

FARMERS & MERCHANTS BANCORP  
Form 10-Q  
May 09, 2016

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF  
1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-26099

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

Delaware 94-3327828  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

111 W. Pine Street, Lodi, California 95240  
(Address of principal Executive offices) (Zip Code)

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes

No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company  
(Do not check if a smaller reporting company)

Edgar Filing: FARMERS & MERCHANTS BANCORP - Form 10-Q

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

Number of shares of common stock of the registrant 792,387 outstanding as of April 29, 2016.

---

---

FARMERS & MERCHANTS BANCORP

FORM 10-Q

TABLE OF CONTENTS

---

<u>PART I. - FINANCIAL INFORMATION</u>	<u>Page</u>
Item 1 - Financial Statements	
<u>Consolidated Balance Sheets (Unaudited) as of March 31, 2016, December 31, 2015 and March 31, 2015.</u>	3
<u>Consolidated Statements of Income (Unaudited) for the Three Months Ended March 31, 2016 and 2015.</u>	4
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three Months Ended March 31, 2016 and 2015.</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity (Unaudited) for the Three Months Ended March 31, 2016 and 2015.</u>	6
<u>Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2016 and 2015.</u>	7
<u>Notes to the Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u>	53
<u>Item 4 - Controls and Procedures</u>	56
<u>PART II. - OTHER INFORMATION</u>	
<u>Item 1 - Legal Proceedings</u>	57
<u>Item 1A – Risk Factors</u>	57
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
<u>Item 3 - Defaults Upon Senior Securities</u>	57
<u>Item 4 – Mine Safety Disclosures</u>	57
<u>Item 5 - Other Information</u>	57
<u>Item 6 - Exhibits</u>	58
<u>Signatures</u>	58
<u>Index to Exhibits</u>	58

Edgar Filing: FARMERS & MERCHANTS BANCORP - Form 10-Q

31(a) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31(b) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

2

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## FARMERS &amp; MERCHANTS BANCORP

## Consolidated Balance Sheets

(in thousands except share data)

	March 31, 2016 (Unaudited)	December 31, 2015	March 31, 2015 (Unaudited)
<b>Assets</b>			
<b>Cash and Cash Equivalents:</b>			
Cash and Due from Banks	\$41,659	\$ 49,913	\$ 33,746
Interest Bearing Deposits with Banks	32,057	9,533	110,190
Total Cash and Cash Equivalents	73,716	59,446	143,936
<b>Investment Securities:</b>			
Available-for-Sale	341,771	369,137	365,184
Held-to-Maturity	61,535	61,396	63,463
Total Investment Securities	403,306	430,533	428,647
<b>Loans &amp; Leases:</b>			
Loans & Leases	1,993,071	1,996,359	1,705,320
Less: Allowance for Credit Losses	44,129	41,523	38,940
Loans & Leases, Net	1,948,942	1,954,836	1,666,380
Premises and Equipment, Net	26,344	26,575	26,693
Bank Owned Life Insurance	56,371	55,898	54,454
Interest Receivable and Other Assets	84,319	88,057	93,925
Total Assets	\$2,592,998	\$ 2,615,345	\$ 2,414,035
<b>Liabilities</b>			
<b>Deposits:</b>			
Demand	\$637,140	\$ 711,029	\$ 578,820
Interest Bearing Transaction	409,360	377,594	340,045
Savings and Money Market	725,823	707,885	699,308
Time	484,141	481,024	493,600
Total Deposits	2,256,464	2,277,532	2,111,773
Subordinated Debentures	10,310	10,310	10,310
Interest Payable and Other Liabilities	63,778	75,668	50,664
Total Liabilities	2,330,552	2,363,510	2,172,747
<b>Shareholders' Equity</b>			
Preferred Stock: No Par Value, 1,000,000 Shares Authorized, None Issued or Outstanding	-	-	-
Common Stock: Par Value \$0.01, 7,500,000 Shares Authorized, 792,387, 790,787 and 785,782 Shares Issued and Outstanding at March 31, 2016, December 31, 2015 and March 31, 2015, Respectively	8	8	8
Additional Paid-In Capital	82,004	81,164	78,569
Retained Earnings	177,240	170,068	159,236

Edgar Filing: FARMERS & MERCHANTS BANCORP - Form 10-Q

Accumulated Other Comprehensive Income	3,194	595	3,475
Total Shareholders' Equity	262,446	251,835	241,288
Total Liabilities and Shareholders' Equity	\$2,592,998	\$ 2,615,345	\$2,414,035

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

3

---

Table of Contents

## FARMERS &amp; MERCHANTS BANCORP

## Consolidated Statements of Income (Unaudited)

(in thousands except per share data)

Three Months  
 Ended March 31,  
 2016      2015

## Interest Income

Interest and Fees on Loans & Leases	\$21,894	\$19,127
Interest on Deposits with Banks	46	58
Interest on Investment Securities:		
Taxable	1,602	1,586
Exempt from Federal Tax	484	522
Total Interest Income	24,026	21,293

## Interest Expense

Deposits	828	712
Borrowed Funds	4	-
Subordinated Debentures	88	80
Total Interest Expense	920	792

Net Interest Income	23,106	20,501
Provision for Credit Losses	2,600	600
Net Interest Income After Provision for Credit Losses	20,506	19,901

## Non-Interest Income

Service Charges on Deposit Accounts	814	898
Net (Loss) Gain on Sale of Investment Securities	(289 )	1
Increase in Cash Surrender Value of Life Insurance	474	464
Debit Card and ATM Fees	835	777
Net Gain on Deferred Compensation Investments	291	765
Other	596	1,759
Total Non-Interest Income	2,721	4,664

## Non-Interest Expense

Salaries and Employee Benefits	11,706	10,099
Net Gain on Deferred Compensation Investments	291	765
Occupancy	741	639
Equipment	857	732
Marketing	299	136
FDIC Insurance	316	284
Gain on Sale of ORE	(5,684 )	-
Other	3,493	1,563
Total Non-Interest Expense	12,019	14,218

Income Before Income Taxes	11,208	10,347
Provision for Income Taxes	4,036	3,944
Net Income	\$7,172	\$6,403
Basic Earnings Per Common Share	\$9.06	\$8.15

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





Table of Contents

## FARMERS &amp; MERCHANTS BANCORP

## Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)

	Three Months Ended March 31,	
	2016	2015
Net Income	\$7,172	\$6,403
Other Comprehensive Income		
Increase in Net Unrealized Gain on Available-for-Sale Securities	4,195	1,627
Deferred Tax Expense Related to Unrealized Gains	(1,764)	(684)
Reclassification Adjustment for Realized Gains on Available-for-Sale Securities Included in Net Income	289	(1)
Deferred Tax Benefit Related to Reclassification Adjustment	(121)	-
Change in Net Unrealized Gain on Available-for-Sale Securities, Net of Tax	2,599	942
Total Other Comprehensive Income	2,599	942
Comprehensive Income	\$9,771	\$7,345

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

Table of Contents

## FARMERS &amp; MERCHANTS BANCORP

## Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(in thousands except share data)	Common Shares Outstanding	Common Stock Capital	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, net	Total Shareholders' Equity
Balance, January 1, 2015	784,082	\$ 8	\$ 77,804	\$ 152,833	\$ 2,533	\$ 233,178
Net Income		-	-	6,403	-	6,403
Issuance of Common Stock	1,700	-	765	-	-	765
Change in Net Unrealized Gains on Securities Available-for-Sale, net of tax		-	-	-	942	942
Balance, March 31, 2015	785,782	\$ 8	\$ 78,569	\$ 159,236	\$ 3,475	\$ 241,288
Balance, January 1, 2016	790,787	\$ 8	\$ 81,164	\$ 170,068	\$ 595	\$ 251,835
Net Income		-	-	7,172	-	7,172
Issuance of Common Stock	1,600	-	840	-	-	840
Change in Net Unrealized Gains on Securities Available-for-Sale, net of tax		-	-	-	2,599	2,599
Balance, March 31, 2016	792,387	\$ 8	\$ 82,004	\$ 177,240	\$ 3,194	\$ 262,446

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

Table of Contents

## FARMERS &amp; MERCHANTS BANCORP

## Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended	
	March	
	31,	March 31,
(in thousands)	2016	2015
Operating Activities:		
Net Income	\$ 7,172	\$ 6,403
Adjustments to Reconcile Net Income to Net		
Cash Provided by Operating Activities:		
Provision for Credit Losses	2,600	600
Depreciation and Amortization	478	363
Net Amortization of Investment Security Premiums & Discounts	370	375
Net Loss (Gain) on Sale of Investment Securities	289	(1 )
Net Gain on Sale of Other Real Estate	(5,684 )	