491 shares held by shareholders of record owning fewer than 400 shares, we assume that six holders of approximately 645 shares held in street name will receive cash for their shares in the merger. Accordingly, the number of outstanding shares of our common stock will decrease from 4,739,502, as of the record date, to approximately 4,626,366 after the merger.

Decrease in Book Value and Increase in Earnings Per Share. Based on the fact that (1) the price to be paid in the merger to holders of fewer than 400 shares of our common stock will be \$30.25 per share, (2) the number of shares of our common stock expected to be cashed out as a result of the merger is 113,136, (3) the total cost to First Farmers (including expenses estimated to be approximately \$165,000) of effecting the merger is expected to be approximately \$3.6 million and (4) at December 31, 2015, shareholders' equity was \$117.8 million, or \$24.83 per share, we expect that, as a result of the merger:

- our shareholders' equity as of December 31, 2015, will be reduced from approximately \$117.8 million on a historical basis to approximately \$114.4 million on a pro forma basis;
- the book value per share of our common stock as of December 31, 2015, will be reduced from \$24.83 per share on a historical basis to approximately \$24.71 per share on a pro forma basis;
- we will utilize existing cash on hand generated from our operations to purchase the cashed-out shares and any dissenting shares, as well as to pay the fees and expenses incurred in connection with the merger, which management anticipates not to exceed \$10.6 million, assuming 350,000 shares are repurchased; and
- earnings per share of our common stock for the year ended December 31, 2015, will increase from \$2.13 on a historical basis to approximately \$2.19 on a pro forma basis.

Decrease in Capital. As a result of the merger, our capital will be reduced. More specifically, our common equity tier 1 capital ratio will decrease from 13.28% as of December 31, 2015, to approximately 12.87% on a pro forma basis, our tier 1 capital to risk-weighted assets ratio will decrease from 13.28% as of December 31, 2015, to approximately 12.87% on a pro forma basis, our leverage capital ratio will decrease from 8.87% as of December 31, 2015, to approximately 8.57% on a pro forma basis, and our total risk-based capital ratio will decrease from 14.32% as of December 31, 2015, to approximately 13.91% on a pro forma basis. All regulatory capital ratios have been calculated assuming that 113,136 shares are cashed out in the merger.

Termination of Exchange Act Reporting Obligations. Our common stock is currently registered under the Exchange Act. After the merger, our common stock will not be registered under the Exchange Act and we will no longer be subject to the reporting requirements under the Exchange Act. More specifically, we will no longer be required to file (1) annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K presenting and analyzing our business, financial condition and results of operations, (2) ongoing reports regarding insiders' stock transactions and (3) proxy statements disclosing information about our directors and officers, their compensation and our corporate governance process. Accordingly, we expect to eliminate direct and indirect costs and expenses associated with continuance of the Exchange Act registration, estimated at approximately \$250,000 per year. We intend to apply for such termination as soon as practicable following completion of the merger.

Effect on Market for Shares. Because we will no longer be required to maintain current public information by filing reports under the Exchange Act, the market for shares of our common stock could be adversely affected. Although there is currently only minimal liquidity in our shares of common stock, there may be a further reduction in the liquidity of our common stock after the merger as a result of the decrease in the number of shareholders of record.

Effect on Dividends. The principal source of our cash revenues comes from dividends received from the Bank. The amount of dividends that may be paid by the Bank to us depends on the Bank's earnings and capital position and is limited by federal and state law, regulations, and policies. In addition to the availability of funds from the Bank, our future dividend policy is subject to the discretion of our Board of Directors and will depend upon a number of factors, including future earnings, financial condition, cash needs, and general business conditions. If dividends should be declared in the future, the amount of such dividends presently cannot be estimated and it cannot be known whether such dividends would continue for future periods.

We anticipate that the merger will not have a material effect on our dividend policy, and we intend to continue paying a semi-annual cash dividend; however, any future declaration and payment of dividends will depend upon, among other factors, our results of operations and financial condition, future prospects, regulatory limitations and capital requirements, and other factors deemed relevant by our Board of Directors.

Financial Effects of the Merger; Financing of the Merger. We expect that the consideration paid for the cashed-out shares in the merger will not exceed approximately \$10.6 million, which does not include approximately \$165,000 in professional fees and other expenses we anticipate incurring in the course of the transaction. In addition, we do not expect that the completion of the merger will have any material adverse effect on our capital adequacy, liquidity, results of operations or cash flow. Because we do not currently know the actual number of shares that will be cashed out in the merger, we do not know the exact amount of cash we will ultimately pay to shareholders in the merger. However, our obligation to consummate the merger under the merger agreement is conditioned on the aggregate number of shares of our common stock owned by shareholders who are to be cashed out or who have properly perfected their rights as dissenting shareholders not exceeding 350,000 shares.

Increased Ownership Percentage of Executive Officers and Directors. As a result of the merger, we expect that the percentage of ownership of our common stock beneficially owned by our current executive officers and directors as a group (13 persons) will increase from 6.2% to approximately 6.4%. For a description of the assumptions used in determining the numbers of shares and related percentages that we expect to be beneficially owned by executive officers and directors immediately following the merger, under “Information about First Farmers and its Affiliates—Security Ownership of Certain Beneficial Owners and Management.”

Our Board of Directors was aware of these interests and considered them in approving the merger agreement. See “Special Factors—Background of the Merger.”

Effects of the Merger on Shareholders Generally

The merger will have various effects on our affiliated and unaffiliated shareholders as described below. If you want to continue to remain a shareholder after the merger, you may do so by purchasing a sufficient number of shares of our common stock prior to the effective time of the merger so that you hold at least 400 shares at the effective time of the merger.

As described in the section “Proposal I: Approval of the Merger Agreement—Conversion of Shares in the Merger,” there are specific provisions regarding the treatment of shares held in nominee form, or “street name.” In determining the number of shares held beneficially in street name by any shareholder, we may, in our discretion, rely on “no objection” lists provided by any nominee holder. Further, after the merger, we will deliver to each shareholder who would appear to be entitled to receive cash in the merger in consideration for his or her shares a letter of transmittal requesting certain information from such shareholder and requiring the shareholder to certify as to the number of shares actually held, whether in registered form, or in street name. Letters of Transmittal will be delivered to any shareholder of record who holds fewer than 400 shares.

The effects of the merger to a shareholder will vary depending on whether all of the shareholder’s shares will be cashed out in the merger. The determination of whether or not any particular shares of our common stock will be cashed out in the merger will be based on whether the holder of those shares holds either fewer than 400 shares or 400 or more shares. Because a shareholder may own shares for the benefit of another holder, a shareholder may beneficially own both shares that will be cashed out in the merger and shares that will remain outstanding in the merger. We expect that our executive officers and directors (13 persons) will own beneficially a total of approximately 295,801 shares, or approximately 6.4% of the outstanding shares immediately after the merger. We anticipate 222 shares of affiliated shareholder’s shares being cashed out in the merger. All of the effects to shareholders described below assume that 113,136 shares are cashed out in the merger, unless otherwise noted.

Effects on Cashed-Out Shareholders. The effects of the merger on shareholders owning fewer than 400 shares immediately prior to the effective time of the merger will, upon completion of the merger, include:

- *Receipt of Cash.* Shareholders who own fewer than 400 shares of our common stock as of the effective time of the merger, in the aggregate, whether of record or in street name, will receive \$30.25 in cash per share. Such shareholders will not have to pay any brokerage commission or other service charges in connection with the merger.

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

- *Loss of Ownership Interest.* Shareholders will no longer have any equity or voting interest in First Farmers and therefore will not receive any cash dividends or participate in our future potential earnings or growth, if any, as a shareholder.
- *Taxes.* Shareholders will likely be required to pay federal and, if applicable, state and local income taxes on the cash amount received in the merger. See “—Material U.S. Federal Income Tax Consequences.”

Effects on Remaining Shareholders. The effects of the merger on shareholders owning 400 or more shares immediately prior to the effective time of the merger will, upon completion of the merger, include:

- *Continued Ownership of Shares.* Shareholders who own 400 or more shares immediately prior to the effective time of the merger will continue to be shareholders of First Farmers and will own the same number of shares immediately after the merger as they owned immediately prior to the merger.
- *Increased Ownership Percentage.* Remaining shareholders will have a slightly increased ownership percentage in First Farmers as a result of the merger.
- *Decreased Access to Information.* If the merger is completed, we intend to terminate our registration under the Exchange Act. As a result, we will no longer be subject to the periodic reporting requirements and the proxy rules of the Exchange Act. However, we plan to continue reporting our quarterly earnings, and posting our annual report and news of significant events on our website at www.myfirstfarmers.com under “Investor Relations.”

- *Decreased Liquidity and Transfer Restrictions.* The liquidity of the shares of our common stock held by remaining shareholders may be reduced because we will have fewer shareholders. The absence of an established trading market and a smaller shareholder base may restrict your ability to transfer your shares of our common stock after the merger.
- *Reduced Capital.* Our regulatory capital ratios will be reduced, including a decrease in our common equity tier 1 capital ratio from 13.28% as of December 31, 2015, to approximately 12.87% on a pro forma basis, a decrease in our tier 1 capital to risk-weighted assets ratio from 13.28% as of December 31, 2015, to approximately 12.87% on a pro forma basis. Our other regulatory capital ratios will be similarly reduced: our leverage ratio will decrease from 8.87% as of December 31, 2015, to approximately 8.57% on a pro forma basis; and our total risk-based capital ratio will decrease from 14.32% as of December 31, 2015, to approximately 13.91% on a pro forma basis.
- *Reduced Book Value Per Share.* The book value per share of our common stock as of December 31, 2015, would be reduced from \$24.83 per share on a historical basis to approximately \$24.71 per share on a pro forma basis.
- *Increase in Earnings Per Share.* Earnings per share for the year ended December 31, 2015, would increase from \$2.13 on a historical basis to approximately \$2.19 on a pro forma basis, an increase of 2.8%.
- *Increased Ownership Percentage of Executive Officers and Directors.* As a result of the merger, we expect that the percentage of ownership of our common stock beneficially owned by our executive officers and directors (13 persons) as a group will increase from 6.2%, as of the record date, to approximately 6.4% on a pro forma basis (based on the number of shares we anticipate such executive officers and directors to own beneficially immediately after the merger).

Effects of the Merger on Affiliated Shareholders

In addition to the effects of the merger on shareholders generally, which are described in the previous section, the merger will have some additional effects on our executive officers and directors, each of whom is, a result of his or her position, deemed to be an affiliate of First Farmers. As used in this Proxy Statement, the term “affiliated shareholder” means any shareholder who is a director or executive officer of First Farmers or the beneficial owner of 10% or more of our outstanding common stock, and the term “unaffiliated shareholder” means any shareholder other than an affiliated shareholder.

- *No Further Reporting Obligations Under the Exchange Act.* After the merger and the filing of a Form 15, our common stock will not be registered under the Exchange Act. For a period of 90 days following the filing of a Form 15 with the SEC, we and our shareholders will continue to be subject to certain provisions of the Exchange Act, such as the reporting and short-swing profit provisions of Section 16 and the reporting obligations under Section 13 with respect to certain acquisitions of shares of our common stock. After the 90 day period expires, our executive officers, directors and other affiliates will no longer be subject to many of the reporting requirements and restrictions of the Exchange Act, including, the reporting and short-swing profit provisions of Section 16, and information about their compensation and stock ownership will not be publicly available.
- *Rule 144 Potentially Not Available.* Because our common stock will not be registered under the Exchange Act after the merger and we will no longer be required to furnish publicly available periodic reports, our executive officers and directors could potentially lose the ability to dispose of their shares of our common stock under Rule 144 of the Securities Act of 1933, which provides a “safe harbor” for resales of stock by affiliates of an issuer.

Examples of Merger Results

In general, the merger can be illustrated by the following examples:

Hypothetical Scenario	Result
Ms. Smith owns 300 shares of First Farmers common stock registered in her own name at the effective time of the merger. Ms. Smith holds no other shares.	Ms. Smith's 300 shares will be canceled and converted into the right to receive cash in the amount of \$30.25 per share.
	If Ms. Smith wants to continue her investment in First Farmers, she would need to buy at least 100 shares of our common stock (preferably of record in her own name so as to make it more readily apparent that she holds 400 or more shares). Ms. Smith should act far enough in advance of the effective time of the merger so that the purchase is complete and registered on our books before the effective time of the merger.

Mr. Brown owns 100 shares of First Farmers that are held in a brokerage account at the effective time of the merger. Mr. Brown owns no other shares.

Mr. Davis owns 300 shares of First Farmers registered in his own name and 300 shares that are held in a brokerage account at the effective time of the merger. Mr. Davis owns no other shares.

Because the determination of shares owned will be made at the street name holder level, if Mr. Brown's broker holds, in the aggregate, 400 or more shares for all accounts, Mr. Brown will not be required to tender his shares. Conversely, if the broker holds less than 400 shares, in the aggregate, Mr. Brown's 100 shares will be converted into the right to receive cash in an amount equal to \$30.25 per share.

The shares Mr. Davis holds that are registered in his own name cannot be combined with the shares he holds in a brokerage account at the effective time of the merger. Mr. Davis' 300 shares owned in his own name will be converted into the right to receive cash in an amount equal to \$30.25 per share unless he transfers at least 100 shares from his brokerage account into his own name by the effective time of the merger. The 300 shares Mr. Davis' holds in a brokerage account will be evaluated only at the street name holder level; therefore, if the broker, in the aggregate, holds 400 or more shares for all accounts, Mr. Davis will not be required to tender his 300 shares held in the brokerage account. Conversely, if the broker holds less than 400 shares, in the aggregate, Mr. Davis' 300 shares will be converted into the right to receive cash in an amount equal to \$30.25 per share.

Interests of Executive Officers and Directors in the Merger

Our Board of Directors believes that it has acted in the best interests of First Farmers and its shareholders. However, as you consider the recommendation of the Board of Directors, you should be aware that the directors and executive officers have interests that are in addition to their interests as our shareholders. As a result of the merger, we expect that the beneficial ownership of our common stock held by the present executive officers and directors (13 persons) as a group will increase from 6.2% to approximately 6.4%. See "Information about First Farmers and its Affiliates—Security Ownership of Certain Beneficial Owners and Management."

Our Board of Directors was aware of these interests and considered them in approving the merger agreement. See "Special Factors—Background of the Merger."

Conduct of First Farmers' Business After the Merger

Following the merger, First Farmers and its subsidiaries, including the Bank, will continue to conduct their existing operations in substantially the same manner as now conducted. Our executive officers and directors immediately prior to the merger will be the executive officers and directors of First Farmers after the merger. The Charter and Bylaws of First Farmers will remain in effect and unchanged by the merger. The deposits of the Bank will continue to be insured by the FDIC, and First Farmers and the Bank will continue to be regulated by the same regulatory agencies as before the merger.

Fees and Expenses

We estimate that merger related fees and expenses, consisting primarily of financial advisory fees and expenses, fees and expenses of attorneys and accountants and other related charges, will total approximately \$165,000, assuming the merger is completed. This amount consists of the following estimated fees:

Description	Amount
Advisory fees and expenses	\$ 25,000
Legal fees and expenses	100,000
Accounting fees and expenses	25,000
Printing, solicitation and mailing costs	15,000
 Total	 \$ 165,000

Anticipated Accounting Treatment

We anticipate that we will account for the shares of our outstanding common stock repurchased in the merger as shares authorized and unissued.

Material U.S. Federal Income Tax Consequences

The following discussion summarizes the material U.S. federal income tax consequences to our shareholders with respect to the merger. The discussion is based upon the Internal Revenue Code of 1986, as amended, its legislative history, applicable U.S. Treasury regulations, existing administrative interpretations and court decisions currently in effect. Any of these authorities could be repealed, overruled or modified at any time after the date of this Proxy Statement, and any such change could be applied retroactively. This discussion does not address any alternative minimum tax consequences or the tax consequences under state, local or foreign laws.

The discussion that follows neither binds nor precludes the Internal Revenue Service from adopting a position contrary to that expressed in this document, and we cannot assure you that such a contrary position could not be asserted successfully by the Internal Revenue Service or adopted by a court if the positions were litigated. We have not obtained a ruling from the Internal Revenue Service or a written opinion from tax counsel with respect to the United States federal income tax consequences discussed below.

This discussion assumes that you hold your shares of our common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code. This discussion does not address all aspects of federal income taxation that may be important to you in light of your particular circumstances or if you are subject to certain rules, such as those rules relating to shareholders who are not citizens or residents of the United States, financial institutions, tax-exempt organizations and entities (including IRAs), insurance companies, dealers in securities, shareholders who hold options to acquire shares of our common stock, and shareholders who acquired their shares of common stock through the exercise of employee stock options or similar derivative securities or otherwise as compensation.

Federal income tax consequences to shareholders who do not receive cash in the merger. If you (1) continue to hold shares of our common stock immediately after the merger, and (2) you receive no cash as a result of the merger, then you will not recognize any gain or loss in the merger and you will have the same adjusted tax basis and holding period in your shares of our common stock as you had in such stock immediately prior to the merger.

Federal income tax consequences to shareholders who receive cash in the merger. An exchange of your shares of our common stock for cash pursuant to the merger will be a taxable transaction. If you receive cash in exchange for your shares of common stock as a result of the merger, the cash you received will be treated as redemption of your shares of our common stock exchanged therefor under Section 302 of the Internal Revenue Code. Under Section 302 of the Internal Revenue Code, a shareholder who exchanges his or her shares of our common stock for cash will be treated as having sold his or her shares of our common stock if the exchange meets one of the following three tests:

- the exchange results in a “complete termination” of his or her equity interest in First Farmers;
- the exchange is “substantially disproportionate” with respect to the shareholder; or
- the cash received is “not essentially equivalent to a dividend” with respect to the shareholder.

For purposes of these tests, in addition to the shares of our common stock you actually own, you will be deemed to own constructively certain shares of our common stock under the constructive ownership rules of Section 318 of the Internal Revenue Code. Generally, the

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

constructive ownership rules under Section 318 of the Internal Revenue Code treat a shareholder as owning:

- shares of stock owned by certain relatives, related corporations, partnerships, estates or trusts, and
- shares of stock the shareholder has an option to acquire.

Because the constructive ownership rules are complex, each shareholder should consult his or her own tax advisor as to the applicability of these rules.

Cashed-out shareholders who do not actually or constructively own any shares of First Farmers common stock after the merger. In general, if you receive cash in exchange for your shares of our common stock as a result of the merger but do not actually or constructively own any shares of our common stock immediately after the merger, you will be treated as having sold your shares of our common stock for the cash received. You will recognize gain or loss on the exchange in an amount equal to the difference between the cash you receive for your cashed-out shares of our common stock and your aggregate adjusted tax basis in such stock. Your gain will be a capital gain provided you held your shares of our common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code as of the effective time of the merger.

Shareholders receiving cash who actually or constructively continue to own any shares of First Farmers common stock after the merger. If you receive cash in exchange for your shares of our common stock as a result of the merger and are treated as directly or constructively owning shares of our common stock immediately after the merger, then you will be treated as having sold your shares of our common stock for the cash received only if you meet one of the three tests mentioned above and described below.

You will satisfy the “complete termination” test if you receive cash in exchange for your shares of our common stock pursuant to the merger and you completely terminate your direct and constructive ownership interest in First Farmers. If you would otherwise satisfy the complete termination requirement but for your constructive ownership of shares of our common stock held by family members, you may, in certain circumstances, be entitled to disregard such constructive ownership. You should check with your own tax advisor as to whether you would be entitled to disregard such constructive ownership and the required filings with the Internal Revenue Service pursuant to such a decision.

You will satisfy the “substantially disproportionate” test if immediately after the merger you actually and constructively own less than 50% of the total combined voting power of all classes of our stock entitled to vote and your percentage interest in First Farmers (i.e., the number of voting shares actually and constructively owned by you divided by the number of voting shares outstanding) is less than 80% of your percentage interest in First Farmers immediately prior to the merger.

You will satisfy the “not essentially equivalent to a dividend” test if the reduction in your percentage interest in First Farmers, as described above, constitutes a “meaningful reduction of your proportionate interest” given your particular facts and circumstances. The Internal Revenue Service has indicated in published rulings that a minority shareholder whose relative stock interest is minimal (i.e., less than 1%) and who exercises no control with respect to corporate affairs is considered to have a “meaningful reduction” generally if the shareholder has some reduction in the shareholder’s stock ownership percentage.

If you satisfy one of these three tests, you will be treated as having sold your shares of First Farmers common stock for the cash exchanged therefore and will recognize gain or loss on the exchange in an amount equal to the difference between the cash you receive for your cashed-out shares of our common stock and your aggregate adjusted tax basis in such stock. Your gain will be a capital gain provided you held your shares of our common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code as of the effective time of the merger.

If you do not satisfy one of these three tests, you will be treated as having received a dividend to the extent of our current and accumulated earnings and profits, which we anticipate will be sufficient to cover the amount of any such dividend and will be includible in your gross income as ordinary income in its entirety, without reduction for the adjusted tax basis of your shares of our common stock exchanged for cash. No loss will be recognized. If the exchange is treated as a dividend, your adjusted tax basis in your shares of our common stock exchanged for cash generally will be added to your tax basis in your remaining shares of our common stock. To the extent that cash received in exchange for your shares of our common stock is treated as a dividend to a corporate shareholder, the corporate shareholder will be: (1) eligible for a dividends-received deduction (subject to applicable limitations); and (2) subject to the “extraordinary dividend” provisions of the Internal Revenue Code. To the extent, if any, the cash received by you exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your adjusted tax basis in the shares surrendered and thereafter as a capital gain.

Capital gain and loss. For individuals, net capital gain (defined generally as your total capital gains in excess of capital losses for the year) recognized upon the sale of capital assets that have been held for more than 12 months generally will be subject to reduced tax rates. Net capital gain recognized from the sale of capital assets that have been held for 12 months or less will continue to be subject to tax at ordinary income tax rates. In addition, capital gain recognized by a corporate taxpayer will continue to be subject to tax at the ordinary income tax rates applicable to corporations. There are limitations on the deductibility of capital losses.

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

Backup withholding. If you receive cash in the merger, you will be required to provide your social security or other taxpayer identification numbers (or, in some instances, additional information) in connection with the merger to avoid backup withholding requirements that might otherwise apply. The letter of transmittal will require you to deliver such information when your shares of our common stock certificates are surrendered following the effective time of the merger. Failure to provide such information may result in backup withholding.

As explained above, the amounts paid to you as a result of the merger may result in dividend income, capital gain income, or some combination of dividend and capital gain income to you depending on your individual circumstances. The U.S. federal income tax discussion set forth above is based upon present law, which is subject to change possibly with retroactive effect. You should consult your tax advisor as to the particular federal, state, local, foreign, and other tax consequences of the transaction that are applicable to you in light of your specific circumstances.

Regulatory Requirements

In connection with the merger, we will be required to make certain filings with and obtain certain approvals from various federal and state governmental agencies, including:

- filing of Articles of Merger with the Secretary of State of Tennessee in accordance with the TBCA after the approval of the merger agreement by our shareholders; and
- complying with federal and state securities laws, including our and the merger subsidiary's filing, in conjunction with this Proxy Statement, of a Rule 13e-3 Transaction Statement on Schedule 13E-3 with the SEC.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table summarizes financial results actually achieved by First Farmers for the periods and at the dates indicated and should be read in conjunction with our consolidated financial statements and the notes to the consolidated financial statements contained in reports that we have previously filed with the SEC. Historical financial information can be found in our Annual Report on Form 10-K for the year ended December 31, 2015, which is incorporated by reference in this Proxy Statement. See “Where You Can Find Additional Information” on page 68 for instructions on how to obtain the information that has been incorporated by reference. You should not assume the results of operations for past periods indicate results for any future period.

As of and for the

Year Ended
December 31,

	2015	2014	2013	2012	2011
	(Dollars in thousands, except per share data)				
Income Statement Data:					
Total interest income	\$ 38,682	\$ 36,780	\$ 37,361	\$ 36,384	\$ 37,968
Total interest expense	2,225	2,428	2,907	3,841	4,942
Net interest income	36,457	34,352	34,454	32,543	33,026
Provision for loan and lease losses	30	-	-	1,120	3,125
Net interest income after provision	36,427	34,352	34,454	31,423	29,901
Total noninterest income	11,443	11,727	11,116	11,631	10,972
Total noninterest expense	34,215	32,281	33,259	30,610	33,133
Income before provision for income taxes	13,655	13,798	12,311	12,444	7,740
Provision for income taxes	3,349	3,556	2,700	3,040	744
Net income for common shareholders	\$ 10,306	\$ 10,242	\$ 9,611	\$ 9,404	\$ 6,996
Common Share Data:					
Earnings per share ⁽¹⁾	\$ 2.13	\$ 2.06	\$ 1.88	\$ 1.77	\$ 1.30
Book value	24.83	23.36	20.73	21.76	21.02
Tangible book value	22.93	21.52	18.94	20.02	19.33
Cash dividends declared	0.74	0.74	0.74	0.74	0.74
Dividend payout ratio	34.74%	35.92%	39.36%	41.81%	56.92%
Weighted average shares outstanding	4,832,217	4,963,826	5,110,849	5,315,634	5,400,063
Shares outstanding at end of period	4,739,502	4,900,576	5,021,012	5,180,000	5,330,000
Balance Sheet Data (at period end):					
Total assets	\$ 1,260,310	\$ 1,170,995	\$ 1,092,874	\$ 1,091,487	\$ 1,017,808

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

Total securities	399,078	419,871	357,553	377,473	349,484
Loans, net of deferred fees	731,266	652,052	606,766	567,159	517,802
Allowance for loan losses	(8,634)	(7,934)	(8,595)	(8,809)	(9,200)
Net loans	722,632	644,118	598,171	558,350	508,602
Total deposits	1,103,801	1,019,955	957,337	932,849	856,430
Total shareholders' equity	117,790	114,584	104,204	112,795	112,149

30

As of and for the

Year Ended

December 31,

2015

2014

2013

2012

2011

(Dollars in thousands, except per share data)

Average Balance Sheet**Data:**

Total assets	\$ 1,213,440	\$ 1,121,840	\$ 1,087,487	\$ 1,054,316	\$ 975,671
Securities	415,850	399,048	389,934	378,792	301,445
Loans, net ⁽²⁾	683,319	607,957	572,913	518,158	534,841
Total deposits	1,054,006	974,205	938,032	893,486	820,250
Total shareholders' equity	118,482	109,836	110,933	114,397	109,381

Performance Ratios:

Return on average assets	0.85%	0.91%	0.88%	0.90%	0.72%
Return on average common equity	8.70	9.32	8.66	8.22	6.21
Net interest margin	3.43	3.49	3.69	3.66	4.07
Efficiency ratio ⁽³⁾	72.29	71.88	73.83	71.38	76.19

Asset Quality Ratios:

Nonperforming assets to total loans and other real estate	0.31%	0.84%	1.12%	2.41%	3.85%
Net (recoveries) charge-offs to average loans	(0.10)	0.11	0.04	0.29	0.62
Allowance for loan losses to total loans	1.18	1.22	1.42	1.55	1.78
Allowance for loan losses to nonperforming loans ⁽⁴⁾	392.99	144.83	159.31	108.73	80.22

Capital Ratios:

Common equity tier 1 capital ratio	13.28%	13.67%	14.35%	14.58%	15.67%
Leverage ratio	8.87	9.67	9.52	9.69	10.10
Average shareholders' equity to average total assets	9.76	9.79	10.20	10.85	11.21
Tier 1 risk-based capital ratio	13.28	13.67	14.35	14.58	15.67
Total risk-based capital ratio	14.32	14.67	15.55	15.82	16.91

Ratio of Earnings to Fixed Charges:

Earnings:

Income before income taxes	\$ 13,655	\$ 13,798	\$ 12,311	\$ 12,444	\$ 7,740
Fixed charges	2,362	2,538	3,001	3,939	5,025
Total earnings	\$ 16,017	\$ 16,336	\$ 15,312	\$ 16,383	\$ 12,765
Fixed charges:					

Interest expense on deposits	\$ 2,131	\$ 2,358	\$ 2,694	\$ 3,343	\$ 4,223
Interest expense on borrowings	94	70	213	498	719
Estimated interest portion of rent expense ⁽⁵⁾	137	110	94	98	83
Total fixed charges	\$ 2,362	\$ 2,538	\$ 3,001	\$ 3,939	\$ 5,025
Ratio of earnings to fixed charges:					
Excluding interest on deposits	69.34%	90.76%	49.88%	27.49%	15.92%
Including interest on deposits	6.78	6.44	5.10	4.16	2.54

-
- (1) Net earnings per share are based upon the weighted average number of common shares outstanding during the period.
- (2) Includes loans held for sale.
- (3) Calculated by dividing total noninterest expense by net interest income plus noninterest income, excluding securities and foreclosed property losses or gains. Taxes are not part of this calculation.
- (4) Nonperforming loans consist of nonaccrual loans, loans contractually past due 90 days or more and restructured loans.
- (5) Estimated to be 33% of rent expense.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma consolidated financial information as of December 31, 2015 gives effect to the following assumptions:

- We have assumed that the merger occurred as of December 31, 2015, for purposes of the consolidated balance sheet, and as of January 1, 2015 for purposes of the consolidated statements of earnings.
- We have assumed that a total of 113,136 shares are cashed out in the merger at a price of \$30.25 per share for a total of approximately \$3.4 million. Additionally, we have assumed that we will incur approximately \$165,000 in costs and expenses relating to the merger.
- We have assumed that the maximum amount of cash necessary to consummate the merger to be approximately \$3.6 million.
- We have assumed that we will realize direct cost savings, estimated to be approximately \$215,000 per year as a result of the merger.
- We have assumed that the expenses and anticipated cost savings in connection with the merger will be tax effected at a rate of 38.5%.

The following information should be read in conjunction with and is qualified in its entirety by our consolidated financial statements and accompanying notes, which are incorporated by reference into this Proxy Statement.

The unaudited pro forma consolidated financial information is intended for informational purposes and is not necessarily indicative of our financial position or operating results that would have occurred had the merger actually been in effect as of the date or for the period presented.

Unaudited Pro Forma Condensed Consolidated Balance Sheet

As of December 31, 2015

	Historical December 31, 2015	Adjustments	Pro Forma December 31, 2015
(Dollars in thousands)			
Assets:			
Cash and due from banks	\$ 19,453	\$ (3,372) (1)	\$ 16,081
Interest-bearing deposits	18,299		18,299
Federal funds sold	24,476		24,476
Total cash and cash equivalents	62,228		58,856
Securities:			
Available-for-sale	395,019		395,019
Held-to-maturity (fair market value \$4,089 as of December 31, 2015)	4,059		4,059
Total securities	399,078		399,078
Loans, net of allowance for loan losses	722,632		722,632
Premises and equipment, net	25,518		25,518
Other real estate	62		62
Bank owned life insurance	26,552		26,552
Goodwill	9,018		9,018
Other assets	15,222	(19) (2)	15,203
Total assets	\$ 1,260,310	\$ (3,391)	\$ 1,256,919
Liabilities and Shareholders' Equity:			
Deposits:			
Noninterest-bearing	\$ 239,226		\$ 239,226
Interest-bearing	864,575		864,575
Total deposits	1,103,801		1,103,801
Federal funds purchased	-		-
Securities sold under agreements to repurchase	24,177		24,177
Accounts payable and accrued liabilities	14,542		14,542
Total liabilities	1,142,520		1,142,520
Shareholders' equity:			
Common stock, 8,000,000 shares authorized, 4,739,502 shares issued and outstanding as of December 31, 2015, and 4,626,366 shares issued and outstanding on a pro forma basis	\$ 47,395	\$ (1,131) (3)	\$ 46,264
Retained earnings	71,583	(2,260) (4)	69,323
Accumulated other comprehensive income	(1,283)		(1,283)
Total shareholders' equity before noncontrolling interest – preferred stock of subsidiary	117,695	(3,391)	114,304
Noncontrolling interest – preferred stock of subsidiary	95		95
Total shareholders' equity	117,790	(3,391)	114,399
Total liabilities and shareholders' equity	\$ 1,260,310	\$ (3,391)	\$ 1,256,919

(1) Includes the purchase of 113,136 shares at \$30.25 per share; \$165,000 in cost to complete the merger and \$215,000 in direct cost savings.

The following unaudited pro forma consolidated financial information as of December 31, 2015 gives effect to the fo

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

- (2) The tax benefit of the \$215,000 direct cost savings offset in part by the \$165,000 merger cost computed using a rate of 38.5%.
- (3) Assumes the reduction of 113,136 shares at \$10 par value per share of common stock.
- (4) Assumes the purchase of 113,136 shares at \$30.25 per share less \$10 par value; includes the net impact of the \$215,000 direct cost savings offset in part by the \$165,000 costs of the transaction, net of the tax benefit.

Unaudited Pro Forma Condensed Consolidated Statement of Earnings
for the Twelve Months Ended December 31, 2015

	Historical		Pro Forma
	Twelve Months Ended December 31, 2015	Adjustments	Twelve Months Ended December 31, 2015
(Dollars in thousands, except per share data)			
Interest income			
Loans, including fees	\$ 30,522		\$ 30,522
Securities			
Taxable	5,713		5,713
Nontaxable	2,218		2,218
Federal funds sold and interest-bearing deposits	229		229
Total interest income	38,682		38,682
Interest expense			
Deposits	2,131		2,131
Interest on other borrowings	94		94
Total interest expense	2,225		2,225
Net interest income	36,457		36,457
Provision for loan losses	30		30
Net interest income after provision for loan losses	36,427		36,427
Noninterest income			
Trust department income	2,530		2,530
Service fees on deposit accounts	6,616		6,616
Other operating income	2,297		2,297
Total noninterest income	11,443		11,443
Noninterest expense			
Salaries and employee benefits	18,897		18,897
Net occupancy expense	2,192		2,192
Other operating expenses	13,126	\$ (50) (1)	13,076
Total noninterest expenses	34,215	(50)	34,165
Income before provision for income taxes	13,655	(50)	13,705
Provision for income taxes	3,349	19 (2)	3,368

The following unaudited pro forma consolidated financial information as of December 31, 2015 gives effect to the fo

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

Net income	\$ 10,306	\$ (31)	\$ 10,337
Earnings per common share	\$ 2.13	\$ 0.06 (3)	\$ 2.19

- (1) Includes \$165,000 in cost to complete the merger and \$215,000 in direct cost savings.
- (2) The tax benefit was computed using a rate of 38.5%.
- (3) Assumes the reduction of 113,136 shares of common stock.

THE ANNUAL MEETING

Purpose

This Proxy Statement is furnished to our shareholders in connection with the solicitation of proxies by our Board of Directors for use at the Annual Meeting. The Annual Meeting is a meeting of the shareholders of First Farmers at which the shareholders will vote upon a proposal to approve the merger agreement and a proposal to consider and vote on the election of 10 individuals to serve as directors of the Company until the annual meeting of shareholders in 2017 or until their successors are qualified and elected. A copy of the merger agreement is attached as *Appendix A*.

Date, Place and Time of Annual Meeting

The Annual Meeting of our shareholders will be held on the 2nd Floor, in the First Farmers and Merchants Bank Northside Office, 901 Nashville Highway, Columbia, Tennessee, 38401 on April 19, 2016 at 11:00 a.m., Central Time.

Shares Entitled to Vote; Quorum and Vote Required

Shares Entitled to Vote. The holders of record of the outstanding shares of our common stock at the close of business on February 29, 2016, the record date, will be entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement of the Annual Meeting. At the close of business on that date, there were 4,739,502 shares of our common stock issued and outstanding and entitled to vote at the Annual Meeting.

Quorum. At the Annual Meeting, our shareholders will be entitled to one vote for each share of our common stock owned of record on the record date. The holders of a majority of the shares of our common stock outstanding must be present, either in person or by proxy, to constitute a quorum at the Annual Meeting. Shares of our common stock present in person or represented by proxy, including shares whose holders abstain or do not vote and shares held of record by a broker or nominee that are voted on any matter, will be counted for purposes of determining whether a quorum exists at the Annual Meeting.

Votes Required. The affirmative vote of a majority of the issued and outstanding shares of First Farmers common stock is required to approve the merger agreement. Directors are elected by a plurality of the votes cast by the shares of our common stock entitled to vote at the Annual Meeting, if a quorum is present. Neither abstentions nor broker non-votes will have the effect of voting for or in opposition to a director. Shareholder action on any other matter that may be properly presented at the Annual Meeting is approved if the votes cast by shareholders, either in person or by proxy, in favor of the action exceed the votes cast by shareholders in opposition to such action.

Abstentions. A shareholder who is present in person or by proxy at the Annual Meeting and who abstains from voting on any or all proposals will be included in the number of shareholders present at the Annual Meeting for the purpose of determining the presence of a quorum. However, because approval of the merger agreement requires a majority of the issued and outstanding shares of our common stock, an abstention would effectively function as a vote against the merger agreement, even though it would not be counted in the voting tally as such. Abstentions will not affect the outcome of any other proposal that may be properly brought before the Annual Meeting.

Broker Non-Votes. Generally, brokers who hold shares for the accounts of beneficial owners must vote these shares as directed by the beneficial owner. The proposal to approve the merger agreement is a “non-discretionary” item, meaning that brokers, banks and other nominees may not give a proxy to vote shares on those matters without specific instructions from their customers. Proxies that contain a broker vote on one or more proposals but no vote on others are referred to as “broker non-votes” with respect to the proposal(s) not voted on. A broker non-vote with respect to a proposal for which the broker has no discretionary voting authority will function as a vote against the merger agreement but will not affect the outcome of any other proposal properly brought before the Annual Meeting.

On the record date, our directors and executive officers (13 persons) were entitled to vote, in the aggregate, 296,001 shares of our common stock, or approximately 6.2% of the outstanding shares of our common stock. These shares are expected to be voted FOR approval of the merger agreement and FOR the election of the nominees as directors. If these shares are voted in favor of the merger agreement, then shareholders owning an additional 2,073,751 shares would be required to vote in favor of the merger in order for the proposal to receive approval by a majority of the outstanding shares of our common stock.

A list of shareholders will be available for examination by holders of the our common stock for any purpose related to the Annual Meeting at the Annual Meeting and during the 10 days prior to the Annual Meeting at the office of our Corporate Secretary at our offices at 816 South Garden Street, Columbia, Tennessee 38401.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE MERGER AGREEMENT AND FOR APPROVAL OF THE ELECTION OF THE NOMINEES AS DIRECTORS.

Voting Procedures and Revocation of Proxies

Proxies, in the form enclosed, which are properly executed by the shareholders and returned to us and not subsequently revoked, will be voted in accordance with the instructions indicated on the proxies. Any properly executed proxy on which voting instructions are not specified will be voted FOR the proposal to approve the merger agreement and FOR the proposal to approve election of the nominees as directors. The proxy also grants authority to the persons designated in the proxy to vote in accordance with their own judgment if an unscheduled matter is properly brought before the Annual Meeting.

If you are the record holder of your shares, you may revoke any proxy given pursuant to this solicitation by the Board of Directors at any time before it is voted at the Annual Meeting by:

- giving written notice to the Corporate Secretary of First Farmers;
- executing a proxy bearing a later date filed with the Corporate Secretary of First Farmers at or before the meeting; or
- attending and voting in person at the meeting. Attendance without voting at the Annual Meeting will not in and of itself constitute revocation of a proxy.

All written notices of revocation and other communications with respect to revocation of proxies should be sent to: First Farmers and Merchants Corporation, Attention: Corporate Secretary, P.O. Box 1148, Columbia, TN 38402-1148. If you hold your shares in street name with a bank or broker, you must contact the bank or broker if you wish to revoke your proxy.

Attending the Annual Meeting

All of our shareholders are invited to attend the Annual Meeting. If you want to vote your shares of our common stock held in street name by a broker, bank or other nominee in person at the Annual Meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

Solicitation of Proxies and Expenses

This proxy solicitation is made by our Board of Directors. We are responsible for our expenses incurred in preparing, assembling, printing and mailing this Proxy Statement. Proxies will be solicited through the mail. Additionally, directors, officers and other employees of First Farmers or its subsidiaries may solicit proxies personally, by telephone, by email or other means of communications. None of these people will receive any special compensation for solicitation activities. We will reimburse banks, brokers and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding the proxy materials to beneficial owners.

PROPOSAL I: APPROVAL OF THE MERGER AGREEMENT

Parties to the Merger

First Farmers and Merchants Corporation. First Farmers and Merchants Corporation (“First Farmers” or the “Company”) was incorporated on March 31, 1982, as a Tennessee corporation. The bank subsidiary of the Company is First Farmers and Merchants Bank, a Tennessee state-chartered bank (the “Bank”). The Bank maintains a main office in Columbia, Tennessee, 18 other offices and 35 separate automatic teller or cash dispensing machine locations. First Farmers’ headquarters are located at 816 South Garden Street, Columbia, Tennessee 38401, and its telephone number is (931) 388-3145.

FFMC Merger Corporation. The merger subsidiary is a newly formed Tennessee corporation, organized solely for the purpose of facilitating the merger agreement, and is a wholly-owned subsidiary of the Company. The merger subsidiary will merge with and into First Farmers and will cease to exist after the merger. The merger subsidiary has no significant assets, liabilities or shareholders’ equity, and has conducted no business activities other than those incidental to its formation, the execution of the merger agreement and assistance in preparing various SEC filings related to the merger. The principal executive offices of the merger subsidiary are located at 816 South Garden Street, Columbia, Tennessee 38401.

Structure of the Merger

The merger agreement provides for the merger of the merger subsidiary with and into First Farmers, with First Farmers surviving the merger. In the merger, shareholders owning fewer than 400 shares of First Farmers common stock will receive \$30.25 in cash for each share that they own as of the effective time of the merger. All other shares will remain outstanding and be unaffected by the merger. Our directors and executive officers after the merger will be the same as our directors and executive officers immediately prior to the merger.

Conversion of Shares in the Merger

The merger agreement provides that, at the effective time of the merger:

- all outstanding shares of our common stock, whether record shares (as defined below) or street shares (as defined below), held of record by a holder owning fewer than 400 shares of First Farmers common stock immediately prior to the effective time of the merger, other than shares for which dissenters’ rights have been exercised, will, without any action on the part of the holder thereof, be converted into the right to receive cash equal to \$30.25 per share (the “merger consideration”);
- all outstanding shares of our common stock other than those described above as being converted into the right to receive the merger consideration or shares for which dissenters’ rights have been exercised will remain outstanding with all rights, privileges, and powers existing immediately before the merger; and
- the outstanding shares of the merger subsidiary will, without any action on the part of the holder thereof, be canceled.

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

The merger agreement further provides that:

- immediately prior to the merger, no holder owning, of record, 400 or more shares in the aggregate will be entitled to receive any cash as a result of the merger with respect to the shares so held other than by exercising his or her dissenters' rights.

For purposes of the merger agreement:

- the term "record shares" means shares of First Farmers common stock other than street shares, and any record shares will be deemed to be held by the registered holder thereof as reflected on our books;
- the term "street shares" means shares of First Farmers common stock held of record in street name, and any street shares will be deemed to be held by the nominee holder thereof; and
- the term "holder" means:
 - (a) any record holder or holders of record shares who would be deemed, under Rule 12g5-1 under the Exchange Act as described below, to be a single "person" for purposes of determining the number of our record shareholders, and
 - (b) any other person or persons who would be deemed to be a "holder" under the above clause if the shares it holds in street name were held of record by such person or persons.

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

The merger agreement provides that First Farmers (along with any other person or entity to which First Farmers may delegate or assign any responsibility or task with respect thereto) will have full discretion and exclusive authority (subject to its right and power to so delegate or assign such authority) to:

- make such inquiries, whether of any shareholder(s) or otherwise, as it may deem appropriate for purposes of confirming the number of shares held by any holder, and
- resolve and determine, in our sole discretion, all ambiguities, questions of fact and interpretive and other matters relating to the number of shares held by any holder. All such determinations by us will be final and binding on all parties, and no person or entity will have any recourse against us or any other person or entity with respect thereto.

For purposes of the share count, we may, in our sole discretion, but will not have any obligation to:

- presume that any shares of First Farmers common stock held in a discrete account (whether record or beneficial) are held by a person distinct from any other person, notwithstanding that the registered or beneficial holder of a separate discrete account has the same or a similar name as the holder of a separate discrete account; and
- aggregate the shares held (whether of record or beneficially) by any person or persons that we determine to constitute a single holder for purposes of determining the number of shares held by such holder.

Rule 12g5-1 under the Exchange Act provides that, for the purpose of determining whether an issuer is subject to the registration provisions of the Exchange Act, securities will be deemed to be "held of record" by each person who is identified as the owner of such securities on records of security holders maintained by or on behalf of the issuer, subject to the following:

- In any case where the records of security holders have not been maintained in accordance with accepted practice, any additional person who would be identified as such an owner on such records if they had been maintained in accordance with accepted practice will be included as a holder of record;
- Securities identified as held of record by a corporation, a partnership, a trust whether or not the trustees are named, or other organization will be included as so held by one person;
- Securities identified as held of record by one or more persons as trustees, executors, guardians, custodians or in other fiduciary capacities with respect to a single trust, estate or account will be included as held of record by one person;
- Securities held by two or more persons as co-owners will be included as held by one person; and
- Securities registered in substantially similar names where the issuer has reason to believe, because of the address or other indications that such names represent the same person, may be included as held of record by one person.

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

There is a risk that the SEC may change its rules regarding shareholder counting with respect to beneficial holders and that First Farmers' number of record shareholders could be higher than it had anticipated.

Effective Time of the Merger

The merger will be effective at the date and time specified in the Articles of Merger to be filed with the Secretary of State of Tennessee. As soon as practicable after shareholder approval of the merger agreement, we will file Articles of Merger with the Secretary of State of Tennessee and will send a Letter of Transmittal to all record holders of First Farmers common stock who are entitled to receive cash in the merger. We anticipate that this will occur on or around April 20, 2016, although delays could occur.

At the effective time of the merger, each shareholder who owns fewer than 400 shares of record immediately prior to the merger will not have any rights as a First Farmers shareholder and will have only the right to receive cash as provided under the merger agreement.

Exchange of Shares

The Letter of Transmittal will provide the means by which shareholders will surrender their certificates representing First Farmers common stock and obtain the cash to which they are entitled. If certificates evidencing our common stock have been lost or destroyed, we and our transfer agent may, in our sole discretion, accept a duly executed affidavit and indemnity agreement of loss or destruction in a form satisfactory to us in lieu of the lost or destroyed certificate. If a certificate is lost or destroyed, the shareholder will be required to submit, in addition to other documents, a bond or other security, satisfactory to us and our transfer agent, indemnifying us and all other persons against any losses incurred as a consequence of the payment of the merger consideration in connection with that certificate. Shareholders whose certificates have been lost or destroyed should contact us. Additional instructions regarding lost or destroyed stock certificates will be included in the Letter of Transmittal that will be sent to shareholders after the merger becomes effective.

Except as described above with respect to lost or destroyed stock certificates, there will be no service charges or costs payable by shareholders in connection with the exchange of their certificates for cash in the merger. We will bear any such costs.

If you receive a Letter of Transmittal but believe that you own 400 or more shares of our common stock, you will be required to provide us with a certification regarding the number of shares of our common stock that you believe you own.

The Letter of Transmittal will be sent to shareholders as soon as practicable after the effective time of the merger. Do not send in your stock certificate(s) until you have received the Letter of Transmittal.

Termination of Exchange Act Registration

Our common stock is currently registered under the Exchange Act. We will be permitted to terminate our registration once we can certify that we have fewer than 1,200 shareholders of record. Upon the completion of the merger, we expect to have approximately 1,102 shareholders of record. We intend to apply for termination of the registration of our common stock under the Exchange Act as promptly as possible after the effective time of the merger.

Termination of registration under the Exchange Act will substantially reduce the information we are required to furnish to our shareholders and to the SEC and would make some of the provisions of the Exchange Act, such as the short-swing profit liability provisions of Section 16, the requirement of furnishing a proxy or information statement in connection with shareholder meetings under Section 14(a) and required compliance with the Sarbanes-Oxley Act, no longer applicable to us. Furthermore, our affiliates could potentially lose the ability to dispose of their common stock under Rule 144 promulgated under the Securities Act of 1933. However, for a period of 90 days following the filing of a Form 15 with the SEC, we and our shareholders will continue to be subject to certain provisions of the Exchange Act, such as the reporting and short-swing profit liability provisions of Section 16 and the reporting obligations under Section 13 with respect to certain acquisitions of shares of our common stock.

We estimate that termination of the registration of our common stock under the Exchange Act will save us approximately \$250,000 per year in legal, accounting, printing, management time and other expenses. See “Special Factors—Effects of the Merger on First Farmers.”

Source of Funds and Expenses

We estimate that approximately \$3.4 million will be required to pay for the shares of our common stock exchanged for cash in the merger. Additionally, we will pay all of the expenses related to the merger. We estimate that these expenses will be as follows:

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

Advisory fees and expenses	\$	25,000
Legal fees and expenses		100,000
Accounting fees and expenses		25,000
Printing, solicitation and mailing costs		15,000
Total	\$	165,000

We intend to use existing cash generated from our operations to fund the merger. Although it is not anticipated that we will need funds in excess of cash on hand to finance the merger, if additional funds are required, it is likely we will borrow such funds from Federal Home Loan Bank of Cincinnati.

Conditions to the Completion of the Merger

The obligations of First Farmers and the merger subsidiary to complete the merger are subject to the satisfaction or waiver of all of the following conditions:

- approval of the merger agreement by the holders of a majority of the outstanding shares of our common stock;
- all of the representations and warranties made in the merger agreement must be true and correct in all material respects as of the effective time of the merger;
- absence of pending or threatened litigation regarding the merger; and

- the aggregate number of the shares to be cashed out in the merger, plus the number of shares held by shareholders who delivered their notice to exercise their rights to dissent from the merger pursuant to the provisions of the TBCA, does not exceed 350,000 shares.

Termination of Merger Agreement

The merger agreement may be terminated by either First Farmers or the merger subsidiary at any time prior to the effective time of the merger.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE MERGER AGREEMENT.

Dissenters' Rights of Shareholders

Introductory Information

General. Dissenters' rights with respect to First Farmers' voting stock are governed by the Tennessee Business Corporation Act. Shareholders of First Farmers have the right to dissent from the merger and to obtain payment of the "fair value" of their shares (as described in the statute) in the event First Farmers completes the merger. Strict compliance with the dissent procedures is mandatory. Subject to the terms of the merger agreement, First Farmers could elect to terminate the merger agreement even if it is approved by First Farmers' shareholders, thus cancelling dissenters' rights. Shareholders of First Farmers are cautioned that if they dissent, they may receive a "fair value" that is less than the value received by shareholders cashed out in the merger.

If you contemplate exercising your right to dissent, we urge you to read carefully the provisions of Chapter 23 of the Tennessee Business Corporation Act which are attached to this Proxy Statement as *Appendix C*. A more detailed discussion of the provisions of the statute is included there. The discussion describes the steps that you must take if you want to exercise your right to dissent. You should read both the summary contained in this section of the Proxy Statement and the full text of the law. We cannot give you legal advice. To completely understand this law, you may want, and we encourage you, to consult with your legal advisor. If you wish to dissent, do not send in a signed proxy unless you mark your proxy to vote against the merger or you will lose the right to dissent.

Address for Notices. Send or deliver any written notice or demand required concerning your exercise of dissenters' rights to First Farmers and Merchants Corporation, Attention: Corporate Secretary, P.O. Box 1148, Columbia, TN 38402-1148.

We urge you to act carefully. We cannot and do not accept the risk of late or undelivered notices or demands. You may call First Farmers at (931) 388-3145 and ask for Michelle D. Gardner to receive confirmation that your notice or demand has been received. If your notice or demand is not timely received by First Farmers, then you will not be entitled to exercise your dissenters' rights. First Farmers' shareholders bear the risk of non-delivery and of untimely delivery.

If you intend to dissent, or if you think that dissenting might be in your best interests, you should read *Appendix C* carefully.

Summary of Chapter 23 of the Tennessee Business Corporation Act – Dissenters' Rights

The following is a summary of Chapter 23 of the Tennessee Business Corporation Act and the procedures that a shareholder must follow to dissent from the proposed merger and to perfect his, her or its dissenters' rights and receive cash rather than shares of First Farmers stock if the merger agreement is approved and the merger is completed. This summary is qualified in its entirety by reference to Chapter 23, which is reprinted in full as part of this *Appendix C* to this Proxy Statement. *Appendix C* should be reviewed carefully by any shareholder who wishes to perfect his or her dissenters' rights. Failure to strictly comply with the procedures set forth in Chapter 23 will, by law, result in the loss of dissenters' rights. It may be prudent for a person considering whether to dissent to obtain legal counsel.

If the proposed merger of FFMC Merger Corporation with and into First Farmers is completed, any shareholder who has properly perfected his, her or its statutory dissenters' rights in accordance with Chapter 23 has the right to obtain, in cash, payment of the fair value of such shareholder's shares of First Farmers stock. By statute, the "fair value" is determined immediately prior to the completion of the merger and excludes any appreciation or depreciation in anticipation of the merger.

To exercise dissenters' rights under Chapter 23, a First Farmers shareholder must:

- ◆ deliver to First Farmers, before the annual meeting, written notice of his, her or its intent to demand payment for his, her or its shares of First Farmers' outstanding stock if the merger is completed; and
- ◆ not vote his, her or its shares in favor of approving the merger agreement.

A shareholder of record who fails to satisfy both of these two requirements is not entitled to payment for his, her or its shares of First Farmers stock under Chapter 23. In addition, any shareholder who returns a signed proxy but fails to provide instructions as to the manner in which such shares are to be voted will be deemed to have voted in favor of approving the merger agreement and will not be entitled to assert dissenters' rights.

A shareholder may assert dissenters' rights as to fewer than all the shares registered in his, her or its name only if she, he or it dissents with respect to all shares beneficially owned by any one beneficial shareholder and notifies First Farmers in writing of the name and address of each person on whose behalf she, he or it is asserting dissenters' rights. The rights of such a partial dissenter are determined as if the shares as to which he, she or it dissents and his, her or its other shares are registered in the names of different First Farmers shareholders.

If the merger is approved and adopted at the First Farmers shareholders' meeting, First Farmers must deliver a written dissenters' notice (the "Dissenters' Notice") to all First Farmers shareholders who satisfied the two requirements of Chapter 23 described above. The Dissenters' Notice must be sent no later than 10 days after the effective time (the date that the merger is completed) and must:

- ◆ State where the demand for payment must be sent and where and when certificates for certificated shares must be deposited;
- ◆ Inform holders of uncertificated shares to what extent transfer of those shares will be restricted after the demand for payment is received;
- ◆ Supply a form for demanding payment that includes the date of the announcement of the principal terms of the proposed merger to shareholders and requires that the shareholder asserting dissenters' rights certify whether or not she, he or it acquired beneficial ownership of such shares prior to said date;
- ◆ Set a date by which First Farmers must receive the demand for payment (which date may not be fewer than 40 nor more than 60 days after the Dissenters' Notice is delivered) and states that the shareholder shall have waived his, her or its right to demand payment unless the form is received by such specified date;
- ◆ State First Farmers' estimate of the fair value of the shares;
- ◆ State that upon written request First Farmers will provide to such First Farmers shareholder the number of shareholders who return the forms and the number of shares held thereby;
- ◆ State the date by which the notice to withdraw his, her or its demand must be sent, which must be within 20 days of the date upon which the form must be received by First Farmers; and
- ◆ Be accompanied by a copy of Chapter 23, if not previously provided to such shareholder (set forth in *Appendix C* to this document).

A First Farmers shareholder of record on the record date who receives the Dissenters' Notice must demand payment, certify that she, he or it acquired beneficial ownership of such shares prior to the date set forth in the Dissenters' Notice and deposit his, her or its stock certificates in accordance with the terms of the Dissenters' Notice. First Farmers may elect to withhold payment required by Chapter 23 from the dissenting shareholder unless such shareholder was the beneficial owner of the shares prior to the announcement of the principal terms of the proposed merger to shareholders. A dissenting shareholder will retain all other rights of a First Farmers shareholder until those rights are canceled or modified by the completion of the merger. A shareholder of record who does not demand payment or deposit his, her or its share certificates where required, each by the date set in the Dissenters' Notice, is not entitled to payment for his, her or its shares under Chapter 23 or otherwise as a result of the merger. A demand for payment may not be withdrawn unless consented to by First Farmers.

First Farmers may restrict the transfer of any uncertificated shares from the date the demand for their payment is received until the merger is completed. A First Farmers shareholder for whom dissenters' rights are asserted as to uncertificated shares of First Farmers stock retains all other rights of a First Farmers shareholder until these rights are canceled or modified by the completion of the merger.

At the effective time or upon receipt of a demand for payment, whichever is later, First Farmers must offer to pay each dissenting shareholder who strictly and fully complied with Chapter 23 the amount that First Farmers estimates to be the fair value of his, her or its shares, plus accrued interest from the effective time. The offer of payment must be accompanied by:

- ◆ Certain recent First Farmers financial statements;
- ◆ First Farmers' estimate of the fair value of the shares and interest due;
- ◆ An explanation of how the interest was calculated;
- ◆ A statement of the dissenter's right to demand payment under TBCA Section 48-23-209; and
- ◆ A copy of Chapter 23, if not previously provided to such shareholder.

If the merger is not completed within two months after the date set for demanding payment and depositing share certificates, First Farmers must return deposited certificates and release the transfer restrictions imposed on uncertificated shares. If, after such return or release, the merger is completed, First Farmers must send a new Dissenters' Notice and repeat the payment procedure described above.

If a dissenting First Farmers shareholder is dissatisfied with or rejects First Farmers' calculation of fair value, such dissenting shareholder must notify First Farmers in writing of his, her or its own estimate of the fair value of those shares and the interest due, and may demand payment of his, her or its estimate, if:

- ◆ She, he or it believes that the amount offered or paid by First Farmers is less than the fair value of his, her or its shares or that the interest due has been calculated incorrectly;
- ◆ First Farmers fails to make payment within two months after the date set forth for demanding payment; or
- ◆ First Farmers, having failed to complete the merger, does not return the deposited certificates or release the transfer restrictions imposed on uncertificated shares within two months after the date set for demanding payment.

A dissenting shareholder waives his, her or its right to dispute First Farmers' calculation of fair value unless she, he or it notifies First Farmers of his, her or its demand in writing within one month after First Farmers makes or offers payment for such person's shares.

If a demand for payment by a First Farmers shareholder remains unsettled, First Farmers must commence a proceeding in the appropriate court, as specified in Chapter 23, within two months after receiving the demand for payment, and petition the court to determine the fair value of the shares and accrued interest. If First Farmers does not commence the proceeding within two months, First Farmers is required to pay each dissenting shareholder whose demand remains unsettled the amount demanded. First Farmers is required to make all dissenting First Farmers shareholders whose demands remain unsettled parties to the proceeding and to serve a copy of the petition upon each dissenting shareholder. The court may appoint one or more appraisers to receive evidence and to recommend a decision on fair value. Each dissenting shareholder made a party to the proceeding is entitled to judgment for the fair value of such person's shares plus interest to the date of judgment.

In an appraisal proceeding commenced under Chapter 23, the court must determine the costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court. The court will assess these costs against First Farmers, except that the court may assess the costs against all or some of the dissenting shareholders to the extent the court finds they acted arbitrarily, vexatiously, or not in good faith in demanding payment under Chapter 23. The court also may assess the fees and expenses of attorneys and experts for the respective parties against First Farmers if the court finds that First Farmers did not substantially comply with the requirements of Chapter 23, or against either First Farmers or a dissenting shareholder if the court finds that such party acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by Chapter 23.

If the court finds that the services of the attorneys for any dissenting shareholder were of substantial benefit to other dissenting shareholders similarly situated, and that the fees for those services should not be assessed against First Farmers, the court may award those attorneys reasonable fees out of the amounts awarded the dissenting shareholders who were benefitted.

The foregoing does not purport to be a complete statement of the provisions of the TBCA relating to statutory dissenters' rights and is qualified in its entirety by reference to the dissenters' rights provisions, which are reproduced in full in *Appendix C* to this Proxy Statement and which are incorporated herein by reference.

If you intend to dissent, or if you think that dissenting might be in your best interests, you should read *Appendix C* carefully.

PROPOSAL 2: ELECTION OF DIRECTORS

The Board of Directors has nominated the 10 individuals below for election as directors to serve until the annual meeting of shareholders in 2017 or until their successors are qualified and elected. Article III, Section 2 of the Company's Amended and Restated Bylaws (the "Bylaws") provide that there shall be no fewer than five (5) directors. The Board of Directors believes it is in the best interest of the Company that there be 10 directors of the Company following the Annual Meeting. Proxies cannot be voted for a greater number of persons than the nominees named.

Directors are elected by a plurality of the votes cast by the shares of our common stock entitled to vote at the Annual Meeting, if a quorum is present. Neither abstentions nor broker non-votes will have the effect of voting for or in opposition to a director. The Company's charter does not provide for cumulative voting and, accordingly, shareholders do not have cumulative voting rights with respect to the election of directors. Consequently, each shareholder of record may only cast one vote per share of our common stock for each nominee.

Unless a proxy specifies otherwise or there is a broker non-vote, the persons named in the proxy will vote the shares covered thereby "FOR" the nominees listed below. Should any nominee become unable to serve or for good cause will not serve, the persons named in the proxy will have the discretionary authority to vote for a substitute nominee selected by the current Board of Directors.

All of the 10 nominees are currently serving as directors except for Brian K. Williams, the President of First Farmers, and each of the nine incumbents has served as a director since the 2015 annual meeting of shareholders. Directors are chosen based on their business skills, knowledge, experience, leadership skills and understanding of the Bank's business. W. Lacy Upchurch, who is presently a member of the Board of Directors, has reached the mandatory retirement age and therefore will not stand for re-election.

Nominees Standing for Election

The following information sets forth the name, age, length of service and a summary of specific experiences, qualifications, attributes or skills for each of the nominees for election as directors. No nominee holds a directorship with any other public company or registered investment company.

M. Darlene Baxter, age 69, has been a director of both the Company and the Bank since 2007. Ms. Baxter is a native of Maury County, Tennessee and a retired Vice President of Maury Regional Medical Center. She served more than 25 years in the Maury Regional Health Care system. She was appointed Executive Director of the newly-created Maury Regional Healthcare Foundation. She was instrumental in Maury Regional Medical Center being the first employer in the county to provide childcare services and worked on the development of the hospital's healthcare system. She was involved in the operations of the Lewis Ambulatory Care Center, Wayne Medical Center and Marshall Medical Center. She represented Maury Regional Medical Center during General Motors' transition to Spring Hill, at which time the hospital developed an agreement to provide on-site healthcare services to GM employees. Ms. Baxter is a member of the Kiwanis Club, Martin Methodist College Alumni Association Board, and City of Columbia Industrial Development Board. In 2006, she served on the Bank's Maury County Advisory Board of Directors. Ms. Baxter was nominated to be a member of the Board of Directors because of her leadership skills and years of business experience as an executive officer of a regional hospital.

Jonathan M. Edwards, age 55, has served as a director of the Company and the Bank since 2010. Mr. Edwards has served as president and chief executive officer of the Edwards Group of Companies, including Edwards Oil Company of Lawrenceburg, Inc., Edwards Oil Company, Inc., South Tennessee Oil Company, Inc., Edwards Land Company L. P. and Edwards Real Estate, LLC since 1988. He is a Tennessee native and holds a bachelor's degree from the University of North Alabama. Mr. Edwards' other affiliations include the following: Shell National and Regional Wholesale Councils (2013-present), past president and three-term board member of the Tennessee Fuel and Convenience Association; Chair of the Lawrence County Joint Economic and Community Development Board (2012-2013); Chair of the Tennessee State Petroleum Underground Storage Tank Board (2011-2012); Chairman of the Lawrence County Chamber of Commerce (2006-2007); Columbia State Community College Foundation Board (2004-2007); First Farmers and Merchants Bank Advisory Board (2002-2010); Lawrence County Joint Economic and Community Development Board (1999-2014); Tennessee State Petroleum Underground Storage Tank Board (1996-2004); LifePoint Crockett Hospital Board (1999-2004); Texaco Orlando Regional Wholesale Council (1997-1999); Director of Alabama Oilmen's Association/Alabama Association of Convenience Stores (1996-1999); Bank of America Advisory Board (1993-2002); and Tennessee Grocers Association Director (1990-1993). Mr. Edwards was nominated to be a member of the Board of Directors because of his business management

and leadership skills.

Thomas Napier Gordon, age 64, has served as a director of both the Company and the Bank since 1986. Mr. Gordon is actively involved in real estate investments. His civic and community endeavors have included Business and Industry Chairman of the March of Dimes Annual Drive, Director of King's Daughters' School, Trustee of Zion Christian Academy and deacon at Zion Presbyterian Church. Mr. Gordon received his Doctorate of Jurisprudence from Vanderbilt University in 1976 and has practiced law in Columbia, Tennessee since that time. Mr. Gordon was nominated to be a member of the Board of Directors because of his experience as an attorney and businessman and his extensive experience as a director of the Company.

44

Dalton M. Mounger, age 65, has served as a director of the Company and the Bank since 2010. Mr. Mounger is an attorney in private practice in Columbia, Tennessee and is a certified public accountant. He holds bachelor's and juris doctor degrees from the University of Mississippi. Mr. Mounger has served on the boards of the Maury Alliance, Maury County YMCA, Columbia State Community College Foundation, Columbia Main Street, Maury County Public Education Foundation, First Farmers and Merchants Bank Advisory Board, Columbia Central High School Academic Boosters and Kiwanis Club of Columbia. Mr. Mounger was nominated to be a member of the Board of Directors because of his legal, accounting, and business management skills.

Timothy E. Pettus, age 64, was named Vice Chairman of the Company and the Bank on January 1, 2016. Mr. Pettus has been an officer of the Bank since July 2002 and has served as director of the Company and the Bank since January 2008. He served as the Vice Chairman of the Bank from April 2005 until his appointment as President of the Company and the Bank in January 2007. Mr. Pettus served as Regional President, Southern Region of the Bank, from July 2002 until becoming Vice Chairman of the Bank. From 1998 until July 2002, he was a senior banking executive with Bank of America in Lawrence County, Tennessee. He was first elected as a director of the Company and the Bank in January 2008. Mr. Pettus was nominated to be a member of the Board of Directors because of his 40+ years of experience in banking and his leadership skills and knowledge from serving as President of the Bank.

Patrick J. Riley, age 67, has served as a director of both the Company and the Bank since 2011. Mr. Riley has served as President and Chief Executive Officer of RCR Building Corporation since 1985. He is a licensed general contractor in 18 states. Mr. Riley served in the U.S. Navy at the Naval Test Pilot School. He was employed with Frank Orr Architects as a contract administrator and draftsman from 1972 to 1973; with Bob Haley, Inc. general contractor, as Vice President from 1973 to 1976; and with Gregg Construction Company, Inc., as Vice President from 1976 to 1985. He attended Memphis State University where he studied Construction Technology, University of Tennessee where he studied Real Estate and Owen School of Management at Vanderbilt University where he studied various courses. Mr. Riley has served on the Board of Directors and as Chairman of Business Development for Associated Builders and Contractors, on the Board of Associated General Contractors, on the Advisory Boards of Director for Kraft Bros, Eastman, Patton & Harrell CPAs and First Farmers and Merchants Bank for Williamson County, on the Board of Trustees of Father Ryan High School, and on the Board of Trustees Currey Ingram Academy. Mr. Riley was nominated as a member of the Board of Directors based on his expertise and proven success in organizational management and developing innovative programs and strategies.

Matthew M. Scoggins, Jr., age 65, has served as a director of both the Company and the Bank since 2008. Mr. Scoggins has served as the Chief Executive Officer of Tennessee Farmers Insurance Companies ("TFIC") since January 2004. He joined TFIC in 1978, and has served in numerous positions including agent, agency manager, regional manager, lobbyist, and chief operating officer for TFIC's property & casualty division. Mr. Scoggins is a Tennessee native who holds a bachelor's degree from the University of Tennessee and an M.B.A. from Belmont University. Mr. Scoggins was nominated to be a member of the Board of Directors because of his leadership skills and his executive experience in the insurance industry.

T. Randy Stevens, age 64, is Chairman of the Board of Directors, Chief Executive Officer ("CEO") and a director of the Company and the Bank. He has been employed by the Bank since 1973 and was promoted to Commercial Bank Officer in 1974. He was appointed Assistant Vice President in 1976 and promoted to Vice President in 1979. Mr. Stevens was appointed Vice President and Trust Officer of the Bank in 1982 and promoted to First Vice President in 1984. He was promoted to Executive Vice President and Chief Administrative Officer of the Bank in 1990. Mr. Stevens was elected as a director of the Bank and the Company in 1991 and appointed Vice President of the Company in 1991. He was appointed President and Chief Operating Officer of the Bank, effective December 31, 1995, and President and Chief Operating Officer of the Company in April 1996. He was appointed Chief Executive Officer of the Bank and the Company in June 2002. He has been Chairman of the Board of Directors of the Company and the Bank since April 2005. Mr. Stevens was nominated to be a member of the Board of Directors because of his 42 years of experience in banking, his position as CEO of the Company and the Bank and his leadership experience as a long-time director of the Bank, the Company and other organizations.

Brian K. Williams, age 45, was named President of the Company and the Bank on January 1, 2016. He has been employed by the Bank since 1993 and most recently served as Executive Vice President of the Bank from 2013 through 2015. During his tenure, he has held numerous leadership roles including Chief Financial Officer and Treasurer of the Company and the Bank in 2015; Senior Executive of Commercial Banking from 2008 through 2013; Chief Credit Officer from 2004 through 2008; Vice President/Assistant Credit Officer from 2002 through 2004 and Trust Officer from 1994 through 2002. Mr. Williams was nominated to be a member of the Board of Directors because of his 22 years of experience in banking, his position as President of the Company and the Bank and his business, leadership and management skills as developed through his oversight of numerous areas of the Bank's operations over the past two decades.

Dr. David S. Williams, age 68, has served as a director of both the Company and the Bank since 2001. Dr. Williams has been in private orthodontic dental practice in Columbia since 1976. He is a past president of the St. Louis University Orthodontic Alumni Association, past president of the Southern Association of Orthodontists, and board member from Tennessee for the Southern Association of Orthodontists. He is the past president of the Charles H. Tweed International Foundation for Education and Research. Dr. Williams is a native of St Louis, Missouri, and received his Doctor of Dental Surgery degree from the University of Tennessee College of Dentistry and Masters of Science degree from St. Louis University Graduate Orthodontic Department. He is a board member of the American Association of Orthodontists Service, Inc. and a member of the AAO Investment Committee. Dr. Williams was nominated to be a member of the Board of Directors because of his business and finance skills developed from owning a dental practice.

Required Vote

If a quorum is present, the election of directors requires a plurality of the votes cast in person or by proxy by the shares of our common stock entitled to vote at the meeting.

The Board of Directors unanimously recommends that the shareholders vote “FOR” each of the nominees.

INFORMATION ABOUT FIRST FARMERS AND ITS AFFILIATES

Directors and Executive Officers of First Farmers

Directors

Information about the Directors of First Farmers is provided in the section above entitled “PROPOSAL 2: ELECTION OF DIRECTORS.”

Executive Officers

The biographical information of the executive officers of the Company and the Bank, as of March 1, 2016, is presented below. None of these executive officers has a family relationship with any officer or employee of the Company or the Bank. The biographies of Messrs. Pettus, Stevens and Williams are provided in the section above entitled “PROPOSAL 2: ELECTION OF DIRECTORS.”

Robert E. Krimmel, age 34, is Chief Financial Officer and Treasurer of the Company and the Bank. Mr. Krimmel previously served as the Chief Accounting Officer of HeritageBank of the South from 2011 to 2015. Prior to joining HeritageBank of the South, Mr. Krimmel served as Controller for GreenBank and also held other various finance and accounting positions with the bank from 2004 to 2011. Mr. Krimmel serves on the volunteer board of the Williamson-Maury Habitat for Humanity. Mr. Krimmel holds Masters of Accountancy and Bachelors of Business Administration degrees from East Tennessee State University. Mr. Krimmel is a certified public accountant and a member of the American Institute of Certified Public Accountants.

Barry B. White, age 66, is General Counsel for the Bank. He has been employed by the Bank since 2003 and began as Marshall County President. He was appointed Senior Trust Officer in 2009. He was promoted to Corporate Legal Counsel in 2011 and was named General Counsel in 2013.

Michelle D. Gardner, age 42, is Secretary of the Company, Executive Assistant, and Secretary to the Board of Directors. She has been employed by the Bank since 1997 and was promoted to Mortgage Loan Processor in 1998. She was appointed to Executive Assistant in 2002 and Director of Management Information Systems in 2006. Ms. Gardner was promoted to Director of Loan Servicing in 2007 and Assistant Vice President in 2008. She was appointed to Assistant Vice President-Platform Administration in 2010 and appointed Secretary of the Company, Executive Assistant, and Secretary to the Board of Directors of the Company and the Bank in 2012.

Market for Common Stock and Dividends

First Farmers common stock is not listed on any public exchange and is not actively traded. First Farmers had a total of 4,739,502 shares outstanding at February 29, 2016. As of February 29, 2016, there were 2,099 registered shareholders of record.

The following table presents the high and low sales prices of our common stock of which we are aware by quarter during the periods indicated:

Quarter	High	Low
----------------	-------------	------------

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

<i>2015</i>		
Fourth quarter	\$29.00	\$26.50
Third quarter	27.00	26.02
Second quarter	26.50	25.00
First quarter	26.50	25.15
<i>2014</i>		
Fourth quarter	25.50	25.00
Third quarter	26.00	25.00
Second quarter	27.00	25.00
First quarter	25.00	25.00
<i>2013</i>		
Fourth quarter	25.00	23.00
Third quarter	22.50	19.00
Second quarter	25.00	19.00
First quarter	27.50	18.52
47		

Holders of First Farmers common stock are entitled to receive dividends when, as and if declared by our Board of Directors out of funds legally available therefor. While historically we have paid dividends on our common stock, there is no assurance that we will continue to pay dividends in the future. However, we expect that because of the projected cost savings, the merger will have no adverse effect on our ability to pay cash dividends in the near future.

The principal source of cash revenues to First Farmers is dividends paid by the Bank with respect to the Bank's capital stock. There are certain restrictions on the payment of such dividends imposed by federal and state banking laws, regulations and authorities.

The cash dividends we paid per share semi-annually for the periods indicated were as follows:

	2015	2014	2013
Fourth quarter	\$ 0.37	\$ 0.37	\$ 0.37
Third quarter	-	-	-
Second quarter	0.37	0.37	0.37
First quarter	-	-	-

First Farmers Common Stock Purchase and Sale Information

Purchases by First Farmers of First Farmers Common Stock During the Past Two Years. During the last two years, we purchased shares of our common stock as set forth in the table below in privately negotiated transactions.

Period	Number of Shares	Price Range Paid Per Share	Average Price Paid Per Share
Fourth quarter 2015	40,195	\$ 29.00	\$ 29.00
Third quarter 2015	34,022	27.00	27.00
Second quarter 2015	44,032	27.00	27.00
First quarter 2015	42,825	26.50	26.50
Fourth quarter 2014	11,284	26.50	26.50
Third quarter 2014	24,957	26.00	26.00
Second quarter 2014	45,182	26.00	26.00
First quarter 2014	39,013	25.00	25.00

Purchases and Sales by the Executive Officers, Directors and Control Persons of First Farmers Common Stock. The following table shows all transactions in First Farmers common stock for which consideration was paid involving First Farmers and its executive officers, directors and affiliates during the past two years or since becoming an affiliate, whichever is later.

Name	Date	Number of Shares	Price Per Share	Purchase/Sale
Brian K. Williams	9/15/15	250	\$ 27.00	Purchase

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

Brian K. Williams	5/15/15	1,000	27.00	Purchase
Timothy E. Pettus	5/15/15	750	26.50	Purchase
Timothy E. Pettus	8/12/14	400	25.00	Purchase

Security Ownership of Certain Beneficial Owners and Management

The table below sets forth certain information, as of January 31, 2016, with respect to the beneficial ownership of the Company's common stock by (i) each person known by us to be the beneficial owner of more than 5% of the outstanding shares of the Company's common stock, (ii) each director and nominee, (iii) each of the Named Executive Officers and (iv) all of the Company's directors and executive officers as a group:

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership ⁽¹⁾	Percent of Class
FAMCO ⁽²⁾	496,540	10.5%
Thomas Napier Gordon ⁽³⁾	136,648	2.9%
T. Randy Stevens ⁽⁴⁾	75,000	1.6%
Patrick J. Riley ⁽⁵⁾	40,029	*
Timothy E. Pettus ⁽⁶⁾	16,668	*
Matthew M. Scoggins ⁽⁷⁾	7,574	*
David S. Williams	6,800	*
Brian K. Williams	4,613	*
Jonathan M. Edwards ⁽⁸⁾	3,200	*
M. Darlene Baxter	2,500	*
Dalton M. Mounger ⁽⁹⁾	1,939	*
Barry B. White ⁽¹⁰⁾	630	*
W. Lacy Upchurch	400	*
Robert E. Kimmel	-	*
Directors and Executive Officers as a Group (13 Persons)	296,001	6.2%

* Less than 1%

(1) The address of each beneficial owner listed is c/o First Farmers and Merchants Corporation, P.O. Box 1148, Columbia, Tennessee 38402-1148. Unless otherwise indicated, all shares are owned of record.

(2) These shares of our common stock are held in nominee name by a Tennessee general partnership ("FAMCO") established solely for the purpose of holding legal title to securities and other property transferred to it by the Bank. FAMCO's partnership agreement provides that FAMCO has the right to vote all stock held in its name; however, the shares held in FAMCO's name for the Bank's Profit Sharing Plan are voted by the Bank's Profit Sharing Benefit Committee on behalf of the beneficial holders under the Profit Sharing Plan in a manner consistent with the best interests of the beneficiaries as determined by the committee in its fiduciary capacity and the beneficial owners of shares titled in FAMCO's name other than those held in the Bank's Profit Sharing Plan are permitted to direct the vote of their shares.

(3) Includes 18,120 shares held by Thomas Napier Gordon, Jr., Mr. Gordon's son, 18,120 shares held by Edward Bradshaw Gordon, Mr. Gordon's son, and 800 shares held by Teri Hasenour Gordon, Mr. Gordon's wife.

(4) Includes 2,000 shares held by Leesa M. Stevens, Mr. Stevens' wife, 36,000 shares held by Leesa M. Stevens Family Partnership, L.P., a limited partnership of which Mr. Stevens is a limited partner, and 35,800 shares held by Thomas Randall Stevens Family Partnership, L.P., a limited partnership of which Mr. Stevens is a limited partner.

(5) Includes 2,000 shares held by FAMCO in custody for Patrick J. Riley and his wife, Alice R. Riley, and 3,000 shares held by FAMCO—IRA Patrick J. Riley.

(6) Includes 4,472 shares held by Ellen Pettus, Mr. Pettus' mother, which will be transferred on death ("TOD") to Timothy E. Pettus and Judy Pettus Brown, 200 shares held jointly with Pettus-McClain Trucking Company, Inc., and 5,578 shares held by FAMCO – IRA Timothy E. Pettus.

(7) Includes 1,274 shares held by FAMCO – IRA Matthew M. Scoggins, Jr. and 869 shares held by FAMCO – IRA Mary P. Scoggins, in custody for Mr. Scoggins' wife.

(8) Includes 1,600 shares held by Cynthia Leigh Edwards, Mr. Edward's wife.

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

(9) Includes 1,000 shares held by FAMCO—IRA Dalton M. Mounger.

(10) Shares held as equal tenants in common with spouse, Cherry White.

Corporate Governance

Director Qualifications

The Board of Directors has not established formal qualification guidelines for its members. The Board considers only potential nominees who have several years of relevant business experience. Non-management director nominees generally need to be independent, as defined by the listing standards of the New York Stock Exchange. Any nominee must be willing to serve for the director's compensation paid by the Company. In addition, the Board of Directors evaluates nominees with the goal of maintaining a diversity of background, viewpoints and experience that complements the other directors.

Any shareholder, by written notice submitted to the Corporate Secretary, can nominate candidates for election to the Board of Directors of the Company. The written notice should be provided in accordance with the process contained in the Bylaws as more fully described in the "GENERAL INFORMATION – Items of Business for 2017 Annual Meeting of Shareholders" section of this Proxy Statement. Candidates nominated by shareholders are evaluated in the same manner as the candidates nominated by the Board of Directors.

Director Independence

The Board has determined that eight of its 10 existing directors are independent in accordance with the listing standards of the New York Stock Exchange. The two individuals who are not independent, Messrs. Stevens and Pettus, are both executive officers of the Company.

During 2015, there were no relationships or transactions that the Board of Directors discussed in making its independence determinations with respect to each director identified as independent and no relationships or transactions precluded any such directors from being independent. The Company is not aware of any family relationships among any of its directors and executive officers.

Board Leadership Structure and Role in Risk Oversight and Management

Mr. Stevens has served as both the Chairman of the Board of Directors and the Chief Executive Officer of the Company since 2005. The Board believes that a unified chairman and chief executive officer position has provided clarity of leadership and operating efficiencies. Additionally, Mr. Stevens' management experience and close relationship with the other officers of the Company improves the Board's effectiveness in its role of monitoring the management of the Company. The Board does not have a lead independent director. The Board is actively involved in oversight of risks that could affect the Company. Although the full Board has retained responsibility for general oversight of risks, this oversight is conducted primarily through committees of the Board, as disclosed in the description of each of the committees below and in the charters of each of the committees, as applicable. The Board receives full reports by each committee chair regarding the committee's determinations and actions, as well as regular reports directly from officers responsible for oversight of particular risks within the Company.

Committees of the Board of Directors

The Board of Directors conducts its business through its own meetings and through committees of the Bank's Board of Directors, which are described below. There are no standing committees of the Board of Directors of the Company because the principal business of the consolidated company is conducted by the Bank rather than the Company, which is a bank holding company. The Board of Directors of the Bank is identical to the Board of Directors of the Company.

The Company does not have a standing nominating committee. The entire Board of Directors of the Company fulfills the role of a nominating committee. Factors such as the Company's size and the nature of its business, the consistently high rate of participation in meetings by each director, the fact that a majority of the Company's directors are independent (as defined by the listing standards of the New York Stock

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

Exchange) and are individuals who come from diverse backgrounds, and the infrequent historical turnover in the membership of the Board of Directors contribute to the belief of the Board of Directors that a separate, independent nominating committee is not necessary. The entire Board of Directors serving as a nominating committee currently does not have a charter and, as noted above, not all of the directors are independent, as defined by the listing standards of the New York Stock Exchange. Further, the Board of Directors has not specifically adopted a policy regarding the consideration of shareholder nominees for directors, but the Board of Directors will consider for nomination as director of the Company any director candidate recommended or nominated by shareholders in accordance with the process outlined under the section below entitled "GENERAL INFORMATION – Items of Business for 2017 Annual Meeting of Shareholders."

The Bank's Board of Directors has four standing committees:

- Audit/Compliance/CRA Committee;
- Compensation Committee;
- Executive Committee; and
- Trust Committee.

The following table sets forth the current members of the committees of the Board of Directors of the Bank:

<u>Name</u>	<u>Audit</u>	<u>Compensation</u>	<u>Executive</u>	<u>Trust</u>
M. Darlene Baxter		X		X
Jonathan M. Edwards	X		X	
Thomas Napier Gordon			X	X
Dalton M. Mounger	Vice Chair		X	
Timothy E. Pettus			X	X
Patrick J. Riley			X	Vice Chair
Matthew M. Scoggins, Jr.	Chair			X
T. Randy Stevens		X	Chair	
W. Lacy Upchurch		Chair		Chair
Dr. David S. Williams	X	X		

Audit/Compliance/Community Reinvestment Act ("CRA") Committee

Number of 2015 meetings: 11

The Bank has a separately designated standing Audit/Compliance/CRA Committee (the "Audit Committee"). This committee provides assistance to the Bank's Board of Directors in fulfilling its responsibilities related to internal controls monitoring, accounting procedures, reporting practices, regulatory compliance and quality and integrity of the financial reports of the Bank. The Audit Committee is composed solely of directors who are independent based on the listing standards of the New York Stock Exchange and are free of any relationship that, in the opinion of the Board of Directors, would interfere with their exercise of independent judgment as a committee member. Mr. Scoggins serves as the Audit Committee Financial Expert pursuant to Section 407 of the Sarbanes Oxley Act of 2002 and the rules promulgated by the SEC thereunder.

The Audit Committee's primary responsibilities fall into three broad categories:

- Monitoring the preparation of quarterly and annual financial reports prepared by the management of the Company and the Bank, which includes discussing draft financial statements and accounting and reporting matters with management and the Company's independent registered public accounting firm.
- Responsibility for matters concerning the relationship between the Company and the Bank and the Company's independent auditors. This relationship includes:
 - recommending the appointment or removal of the Company's independent auditors;
 - reviewing the scope of their audit services and related fees, as well as any other services being provided;
 - determining whether the Company's auditors are independent.
- Overseeing management's implementation of effective systems of internal controls, including the review of the activities and recommendations of the Bank's internal auditing program.

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

The Audit Committee has implemented procedures to ensure that during the course of each fiscal year it devotes the attention that it deems necessary or appropriate to each of the matters assigned to it under the committee's charter. The Audit Committee Charter is available on the "Our Story – Investor Relations" page of the Bank's website at www.myfirstfarmers.com.

Compensation Committee

Number of 2015 meetings: 4

The Compensation Committee's primary duties and responsibilities include establishing and monitoring compensation and benefit plan policies of the Bank and making recommendations regarding compensation and benefits for the officers of the Bank. The Compensation Committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and has the authority to retain such outside counsel, experts, and other advisors as it deems appropriate to assist it in conducting of any such investigation. This committee recommends to the Board of Directors of the Company and the Bank fees for attendance at board and committee meetings. The Compensation Committee reviews, evaluates and recommends to the Board of Directors of the Bank the officers' compensation program and deferred profit-sharing contributions for all eligible employees. The charter of the Compensation Committee is available on the "About Us – Investor Relations" page of the Bank's website at www.myfirstfarmers.com.

Executive Committee

Number of 2015 meetings: 35

The Executive Committee reviews and recommends to the Bank's and Company's Boards of Directors for its approval selected actions with regard to the general direction and conduct of the Company and the Bank. This committee acts on loan applications in accordance with the Bank's policies that have been approved by the Board of Directors. The Executive Committee also reviews risk management reports related to the Bank's operations.

Trust Committee

Number of 2015 meetings: 12

The Trust Committee supervises the operations of the Trust and Financial Management Department of the Bank to ensure proper exercise of the fiduciary powers of the Bank.

Directors' Attendance at Meetings

The Board of Directors of the Company met 13 times during 2015. Each member of the Board of Directors of the Bank and the Company attended at least 75% of the aggregate meetings of the Board of Directors and committees of which he or she was a member.

The Company does not have a policy regarding director attendance at annual meetings of shareholders because of the willingness of each director to be present at all annual meetings and the historical attendance of each director. Eight of the directors attended the 2015 annual meeting of shareholders.

Shareholder Communication with the Board of Directors

The Board of Directors of the Company has adopted a process to facilitate written communications by shareholders or other interested parties to the Board of Directors. Persons wishing to write to the Board of Directors of the Company or a specified director or committee of the Bank Board of Directors should send correspondence to the Corporate Secretary at First Farmers and Merchants Corporation, P.O. Box 1148, Columbia, Tennessee, 38402-1148.

All communications properly received from shareholders or other interested parties will be forwarded to the members of the Board of Directors, or to a specific director or committee if so designated. Any shareholder who wishes to communicate with a specific Board member should send instructions asking that the material be forwarded to the director. Solicitations, junk mail and frivolous communications will not be forwarded but will be made available to any director who wishes to review them.

Code of Ethics

The Board of Directors of the Company has not adopted a Code of Ethics, as defined by the rules and regulations of the SEC, because the principal business of the consolidated company is conducted by the Bank rather than the Company, which is a bank holding company. The Board of Directors of the Bank, however, has adopted a Code of Ethics for all employees of the Bank. A copy of this Code of Ethics is available

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

on the “Our Story – Investor Relations” page of the Bank’s website at www.myfirstfarmers.com or can be obtained without charge by a written request to Human Resources Director, First Farmers and Merchants Bank, P.O. Box 1148, Columbia, Tennessee, 38402-1148.

Compensation Discussion and Analysis

The executive officers of the Company do not receive compensation for service as executive officers of the Company but instead receive compensation from the Bank for service as executive officers of the Bank. The Compensation Committee of the Bank approves and oversees compensation programs to attract, retain and motivate officers, employees and directors by offering what the Compensation Committee believes to be attractive and competitive compensation elements and amounts. These goals are balanced against the need to control expenses for the benefit of the shareholders of the Company. The compensation programs are designed to promote profitability, reward production and foster loyalty while taking into account the risk-management process and oversight designed to ensure the safety and soundness of the Bank. To be competitive, the Bank seeks to provide salaries and benefits comparable to the median of those provided by other banking companies of similar asset size operating in the Southeastern United States.

General Compensation Philosophy

The Compensation Committee reviews the compensation of all executive officers of the Bank and believes that the actions of each executive officer have the potential to impact the short-term and long-term profitability of the Company and the Bank. Consequently, the Compensation Committee places considerable importance on its task of approving and overseeing an executive compensation program that rewards short-term and long-term profitability of the Company and the Bank. Decisions with respect to the compensation of the Company's Named Executive Officers are made by the Compensation Committee. The Compensation Committee consults with and receives recommendations from the Chief Executive Officer of the Company with respect to the compensation of Named Executive Officers other than the Chief Executive Officer, but the Compensation Committee retains the sole authority to approve the compensation of the Named Executive Officers.

The Bank has a performance-based executive compensation program that considers factors such as shareholder value and the overall performance of the Company and the Bank, as further described below under "Cash Bonus Plan." The main components of the executive compensation program are base salary, cash bonus plan, employee benefits and perquisites. The Company and the Bank currently do not have equity-based incentive compensation programs.

In 2015, the Compensation Committee engaged Blanchard Consulting Group to advise the Compensation Committee with respect to the compensation of the Company's executive officers. In 2015, the Bank paid \$23,000 to Blanchard Consulting Group in connection with executive compensation consulting services. The Compensation Committee has considered the relationships that Blanchard Consulting Group has with the Company, the members of the Compensation Committee and the Company's executive officers and determined that the work of Blanchard Consulting Group as the Compensation Committee's compensation consultant in 2015 did not raise any conflicts of interest.

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd Frank") and related SEC rules, in connection with the 2014 annual meeting of shareholders, the Company solicited an advisory vote by shareholders on executive compensation. This solicitation, commonly known as the "say-on-pay" proposal, received the affirmative vote of an overwhelming majority of the shareholders. The Company's Board of Directors had previously recommended that the advisory vote on executive compensation be solicited every three years, and this frequency of shareholder vote received the greatest number of votes from shareholders at the 2011 annual meeting of shareholders. In 2011, the Board of Directors determined that the Company would hold an advisory vote on the compensation of the Named Executive Officers every three years until the next shareholder advisory vote on the frequency with which the advisory vote is taken, which would occur at the annual meeting of shareholders in 2017; however, if the Company's shareholders vote to approve the merger agreement at the Annual Meeting, the SEC rules requiring "say on pay" and "say on frequency" votes will not apply to the Company once the merger has been completed and management expects that those votes will not be solicited from the Company's shareholders in the future.

Components of Compensation

Base Salary

Base salary is designed so that the executive officers receive acceptable salaries, helping the Bank attract and retain talent needed to meet the challenges in the financial service industry within the Company's and the Bank's market segment. Many factors are considered by the Compensation Committee in determining base salaries, such as job responsibilities, the scope of the position, length of service with the Bank,

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

individual performance and compensation for similar positions in the Bank's peer group. All base salaries of the Named Executive Officers reviewed by the Compensation Committee annually. In 2015, each of the Named Executive Officers received a base salary increase compared to 2014 base salary as follows, based on a combination of the above-mentioned factors:

53

Name	2015 Salary	Increase from 2014
T. Randy Stevens		3.9%
Robert E. Krimmel		N/A
Timothy E. Pettus		3.0%
Barry B. White		5.1%
Brian K. Williams		6.1%
Patricia P. Bearden*		2.9%

* Ms. Bearden's employment with the Company and the Bank was terminated effective January 26, 2015. For purposes of the remainder of this Compensation Discussion and Analysis, all references to the Named Executive Officers in 2015 exclude Ms. Bearden.

The Compensation Committee has set the base salary for each of the Named Executive Officers for 2016 as follows:

Name	2016 Salary	Increase from 2015
T. Randy Stevens	\$432,000	8.0%
Robert E. Krimmel	\$200,000	8.1%
Timothy E. Pettus	\$286,000	4.8%
Barry B. White	\$220,000	6.3%
Brian K. Williams	\$220,000	15.2%

Cash Bonus Plan

The second component in the executive compensation program is a cash bonus plan. The cash bonus plan is used as a short-term incentive to drive achievement of annual Bank performance goals. This plan determines the bonuses for all eligible employees, including officers as a percentage of their salary, and is based on an evaluation of each executive's performance as well as the Bank's performance in various categories, including the following metrics that were used in determining each eligible employee's (including each Named Executive Officer's) cash bonus for 2015:

- Return on assets;
- Delinquencies and non-accruals;
- Gross loan growth;
- Net deposit growth; and
- Net income.

During 2015, the Compensation Committee established performance goals under the cash bonus plan. The maximum performance goal multiplier under each performance goal was 20%. The sum of the performance goal multipliers (which equals 100% if the maximum target level for each performance goal is achieved) was 88% for 2015. The actual payments made were based on the performance as of December 31, 2015. Performance goal multipliers ranging from 8% to 20% were assigned to varying target levels for each performance goal as follows (dollars in millions):

Performance Goal Multiplier Based on 2015

Performance Goal	4%	8%	12%	16%	20%	2015 Performance
		Target Levels				

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form PRER14A

Return on assets	≥ 0.80%	≥ 0.85%	≥ 0.90%	≥ 0.95%	≥ 1.00%	≥ 0.85%
Delinquencies and non-accruals	≤ 1.90%	≤ 1.80%	≤ 1.70%	≤ 1.60%	≤ 1.50%	≤ 0.81%
Gross loan growth	≥ 3.0%	≥ 4.0%	≥ 5.0%	≥ 6.0%	≥ 7.0%	12.2%
Net deposit growth	≥ 3.0%	≥ 4.0%	≥ 5.0%	≥ 6.0%	≥ 7.0%	8.2%
Net income	≥ \$9,250	≥ \$9,500	≥ \$9,750	≥ \$10,000	≥ \$10,250	\$10,306

The Compensation Committee also established maximum bonus percentages (measured as a percent of annual base salary) based on the position of each Named Executive Officer as follows: T. Randy Stevens (70.0%); Robert E. Krimmel (35.0%); Timothy E. Pettus (50.0%); Barry B. White (35.0%); and Brian K. Williams (35.0%). The sum of the performance goal multipliers (88% for 2015) was multiplied by the maximum bonus percentage with respect to each Named Executive Officer resulting in the aggregate bonus multiplier. The aggregate bonus multiplier was then multiplied by the base salary for each Named Executive Officer and the product was the Named Executive Officer's bonus for 2015.

The following bonuses were paid to the Named Executive Officers based on achievement of performance goals for 2015:

Name	Bonus	Actual Bonus as Percentage of Base Salary	Maximum Potential Bonus (Percentage of Base Salary)
T. Randy Stevens	\$ 246,400	61.6%	70.0%
Robert E. Krimmel	\$ 37,987	30.8%	35.0%
Timothy E. Pettus	\$ 120,120	44.0%	50.0%
Barry B. White	\$ 63,756	30.8%	35.0%
Brian K. Williams	\$ 58,828	30.8%	35.0%

Under the Sarbanes-Oxley Act, if the Company is required to restate its financial results as a result of material noncompliance with financial reporting requirements under the securities laws as a result of misconduct, the Chief Executive Officer and the Chief Financial Officer must repay any bonus or other incentive-based compensation (including profits realized from the sale of our common stock) received during the 12-month period following the filing of the erroneous financial results.

Employee Benefits

The Bank provides the following benefits for all employees of the Bank, including the Named Executive Officers:

- The Bank offers health insurance and life insurance at a nominal cost to full-time employees (including Named Executive Officers) and makes available health insurance for each employee's family, the cost of the premiums for which are shared by the employee and the Bank. The Bank also provides long-term disability insurance at no cost to full-time employees. Any eligible employee who becomes disabled may continue coverage under the Bank's health insurance and life insurance plans. The disabled employee must pay the same premiums as qualified retirees under the age of 65 for the same coverage. This coverage will continue to be provided by the Bank for the entire period of time that the employee is eligible and receives compensation under the Bank's group long-term disability insurance policy.
- The Bank offers dental insurance coverage for all eligible employees and makes dental insurance available for eligible dependents at the employee's expense.
- The Bank offers vision insurance coverage for all eligible employees and makes vision insurance coverage available for eligible dependents at the employee's expense.
- The Bank offers a "Cafeteria" Plan under Internal Revenue Code Section 125 that gives employees the opportunity to pay for certain benefits on a pre-tax basis rather than on an after-tax basis. Expenses that are eligible for the Section 125 Plan include certain insurance premiums, certain out-of-pocket medical expenses and dependent care expenses. Money spent for these items included in the Section 125 Plan is not subject to Social Security or federal income taxes.
- The Bank has adopted the Deferred Profit Sharing Plan, which is a tax-qualified profit sharing retirement plan that has received a favorable determination letter from the Internal Revenue Service. All employees of the Bank who are at least 20 years old and who have completed one year of service with the Bank are eligible to participate in the Deferred Profit Sharing Plan. Individual accounts are maintained for each plan participant in order to record contributions by the Bank and adjustments for gains and losses on investments. Participant accounts are subject to forfeiture upon termination of employment prior to vesting. Forfeitures in the plan resulting from the departure of participating employees prior to vesting are allocated pro-rata to all participants who are eligible to receive employer contributions based on the participants' plan compensation. Accounts become vested over a period of six years, with 25% vested after two years of service, an additional 15% after the third year of service and 20% each year thereafter until the benefit is 100% vested at the end of the sixth year of service. The Bank's contribution to the plan is determined by the

annual performance of the Bank and is subject to annual approval by the Compensation Committee and the Board of Directors of the Bank. Contributions are allocated to participant accounts pro rata to their compensation each year. The aggregate amount the Bank contributed to the Deferred Profit Sharing Plan for the 222 participants during 2015 was \$885,000. The Bank serves as trustee of the Deferred Profit Sharing Plan and such plan is authorized to hold First Farmers common stock. The Deferred Profit Sharing Plan has not purchased or sold any shares of First Farmers common stock during the past sixty days.

- The Bank pays for one physical examination each year for all officers of the Bank, including the Named Executive Officers. The Bank pays for flu vaccinations annually for all officers and employees. Payment is made upon the presentation of an itemized statement with respect to any physical examination, from the physician providing the services, and with respect to annual flu immunizations, from the healthcare provider administering such vaccinations.
- In 1996, the Bank established an officer group term replacement/split-dollar plan to provide life insurance benefits that continue after retirement. A single premium universal life insurance policy was purchased to fund the plan and a split-dollar agreement was entered into with an irrevocable trust that specified the portion of the insurance proceeds that would become part of the trust. For additional information, see the section below entitled “Split-Dollar Arrangements and Deferred Compensation Agreements.”

Perquisites

In addition to salaries, bonus opportunities and employee benefits, the Bank provides to certain executive officers, including the Named Executive Officers, certain perquisites so that the Bank remains competitive in its ability to hire and retain talented employees. These perquisites include the use of a company vehicle or a vehicle allowance, certain club memberships and the payment of dues for those clubs. The Bank currently provides these perquisites to all of the Named Executive Officers except Mr. Krimmel with respect to the use of a company vehicle. The Bank’s policy for providing perquisites is based on the number of years of experience within the banking industry and the executive’s position with the Bank. The Compensation Committee periodically reviews perquisites that are made available to the executive officers, including the Chief Executive Officer, to ensure that they are in line with market practice.

Split-Dollar Arrangements and Deferred Compensation Agreements

The Bank provides certain split-dollar insurance and/or deferred compensation agreements to fund death benefits (the “Plan”) for directors and certain officers of the Bank in order to encourage their continued employment and service with the Bank and to reward them for their past service and contribution, as determined by the Compensation Committee.

The Bank has entered into separate agreements with each of its directors and the Named Executive Officers relating to the Plan. For the directors, each participant is entitled to designate a beneficiary to receive a death benefit equal to a specified amount or the net-at-risk insurance portion of the proceeds (defined as total proceeds minus the cash surrender value of the policy). For the Named Executive Officers, each participant is entitled to designate a beneficiary to receive a death benefit equal to the lesser of two and one-half times the participant’s annual base salary at the effective date of the Plan or the net-at-risk insurance portion of the proceeds. A director or Named Executive Officer forfeits his or her right to the benefits provided by this Plan if he or she is terminated for cause, removed under certain other circumstances as described in the Plan. The restrictive covenants regarding non-competition in the Plan generally provide that the Plan participant may not, without the prior written consent of the Company, directly or indirectly (i) become employed by, participate in or be connected in any manner with the ownership, management, operation or control of any bank, savings and loan or similar financial institution if the participant’s responsibilities will include providing banking or other financial services within a 25-mile radius of any office maintained by the Company or the Bank as of the date of termination of service, (ii) participate in any way in hiring or otherwise engaging, or assisting any other person in hiring or otherwise engaging, any individual who was employed by the Company or the Bank as of the date of termination of service, (iii) assist, advise or serve in any capacity any third party in any action against or transaction involving the Company or the Bank, or (iv) sell, offer to sell, provide banking or other financial services, assist any other person in selling or providing banking or other financial services, or solicit or otherwise compete for any orders, contracts or accounts for services of a kind or nature like or substantially similarly to those sold by the Company or the Bank to or from any person from whom the participant or the Company or the Bank, to the knowledge of the participant, provided banking or other financial services or such other services during the three-year period immediately prior to the termination of the participant’s service.

Because Messrs. Pettus and Stevens are directors, each of them has also been provided benefits under Director Deferred Compensation Agreements. For a description of these agreements, see the section below entitled “COMPENSATION OF DIRECTORS – Deferred Compensation Agreements and Split-Dollar Arrangements.”

Group Term Carve-Out Plans

The Bank has purchased certain life insurance policies on the lives of participating executive officers and pays the premiums on these policies. Under the Bank's Group Term Carve-Out Plans, the Bank has agreed to pay certain death proceeds under these life insurance policies to a beneficiary designated by each participating executive officer. In general, if a participant dies while employed by the Bank, the participant's beneficiary will be entitled to a benefit equal to two and one-half times the deceased participant's annual base salary at the effective date of the plan. Messrs. Stevens and Pettus participate in the Bank's 2002 Group Term Carve-Out Plan. Mr. Williams participates in the Bank's 2007 Group Term Carve-Out Plan. Mr. White participates in the Bank's 2004 Group Term Carve-Out Plan, and Mr. Krimmel does not currently participate in a Group Term Carve-out Plan. The Named Executive Officers' beneficiaries are entitled to the following respective benefits under the Group Term Carve-Out Plans:

Name	Benefit Under Group Term Carve-Out Plan
T. Randy Stevens	\$450,000
Robert E. Krimmel	-
Timothy E. Pettus	\$250,000
Barry B. White	\$316,250
Brian K. Williams	\$267,500

Risk Management Considerations

The Compensation Committee believes that the Bank's performance-based cash bonus program creates incentives to create long-term shareholder value. Several elements of the program are designed to promote the creation of long-term value and thereby discourage behavior that leads to excessive risk:

- Rather than determining cash bonus awards based on a single metric, the Compensation Committee applies a structured, principled framework that takes into account a balanced set of financial performance metrics that the Compensation Committee believes collectively best demonstrate successful management; and
- The performance metrics used to determine the amount of an executive's bonus are those that the Compensation Committee believes drive long-term shareholder value. Moreover, the Compensation Committee attempts to set goals for these metrics that encourage success without encouraging excessive risk taking to achieve short-term results.

The Bank generally uses the same performance metrics for its cash bonus programs for the Named Executive Officers, other executive officers and non-executive employees.

Management and the Compensation Committee periodically evaluate the risks involved with all of the Bank's compensation programs and do not believe that any of the Bank's compensation programs create risks that are reasonably likely to pose a material adverse impact to the Company.

Conclusion

The Compensation Committee believes that this mix of market-based salaries, cash bonuses, employee benefits and perquisites represents a balance that will motivate the management team to continue to undertake to produce strong returns. The Compensation Committee further believes this program strikes an appropriate balance with the interests and needs of the Bank in operating a financial services business without encouraging the taking of excessive risk.

Compensation Committee Report

The Compensation Committee of the Board of Directors of the Bank has reviewed and discussed with management the foregoing Compensation Discussion and Analysis required by SEC Regulation S-K, Item 402(b). Based on this review and discussion, the Compensation Committee recommended to the Board of Directors of the Bank, who recommended to the Board of Directors of the Company, that the Compensation Discussion and Analysis be included in this Proxy Statement and be incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Compensation Committee of the Bank's Board of Directors:

W. Lacy Upchurch, Chairman

Dr. David S. Williams

M. Darlene Baxter

T. Randy Stevens

Executive CompensationSummary Compensation Table

The following table sets forth the aggregate remuneration accrued or paid by the Bank during the three fiscal years ended December 31, 2015 to the Named Executive Officers – the Chief Executive Officer, the Chief Financial Officer, our three other most highly compensated executive officers who were serving as executive officers at December 31, 2015 and whose total compensation for 2015 exceeded \$100,000, and one additional individual for whom disclosure would have been provided, except that the individual was not serving as an executive officer of the Company as of December 31, 2015.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and	All Other Compensation ⁽¹⁾	Total Compensation
							Nonqualified Deferred Compensation		
T. Randy Stevens <i>Chairman of the Board, Chief Executive Officer of the Company and the Bank</i>	2015	\$400,000	\$246,400	\$–	\$–	\$–	\$–	\$167,716	\$814,116
	2014	385,000	216,070	–	–	–	–	162,097	763,167
	2013	365,697	240,767	–	–	–	–	171,877	778,341
Robert E. Krimmel ⁽²⁾ <i>Chief Financial Officer and Treasurer of the Company and the Bank</i>	2015	123,333	52,987	–	–	–	–	13,271	189,591
Timothy E. Pettus <i>President of the Company and the Bank</i>	2015	273,000	120,120	–	–	–	–	108,526	501,646
	2014	265,000	101,150	–	–	–	–	94,241	460,391
	2013	257,000	113,080	–	–	–	–	103,999	474,079
Barry B. White <i>General Counsel of the Bank</i>	2015	207,000	63,756	–	–	–	–	24,711	295,467
	2014	197,000	52,402	–	–	–	–	25,968	275,370
	2013	187,000	41,140	–	–	–	–	38,878	267,018
Brian K. Williams ⁽³⁾ <i>Executive Vice President of the Bank</i>	2015	191,000	58,828	–	–	–	–	24,727	274,555
	2014	180,000	97,880	–	–	–	–	28,243	306,123
	2013	169,000	52,052	–	–	–	–	36,899	257,951
Patricia P. Bearden ⁽⁴⁾ <i>Former Treasurer of the Company and Chief Financial Officer of the Bank</i>	2015	32,364	–	–	–	–	–	89,000	121,364
	2014	173,000	46,018	–	–	–	–	29,757	248,775
	2013	165,000	50,820	–	–	–	–	34,149	249,969

(1) All other compensation for 2015 is described in the following table.

(2) Because Mr. Krimmel was not a Named Executive Officer with respect to 2013 or 2014, information is provided for 2015 only.

(3) Effective as of January 27, 2015, Mr. Williams was named acting Chief Financial Officer and Treasurer of the Company and the Bank; he served in these positions until May 4, 2015, the effective date of Mr. Krimmel's employment. On January 1, 2016, Mr. Williams became President of the Company and the Bank.

(4) Ms. Bearden's employment with the Company and the Bank was terminated effective January 26, 2015 and a severance payment of \$89,000 was included in other all other compensation for 2015.

Name	Fees for Services as Directors ⁽¹⁾	Contributions to Deferred Profit Sharing Plan ⁽²⁾	Imputed Income on Group Carve Out Plan	Personal Use of Company Automobile	Club Membership and Dues	Physical Exams	Total
T. Randy Stevens	\$131,318	\$32,000	\$853	\$888	\$2,656	\$-	\$167,716
Robert E. Krimmel	11,167	-	-	-	2,104	-	13,271
Timothy E. Pettus	75,438	21,840	720	5,845	4,683	-	108,526
Barry B. White	-	16,560	698	3,854	3,599	-	24,711
Brian K. Williams	5,583	15,280	409	-	3,455	-	24,727

(1) Fees and interest for service by Named Executive Officers on the Board of Directors of the Company and the Bank and certain committees of the Board of Directors of the Bank during the year ended December 31, 2015 are reflected in the following table.

(2) Includes cash payments for excess profit sharing contribution of \$10,800 for Mr. Stevens and \$640 for Mr. Pettus.

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings⁽¹⁾	All Other Compensation⁽³⁾	Total
T. Randy Stevens	\$50,750	\$-	\$-	\$-	\$80,568	-	\$131,318
Robert E. Krimmel ⁽²⁾	11,167	-	-	-	-	-	11,167
Timothy E. Pettus	56,050	-	-	-	19,388	-	75,438
Barry B. White ⁽²⁾	-	-	-	-	-	-	-
Brian K. Williams ⁽²⁾	5,583	-	-	-	-	-	-