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FARMERS & MERCHANTS BANCORP  
Form DEF 14A  
March 29, 2004

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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

Filed by the Registrant    
Filed by a Party other than the Registrant

Check the appropriate box:

- |  |   |
|--|---|
| <input type="checkbox"/> Preliminary Proxy Statement   | <input type="checkbox"/> Soliciting Material Under Rule |
| <input type="checkbox"/> Confidential, For Use of the<br>Commission Only (as permitted<br>by Rule 14a-6(e)(2)) | 14a-12  |
| <input checked="" type="checkbox"/> Definitive Proxy Statement   |   |
| <input type="checkbox"/> Definitive Additional Materials   |   |

Farmers & Merchants Bancorp

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(Name of Registrant as Specified In Its Charter)

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

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4) Date Filed:

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1

FARMERS & MERCHANTS BANCORP  
121 West Pine Street, Lodi, CA 95240-2184

March 19, 2004

Dear Stockholder:

The annual meeting of stockholders of Farmers & Merchants Bancorp (the "Company") will be held this year at a new location, the Lodi Grape Festival, Chardonnay Hall, 413 E. Lockeford Street, Lodi, CA, on Monday, April 19, 2004, at 4:00 p.m. We look forward to your attendance.

The enclosed proxy statement describes the business to be conducted at the annual meeting, which includes the election of Directors, the ratification of PricewaterhouseCoopers LLP as the Company's independent auditors and any other matters which properly come before the meeting.

A copy of the Company's 2003 Annual Report to Stockholders is also enclosed.

We hope you will be able to attend the annual meeting in person. Dinner will be served after the meeting. The Directors and senior management greatly appreciate the interest expressed by our stockholders. Whether or not you plan to attend the annual meeting, it is important that you are represented and that your shares are voted. Accordingly, after reviewing the enclosed proxy statement, we ask you to complete, sign and date the enclosed proxy card and return it as soon as possible in the postage-paid envelope that has been provided for your convenience.

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Sincerely,

/s/ Ole R. Mettler  
Ole R. Mettler  
Chairman of the Board

/s/ Kent A. Steinwert  
Kent A. Steinwert  
President and Chief Executive Officer

Enclosures

2

FARMERS & MERCHANTS BANCORP  
121 West Pine Street, Lodi, CA 95240-2184

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held April 19, 2004

To the Stockholders:

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Farmers & Merchants Bancorp, a Delaware corporation (the "Company") will be held this year at a new location, the Lodi Grape Festival, Chardonnay Hall, 413 E. Lockeford Street, Lodi, CA, on Monday, April 19, 2004, at 4:00 p.m. to:

1. Elect the following eleven (11) Directors to serve until the next annual meeting of stockholders or until their successors are elected and qualified:

Stewart C. Adams, Jr.  
Ralph Burlington  
Edward Corum, Jr.  
Robert F. Hunnell  
Calvin (Kelly) Suess  
James E. Podesta

Harry C. Schumacher  
Kevin Sanguinetti  
Kent A. Steinwert  
Ole R. Mettler  
Carl A. Wishek, Jr.

2. Ratify the appointment of PricewaterhouseCoopers LLP, to act as the Company's independent auditors for the year ending December 31, 2004.
3. Act upon such other matters as may properly come before such annual meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on March 5, 2004 as the record date for determining the holders of the common stock of the Company entitled to notice of, and to vote at, the annual meeting and any adjournments thereof. A complete list of stockholders entitled to vote will be available for inspection by stockholders of record at the office of the Secretary of the Company at 111 West Pine Street, Lodi, CA for the ten days prior to the meeting.

You are strongly encouraged to attend the annual meeting. Please complete, sign and date, as promptly as possible, the enclosed proxy and immediately return it in the envelope provided for your use. This is important whether or not you plan to attend the annual meeting in person. The giving of such proxy will not affect your right to revoke such proxy or to vote in person, should you attend the annual meeting.

BY ORDER OF THE BOARD OF DIRECTORS,

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/s/ Deborah Hodkin  
Deborah Hodkin  
Secretary

Dated: March 19, 2004

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YOUR VOTE IS IMPORTANT  
TO INSURE YOUR VOTE IS REPRESENTED, YOU ARE URGED TO COMPLETE, SIGN,  
DATE AND PROMPTLY RETURN YOUR PROXY.  
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3

PROXY STATEMENT  
FARMERS & MERCHANTS BANCORP  
121 West Pine Street, Lodi, CA 95240-2184

This proxy statement is furnished to the stockholders of Farmers & Merchants Bancorp (the "Company") in connection with the solicitation of proxies by the Board of Directors of the Company to be used in voting at the annual meeting of stockholders to be held on April 19, 2004 at the Lodi Grape Festival, Chardonnay Hall, 413 E. Lockeford Street, Lodi, CA at 4:00 p.m., and at any adjournment or postponement thereof. All expenses incidental to the preparation and mailing, or otherwise making available to all stockholders of the notice, proxy statement and form of proxy will be paid by the Company. This proxy statement and the enclosed proxy are being mailed to the Company's stockholders on or about March 19, 2004.

This proxy statement outlines the business to be conducted at the annual meeting, which includes the election of Directors and the ratification of PricewaterhouseCoopers LLP as independent auditors.

Voting Rights and Vote Required

Only stockholders of record at the close of business on March 5, 2004 (the "record date"), will be entitled to vote in person at the meeting or by proxy. On the record date, there were 763,239 shares of common stock outstanding and entitled to vote.

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Holders of common stock of the Company are entitled to one vote for each share held, other than with respect to the election of Directors. Due to the application of Section 2115 of the California Corporations Code, each stockholder may be eligible to exercise cumulative voting rights and may be entitled to as many votes as shall equal the number of shares of common stock held by such stockholder multiplied by the number of Directors to be elected, and such stockholder may cast all of such votes for a single nominee or may distribute them among two or more nominees. For example, if you own 10 shares of common stock of the Company and 11 Directors are being elected, you have 110 votes - you can cast all of them for one nominee, or two or more nominees if you so choose. No stockholder, however, shall be entitled to cumulate votes (i.e., cast for any one or more nominees a number of votes greater than the number of shares of common stock of the Company held by such stockholder) unless the name(s) of the nominee(s) has (have) been placed in nomination prior to the commencement of the voting in accordance with Article III, Section 3.4 of the Company's by-laws (which requires that nominations made other than by the Board of Directors be made by notification in writing delivered or mailed to the President of the Company not less than 30 days or more than 60 days prior to any meeting of stockholders) and, in accordance with Article II, Section 2.9 of the

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Company's by-laws, a stockholder has given at least two days written notice to the Secretary of the Company of an intention to cumulate votes prior to the vote. The Company's Annual Meeting of Stockholders is expected to be held on April 19, 2004. Accordingly, any stockholder nomination for election to the Board of Directors for the 2004 Annual Meeting of Stockholders, to be timely, must be received by the Company not later than March 20, 2004 and not earlier than February 19, 2004. If any stockholder has given such notice, all stockholders may cumulate their votes for nominees, in which event votes represented by proxies delivered pursuant to this proxy statement may be cumulated, at the discretion of the proxy holders, in accordance with the recommendation of the Board of Directors. Discretionary authority to cumulate votes in such event is, therefore, solicited in this proxy statement.

In the election of Directors, the 11 nominees receiving the highest number of votes will be elected. Ratification of the selection of the independent auditors and approval of such other matters which properly come before the meeting, if any, will require the affirmative vote of a majority of the shares represented and voting at the meeting provided the quorum requirements of Article II, Section 2.7 of the by-laws are met, as described under the heading "Voting of Proxies - Quorum" below. Abstentions will not count as votes in favor of the election of Directors or any other proposals.

4

### Voting of Proxies - Quorum

The shares represented by all properly executed proxies received in time for the meeting will be voted in accordance with the stockholders' choices specified therein; provided, however, that where no choices have been specified, the shares will be voted "FOR" the election of the 11 nominees for Director recommended by the Board of Directors, "FOR" the ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors, and voted at the discretion of the proxy holders on such other matters, if any, which may properly come before the meeting (including any proposal to adjourn the meeting). A majority of the shares entitled to vote represented either in person or by properly executed proxies, will constitute a quorum at the meeting. Abstentions and broker "non-votes" are each included in the determination of the number of shares present and voting for purposes of determining the presence of a quorum. A broker "non-vote" occurs when a nominee holding shares for a beneficial owner does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Abstentions will be included in tabulations of the votes cast on proposals presented to the stockholders and therefore will have the effect of a negative vote. Broker "non-votes" will not be counted for purposes of determining the number of votes cast for a proposal.

### Revocability of Proxy

A stockholder using the enclosed proxy may revoke the authority conferred by the proxy at any time before it is exercised (i.e., before the vote pursuant to that proxy) by delivering written notice of revocation or a duly executed proxy bearing a later date to the Secretary of the Company, or by appearing and voting by ballot in person at the meeting. In the event that signed proxies are returned without voting instructions, proxies will be voted in favor of election of the eleven (11) persons nominated for election as Directors as set forth in this Proxy Statement, the ratification of the appointment of PricewaterhouseCoopers LLP as independent auditors, and such other matters, if any, which may properly come before the meeting (including any proposal to adjourn the meeting).

5

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PROPOSAL 1

ELECTION OF DIRECTORS

At the meeting, it will be proposed to elect eleven (11) Directors of the Company, each to hold office until the next annual meeting and until their successors shall be elected and qualified. It is the intention of the proxy holders named in the enclosed proxy to vote such proxies (except those containing contrary instructions) for the eleven (11) nominees named below.

The following table sets forth the names of each of the nominees for election as a Director, their age, their principal occupation for the past five years and the period during which they have served as Director of the Company (or the Bank).

Name	Age	Principal Occupation During Past Five Years
Stewart C. Adams, Jr.	66	Attorney
Ralph Burlington	80	Retired, Former Co-owner San Joaquin Sulfur Co.
Edward Corum, Jr.	52	Owner, Corum Real Estate Investment Co.
Robert F. Hunnell	83	Retired, Former Owner, Hunnell's Pharmacy
Ole R. Mettler	86	Chairman of the Board and Retired Bank President
James E. Podesta	83	Orchardist
Kevin Sanguinetti	45	President, First American Title Co.
Harry C. Schumacher	83	Retired since 1997, prior thereto President of the Bank
Kent A. Steinwert	51	President and Chief Executive Officer of the Company and Bank
Calvin (Kelly) Suess	68	Co-owner, Lodi Nut Company, Inc.
Carl A. Wishek, Jr.	65	Assistant Vice President of the Bank

None of the Directors of the Company were selected pursuant to arrangements or understandings other than with the Directors and stockholders of the Company acting within their capacity as such. There are no family relationships among the Directors and executive officers of the Company, and none of the Directors serves as a Director of any company which has a class of securities registered under, or subject to periodic reporting requirements of, the Securities Exchange Act of 1934, as amended, or any company registered as an investment company under the Investment Company Act of 1940.

The Board does not anticipate that any of the nominees will be unable to serve as a Director of the Company, but if that should occur before the meeting, the proxy holders, in their discretion, upon the recommendation of the Company's Board of Directors, reserve the right to substitute as nominee and vote for

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another person of their choice in the place and stead of any nominee unable so to serve. The proxy holders reserve the right to cumulate votes for the election of Directors and cast all of such votes for any one or more of the nominees, to the exclusion of the others, and in such order of preference as the proxy holders may determine in their discretion, based upon the recommendation of the Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR  
THE NOMINEES LISTED ABOVE.

6

### Board of Directors Meetings

During the calendar year ending December 31, 2003, the Board of Directors of the Company met eighteen (18) times and the Board of Directors of the Bank met thirty-seven (37) times. Each incumbent attended more than 75% of the meetings of the Board of Directors and Committees on which they served. All eleven directors attended the annual meeting of shareholders in 2003.

### Committees of the Board of Directors

The Company's principal asset is its wholly-owned subsidiary, Farmers & Merchants Bank of Central California (the "Bank"). The Directors of the Company are also Directors of the Bank. As such, Bank Committees supervise and review the activities of the Bank, which in turn report to the Company's Board of Directors.

### Nominating Committee

The Board of Directors of the Company has a nominating committee; The Committee met one (1) time in 2003. The committee is comprised of the following voting members: Messrs. Mettler, Steinwert (Chairperson), Schumacher, Suess and Hunnell. The Committee identifies candidates to serve as Directors of the Bank and the Company in the event of future Board openings. As part of its nominating responsibilities, the Nominating Committee will consider candidates nominated by the Company's stockholders, directors, officers and from other sources. In evaluating candidates, the Nominating Committee considers the attributes of the candidate (including skills, experience, diversity, age and legal and regulatory requirements) and the needs of the Board of Directors, and will review all candidates in the same manner, regardless of the source of the recommendation. The Nominating Committee will consider candidates nominated by the stockholders of the Company for next year's meeting if the nomination is made in writing in accordance with Article III, Section 3.4 of the By-Laws of the Company, as described under the heading "Stockholder Proposals" below. Each of Messrs. Schumacher, Suess and Hunnell has been determined by the Board of Directors to be "independent" as such term is defined by Rule 4200(a)(15) of the NASD's current listing standards. The Nominating Committee does not have a charter.

### Audit Committee

The Audit Committee of the Company and the Bank oversees and monitors the activities of the internal and independent auditors of the Company and the Bank with the aim of ensuring compliance with applicable laws. The Audit Committee reports to the Boards of Directors of the Bank and the Company, as appropriate. The Audit Committee reviews the reports of audits and examinations of the Bank and the Company made by the independent auditors, internal auditors and regulatory agencies. The Committee also reviews the examinations of Bank operations, loans and credits and reports the results to the Boards of Directors of the Bank and the Company. The Committee met twelve (12) times in 2003 and is comprised of the following members: Messrs. Schumacher (Chairperson), Hunnell

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and Burlington. Mr. Schumacher has been designated as the "financial expert" (see Exhibit A) on the Audit Committee.

### Expense Committee

The Expense Committee of the Company and the Bank reviews and examines all Bank and Company expenses on a monthly basis comparing the results with the established annual budget, the previous month and prior year, and proposes recommendations to management regarding controllable expenses. The Committee met ten (10) times in 2003 and is comprised of the following voting members: Messrs. Podesta (Chairperson), Suess and Wishek.

7

### CRA Committee (Community Reinvestment Act)

The CRA Committee of the Company and the Bank monitors the Bank's efforts and responsibilities to comply with the Community Reinvestment Act. The CRA Committee makes recommendations to the Board of Directors to assure the Bank is meeting the credit, investment and service needs of all segments of the communities it serves. The Committee met twelve (12) times in 2003 and is comprised of the following voting members: Messrs. Suess (Chairperson), Podesta and Wishek.

### Personnel Committee

The Personnel Committee of the Company and the Bank reviews and establishes the general employment and compensation practices and policies of the Bank and approves procedures for the administration thereof. The Personnel Committee is comprised of the following voting members: Messrs. Adams (Chairperson), Sanguinetti, Corum and Schumacher. The Committee met four (4) times in 2003. None of the members of the Committee are officers or employees of the Company or the Bank.

### Asset and Liability Management Committee

The Asset and Liability Committee of the Company and the Bank is responsible for the formulation, revision and administration of the Bank's policies relating to interest rate, liquidity and investment risk management. The Asset and Liability Committee is comprised of the following voting members: Messrs. Hunnell (Chairperson), Schumacher and Steinwert. The Committee met nine (9) times in 2003.

### Loan Committee

The Loan Committee of the Company and the Bank is responsible for the formulation, revision and administration of the Bank's policy relating to credit risk management. The Loan Committee meets weekly and is responsible for approving all loans over \$2 million and reviewing all loans over \$500 thousand. The Loan Committee is comprised of the following voting members: Messrs. Hunnell (Chairperson), Mettler and Steinwert. The Committee met twenty-nine (29) times in 2003.

### Communications with Board of Directors

If you wish to communicate with the Board of Directors you may send correspondence to the Secretary, Farmers & Merchants Bancorp, 121 W. Pine Street, Lodi, CA 95240-2184. The Secretary will submit your correspondence to the Board of Directors or the appropriate committee, as applicable.

### Reports of the Personnel and Audit Committees



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The reports of the Personnel Committee and the Audit Committee and additional descriptions of their functions are as follows:

### Report of the Personnel Committee of the Board of Directors on Executive Compensation

The Personnel Committee of the Bank reviews and establishes the general employment and compensation practices and policies of the Bank and approves procedures for the administration thereof. The Board of Directors of the Bank, operating through its Personnel Committee, establishes annual executive compensation for the Chief Executive Officer of the Bank and the Company ("CEO") and the other executive officers based on their performance and compensation paid for similar positions at other banks of comparable size as determined through research performed by independent third party consultants and published in industry publications. This annual evaluation process establishes a competitive base salary for each executive and offers incentive compensation, which can provide additional compensation if established performance measures are achieved.

8

The aggregate salary and bonus earned by each of the named executive officers is set forth in the Summary Compensation Table below. Each named executive receives a monthly base salary, and is eligible to receive an annual cash bonus. Bank performance measures are established each year based on the Bank's profit objectives. The extent to which these objectives are achieved determines the annual cash bonus, if any, and merit increase earned by such named executive officer.

In evaluating the CEO's annual salary, the Personnel Committee considers a combination of objective and subjective factors, including the following: the Bank's financial performance, comparative executive compensation levels of peer groups, and current economic conditions. The performance measures used in determining the CEO's annual cash bonus are based on the Company's performance relative to the current year's budget as well as progress towards achieving the Company's five year strategic plan. Both the annual budget and strategic plan are approved in advance by the Board of Directors. The Personnel Committee assesses these factors and makes a recommendation on the CEO's performance and resulting base salary and incentive compensation to the full Board of Directors for approval.

Respectfully Submitted,

Stewart C. Adams, Jr.  
Harry C. Schumacher  
Kevin Sanguinetti  
Edward Corum, Jr.

### Report of the Audit Committee of the Board of Directors

The Audit Committee oversees relevant accounting, risk assessment, risk management and regulatory matters. It meets with the Bank's and the Company's internal auditors and the independent auditors to review the scope of their work as well as to review quarterly and annual financial statements and regulatory and public disclosures with the officers in charge of financial reporting, control and disclosure functions. After reviewing the independent auditor's qualifications, partner rotation and independence, the Audit Committee also

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makes an annual recommendation to the Board of Directors regarding selection of the independent auditors. In addition, the Audit Committee reviews reports of examination conducted by regulatory agencies and follows up with management concerning any recommendations and required corrective action.

The Audit Committee reports regularly to the Boards of Directors of the Bank and the Company and has the authority to select, retain, terminate and approve the fees and other retention terms of special counsel or other experts or consultants as it deems appropriate and necessary to perform its duties. Each of the Directors serving on the Audit Committee has been determined by the Board of Directors to be "independent" as such term is defined by Rule 4200(a)(15) of the NASD's current listing standards.

In performing its functions, the Audit Committee acts only in an oversight capacity and necessarily relies on the work and assurances of management, which has the primary responsibility for financial statements and reports, and of the independent auditors, who, in their report, express an opinion on the conformity of the Company's annual financial statements to generally accepted accounting principles.

In connection with the December 31, 2003 financial statements of the Company, the audit committee: (1) reviewed and discussed the audited financial statements with management; (2) discussed with the independent auditors the matters required by Statement on Auditing Standards No. 61; and (3) received and discussed with the independent auditors the matters required by Independence Standards Board Statement No. 1. Based upon these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2003.

9

The Board of Directors has approved a written charter of the Audit Committee which is attached to this Proxy Statement as Exhibit A hereto.

Respectfully submitted,

Harry C. Schumacher  
Robert F. Hunnell  
Ralph Burlington

### Audit and Non-Audit Fees

#### Audit-Related Fees

The aggregate fees billed by PricewaterhouseCoopers LLP for assurance and related services that are reasonably related to the performance of the audit and review of the Company's quarterly and annual financial statements for fiscal years 2003 and 2002 were \$134,011 and \$100,000 respectively.

#### Tax Fees

The aggregate fees billed by PricewaterhouseCoopers LLP for professional services for tax compliance, tax advice and tax planning, for fiscal years 2003 and 2002 were \$12,039 and \$18,500 respectively.

#### Pre-approval of Services by PricewaterhouseCoopers LLP

The Audit Committee has adopted a policy for pre-approval of audit and

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permitted non-audit services by the Company's external auditor. The Audit Committee will consider annually and, if appropriate, approve the provisions of audit services by its independent auditor and consider, and if appropriate, pre-approve the provision of certain defined audit and non-audit services. The Audit Committee will also consider on a case-by-case basis and, if appropriate, approve specific engagements that are not otherwise pre-approved.

Any proposed engagement that does not fit within the definition of a pre-approved service may be presented to the Audit Committee for consideration at its next regular meeting or, if earlier consideration is required, to the Audit Committee or one or more of its members. The member or members to whom such authority is delegated shall report any specific approval of services at its next regular meeting. The Audit Committee will regularly review summary reports detailing all services being provided by its external auditor.

10

### Executive Officers

Set forth below is certain information regarding the executive officers of the Bank, with the exception of Mr. Steinwert and Mr. Mettler whose information is set forth under "Nominees":

Name and Position(s)	Age	Principal Occupation during the Past Five
Richard S. Erichson Executive Vice President & Senior Credit Officer	56	Executive Vice President and Senior Credit Officer of Bank.
Deborah E. Hodkin Executive Vice President & Chief Administrative Officer and Secretary	41	Executive Vice President & Chief Administrative Officer of Bank since December 2000, prior thereto, Executive Chief Operations Officer of Union Safe Deposit Bank.
Chris C. Nelson Executive Vice President & Head of Retail Banking	49	Executive Vice President and Head of Retail Bank since December 2001, prior thereto Vice President On-line Marketing Wells Fargo Bank since 2001, prior thereto Vice President, E-Commerce of Bank of America.
Stephen W. Haley Executive Vice President & Chief Financial Officer	50	Executive Vice President and Chief Financial Officer of Bank since April 2003, prior thereto, President and Chief Financial Officer of Community West Bancshares since 2001, prior thereto Vice President, Finance and Risk Management of Union Pacific Corp.
Kenneth W. Smith Executive Vice President & Head of Business Banking	44	Executive Vice President & Head of Business Banking since January 2004, prior thereto, Senior Vice President and Administrator of the Bank.

### Compensation of Directors and Executive Officers

A Director who is not an employee of the Bank receives a fee for each Bank Board Meeting attended. The Board Meeting fee is \$875, and the Committee Meeting fee is \$200. In addition, each Director who is not an employee of the Bank

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received a \$12,000 bonus in 2003. Directors may elect to defer receipt of some or all Directors' fees. Directors who are employees of the Bank (Messrs. Mettler, Steinwert and Wishek) do not receive compensation for their services as Directors.

Directors who are not active officers in the Bank do not participate in any retirement plans.

All Directors are permitted to participate in the Bank's group insurance plan along with salaried employees. This plan is funded 67% by the Bank and 33% by the Directors. Directors who choose not to participate in the Bank's group insurance plan are compensated in an amount equal to the Bank's share of the cost had they participated.

The Bank plans to continue the payment of such fees for regular meetings of the Board and of the Committees of the Board.

11

The following table sets forth the aggregate remuneration paid by the Bank during 2003, 2002 and 2001 for the services performed in all capacities by the Chief Executive Officer and each of the most highly compensated Executive Officers for whom disclosure is required.

Summary Compensation Table

Name	Title	Year	-- Annual Compensation --		Lo
			Salary (1)	Bonus	-- Compens
					Defined Contribution Plans
K.A. Steinwert	President & Chief Executive Officer of the Company and the Bank	2003	\$382,110	\$375,000	\$93,6
		2002	373,235	250,000	25,8
		2001	252,178	220,000	12,8
R.S. Erichson	Executive Vice President & Senior Credit Officer of the Company and the Bank	2003	\$199,272	\$80,000	\$49,7
		2002	205,168	65,000	25,8
		2001	176,162	60,000	12,8
D.E. Hodkin	Executive Vice President, Chief Administrative Officer and Secretary of the Company and the Bank	2003	\$187,159	\$80,000	\$49,7
		2002	207,146	70,000	25,8
		2001	170,623	45,000	12,8
C.C. Nelson	Executive Vice President, Head of Retail Banking of	2003	\$170,704	\$75,000	\$58,0

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	the Bank (Effective Dec. 10, 2001)	2002	164,721	30,000	25,000
		2001	8,831		
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S.W. Executive Vice President, Haley	Chief Financial Officer of the Company and the Bank (Effective April 1, 2003)	2003	\$137,898	\$35,000	\$30,700
		2002			
		2001			
-----					
S.A. Executive Vice President & Fleming (2)	Head of Business Banking of the Bank	2003	\$174,608	\$75,000	
		2002	196,835	65,000	25,800
		2001	29,817		
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- (1) In 2002 Bank employees received a one-time payment for accrued and unused vacation as a part of a program to redesign the Bank's vacation benefit.
- (2) Mr. Fleming's employment with the Bank ended April 22, 2003.

Defined Benefit Pension Plan

Effective June 9, 2001, with the exception of employees who have reached age 55 and who have accumulated 10 years of service (as defined in the Plan), the Bank's Defined Benefit Plan was amended to freeze the benefit accruals of the Plan participants.

The maximum annual retirement benefits, which any of the above named individuals would be entitled to receive, as Officers of the Bank, assuming that all applicable conditions of the plan are met, is \$18,000 annually. Mr. Mettler elected to withdraw his vested interest the year he reached normal retirement age 65 and is no longer a participant in the Defined Benefit Pension Plan. Current rules permit the inclusion of a pension plan table demonstrating benefits payable upon retirement. Since the maximum compensation payable to any employee, including Executive Officers is \$18,000 per year, a pension table has been excluded.

12

The annual benefits payable upon retirement at "normal retirement age" for each of the named executive officers, e.g., if they remain employees until they reach age 65, the annual benefits upon retirement at normal retirement age will be as follows: K.A. Steinwert, \$6,125; R.S. Erichson, \$4,125; D.E. Hodkin, \$0; C.C. Nelson, \$0; S.W. Haley, \$0, K.W. Smith \$1,783. If not defined in the plan document, "normal retirement age" is the earliest time at which a participant may retire without any benefit reduction due to age (i.e., the age at which benefits are not reduced because of early retirement).

Defined Contribution Plans

Money Purchase Plan

A Money Purchase Plan was established by the Bank on January 1, 2001 to replace the defined benefit pension plan that was frozen effective June 9, 2001. Substantially all full-time employees of the Bank with one or more years of

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service participate in the Money Purchase Plan, with the exception of employees that have reached age 55 and have accumulated 10 years of service who continue to accrue benefits under the Defined Benefit Pension Plan. Contributions to the Money Purchase Plan are made according to the predetermined set of criteria set forth in the Money Purchase Plan and the Board can terminate the plan at any time. The Bank contributed \$575,000 for the year ended December 31, 2003 and \$522,000 for the year ended December 31, 2002. Benefits pursuant to the Money Purchase Plan vest 0% during the first year of participation, 25% per full year thereafter and after five years such benefits are fully vested.

### Profit Sharing Plan

Substantially all full-time employees of the Bank with one or more years of service also participate in a defined contribution profit sharing plan. Contributions to the profit sharing plan are made at the discretion of the Board of Directors and the Board can terminate the plan at any time. The Bank contributed \$635,000 in 2003 and \$625,000 in 2002. Benefits pursuant to the Profit Sharing Plan vest 0% during the first year of participation, 25% per full year thereafter and after five years such benefits are fully vested.

Effective January 20, 2004 for the plan year beginning January 1, 2004, solely for administrative purposes the Bank combined the Money Purchase and Profit Sharing Plans into one plan, called the Profit Sharing Plan. All benefits remain the same as under the individual plans.

### Indexed Retirement Plan and Life Insurance Arrangements

During 2003, the Bank implemented an Indexed Retirement Plan for the benefit of each executive officer as well as certain other senior officers of the Bank. The Indexed Retirement Plan is a defined contribution supplemental executive retirement plan and was developed to supplement the Bank's qualified retirement program which has a ceiling on benefits as set by the Internal Revenue Service. Individuals whose compensation exceeded this ceiling did not receive a retirement benefit on these earnings. The Indexed Retirement Plan was designed to adjust for these limits and provide levels of total compensation that are competitive in the banking industry.

The Bank has also purchased single premium life insurance policies on the lives of the executive officers as well as certain other senior officers of the Bank. These policies provide: (1) financial protection to the Company in the event of the death of an officer and, (2) since the interest earned on the cash surrender value of the policies is tax free as long as the policies are used to finance employee benefits, significant income to the Bank to offset the expense associated with the Indexed Retirement Plan.

The Board has structured the Plan as a defined contribution plan to avoid the uncertain future financial liabilities that can exist under a defined benefit plan. An account is established for each participant that is credited annually with an amount based on the taxable equivalent earnings on the cash surrender value balances of the single premium life insurance policies purchased on each participant's life, net of: (1) the mortality charges associated with the policies, and (2) a minimum required return (defined under the Plan as the return on five year treasuries) to the Bank on these cash surrender value balances. The initial cash surrender value of the life insurance policies purchased for each participant was determined based upon the individual's compensation at the time they became a participant in the plan and the number of years of service remaining to age 65 so as to provide a supplemental retirement benefit equal to a portion of the participant's projected final pay with the Bank. Benefits become payable to participants after either: (1) the participant

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has become vested and his or her employment at the Bank terminates (including retirement), or (2) there has been a "Change in Control" as defined in the Plan. The balance in each executive's account is 0% vested during the first five years of employment and becomes fully vested after five years of employment.

As compensation to each participant for agreeing to allow the Bank to purchase an insurance policy on his or her life, split dollar agreements have been entered into with each participant. These agreements provide for a division of the life insurance death proceeds between the Bank and each participant's designated beneficiary or beneficiaries. The dollar value of premiums relating to that portion of the death proceeds that would be payable to the executive's beneficiary or beneficiaries in the event of his or her death, is included in the executive's Salary in the Summary Compensation Table. As of December 31, 2003 a total of 19 employees had agreed to allow the Bank to purchase an insurance policy on their life.

As of December 31, 2003 the total cash surrender value balances of the insurance policies was \$33.7 million. Since the purchase of the first insurance policies in late 2001, the Bank has earned taxable equivalent income (assuming a 42.06% tax rate) on these policies of \$5.1 million, and recorded an expense of \$270,000 for the Indexed Retirement Plan. The Bank's total accrued liability under the Indexed Retirement Plan was \$270,000 as of December 31, 2003.

### Deferred Bonus Plan

Each of the CEO and the other Executive Officers are participants under the Deferred Bonus Plan and are entitled to receive cash payments based on the long-term cumulative profitability of the Bank and its subsidiaries and a bonus factor determined for each participant. Deferred bonuses become payable to eligible participants after either the participant has become vested and his or her employment at the Bank terminates or there has been a "Change in Control" as defined in the Plan. Benefits pursuant to the Deferred Bonus Plan vest 0% during the first year of participation, 25% per full year thereafter and after five years such benefits are fully vested.

### Employment Contracts and Termination of Employment and Change in Control Arrangements

The Bank has an employment agreement in place with Kent A. Steinwert, the Bank's President and Chief Executive Officer. The agreement, which expires on December 4, 2005, is automatically renewable for additional two-year terms unless notice is provided. The agreement provides for a minimum base salary of \$250,000 annually, salary increases at the discretion of the Board of Directors based upon performance, use of a Bank-owned automobile and certain insurance benefits. Under certain circumstances, in the event of termination of his employment, Mr. Steinwert may be entitled to receive severance compensation as set forth in his employment agreement up to an amount equal to twice his annual base salary.

The Bank has an employment agreement in place with Richard S. Erichson, the Bank's Executive Vice President and Senior Credit Officer. The agreement, which expires on November 30, 2004, is automatically renewable for additional 1-year terms unless notice is provided. The agreement provides for a minimum base salary of \$178,008 annually, salary increases at the times that the salaries of the other executive officers of the Bank are adjusted, use of a Bank-owned automobile and certain insurance benefits. Under certain circumstances, in the event of termination of his employment, Mr. Erichson may be entitled to receive severance compensation as set forth in his employment agreement up to an amount equal to his annual base salary.

The Bank has an employment agreement in place with Deborah E. Hodkin, the Bank's Executive Vice President and Chief Administrative Officer. The agreement, which expires on December 29, 2004, is automatically renewable for additional 1-year terms unless notice is provided. The agreement provides for a minimum base salary of \$165,000 annually, salary increases at the times that the salaries of the other executive officers of the Bank are adjusted, use of a Bank-owned automobile and certain insurance benefits. Under certain circumstances, in the event of termination of her employment, Ms. Hodkin may be entitled to receive severance compensation as set forth in her employment agreement up to an amount equal to her annual base salary.

The Bank has an employment agreement in place with Chris C. Nelson, the Bank's Executive Vice President and Head of Retail Banking. The agreement, which expires on December 10, 2004, is automatically renewable for additional one-year terms unless notice is provided. The agreement provides for a minimum base salary of \$145,016 annually, salary increases at the times that the salaries of the other executive officers of the Bank are adjusted, use of a Bank-owned automobile and certain insurance benefits. Under certain circumstances, in the event of termination of his employment, Mr. Nelson may be entitled to receive severance compensation as set forth in his employment agreement up to an amount equal to his annual base salary.

The Bank entered into an employment agreement on April 1, 2003 with Stephen W. Haley, the Bank's Executive Vice President and Chief Financial Officer. The agreement, which expires on April 1, 2006, is automatically renewable for additional one-year terms unless notice is provided. The agreement provides for a minimum base salary of \$178,008 annually, salary increases at the times that the salaries of the other executive officers of the Bank are adjusted, use of a Bank-owned automobile and certain insurance benefits. Under certain circumstances, in the event of termination of his employment, Mr. Haley may be entitled to receive severance compensation as set forth in his employment agreement up to an amount equal to his annual base salary.

The Bank has not entered into any other employment agreements.

#### Certain Relationships and Related Transactions

Certain Directors and executive officers of the Bank and the Company and corporations and other organizations associated with them and members of their immediate families were customers of and engaged in banking transactions, including loans, with the Bank in the ordinary course of business in 2003. Such loans were made on substantially the same terms, including interest rates and collateral, as those available at the time for similar transactions with other persons. These loans did not involve more than the normal risk of collection or have other unfavorable features.

#### Compensation Committee Interlocks and Insider Participation

Messrs. Schumacher, Sanguinetti, Corum and Adams, none of whom is or has been an officer or employee of the Company, served in 2003 as members of the Personnel Committee. During 2003, members of the Personnel Committee had loans or other extensions of credit outstanding from the Bank. These loans were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. These loans are exempt from the loan prohibitions of the Sarbanes-Oxley Act of 2002 and did not involve more than the normal risk of collection or have other unfavorable features.



#### Indemnification

The Company's Certificate of Incorporation and By-Laws provide for indemnification of officers, Directors, employees and agents to the fullest extent permitted by Delaware law. Delaware law generally provides for the payment of expenses, including attorneys' fees, judgments, fines and amounts paid in settlement reasonably incurred by the indemnitees provided such person acted in good faith and in a manner he or she reasonably believed not to be opposed to the best interests of the corporation and with respect to any criminal action or proceeding if he or she had no reasonable cause to believe his or her conduct was unlawful. However, in derivative suits, if the suit is lost, no indemnification is permitted in respect of any claim as to which the prospective indemnitee is adjudged to be liable for misconduct in the performance of his or her duty to the Company and then only if, and only to the extent that, a court of competent jurisdiction determines the prospective indemnitee is fairly and reasonably entitled to indemnity for such expenses as the court deems proper. Finally, no indemnification may be provided in any action or suit in which the only liability asserted against a Director is pursuant to a statutory provision proscribing the making of loans, dividends, and distribution of assets under certain circumstances.

The provisions regarding indemnification may not be applicable under certain federal banking and securities laws and regulations.

#### Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and Directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission. Officers, Directors and greater than ten percent stockholders are required by regulation to furnish the Company with copies of all Forms 3, 4 and 5 they file. Based solely on the Company's review of the copies of such forms it has received, the Company believes that all of its officers and Directors complied with all filing requirements applicable to them with respect to transactions during 2003. The Company has no greater than ten percent stockholders.

16

#### Performance Graph

The following graph compares the yearly percentage change in the Company's cumulative total shareholder return on common stock with (i) the cumulative total return of the American Stock Exchange market index, and (ii) a published index compiled by Media General Financial Services, Inc. of banks and bank holding companies throughout the United States (the industry group line depicted in the graph that follows). The following comparison covers the period January 1, 1999 to December 31, 2003. The graph assumes an initial investment of \$100 on January 1, 1999 and reinvestment of dividends. The stock price performance set forth in the following graph is not necessarily indicative of future price performance.

This graph shall not be deemed filed or incorporated by reference into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this graph by reference.

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\*Prior to March 10, 1999, Farmers and Merchants Bank of Central California.

17

Security Ownership of Certain Beneficial Owners and Management

To the knowledge of the Company, as of the record date, no person or entity was the beneficial owner of more than five percent (5%) of the outstanding shares of the Company's common stock except as set forth in the following tables. For the purpose of this disclosure and the disclosure of ownership shares by management, shares are considered to be "beneficially" owned if the person has or shares the power to vote or direct the voting of the shares, the power to dispose of or direct the disposition of the shares, or the right to acquire beneficial ownership (as so defined) within 60 days of the record date.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Common Stock	Sheila M. Wishek 2200 Polk St. San Francisco, CA 94109	47,110	6.17%
Common Stock	C.A. Wishek, Jr. P.O. Box 906 Lodi, CA 95241	41,684	5.46%
Common Stock	Bruce Mettler 17901 N. Cherry Road Lodi, CA 95240	40,761	5.34%
Common Stock	Joan Rider 26 Corrala Vista Drive Watsonville, CA, 95076	38,994	5.11%

(1) Shares are beneficially owned, directly and indirectly, together with spouses, and unless otherwise indicated, holders share voting power with their spouses.

The following table shows the number of common shares and the percentage of the total shares of common stock of the Company beneficially owned (as previously discussed) by each of the current Directors, by each of the nominees for election to the office of Director, by the Chief Executive Officer and the four other most highly compensated executive officers of the Bank and by all Directors and executive officers of the Company and of the Bank as a group as of the record date.

Name and Address of Beneficial Owner (1)	Amount of Common Stock Owned and Nature of Beneficial Ownership (2)	Percent of Class
Stewart C. Adams, Jr.	1,594	*
Ralph Burlington	2,788	*
Edward Corum, Jr.	42	*
Richard S. Erichson	817	*
Stephen A. Fleming	0	*
Stephen W. Haley	85	*
Deborah E. Hodkin	116	*
Robert F. Hunnell	1,606	*

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Ole R. Mettler	24,806	3.25%
Chris C. Nelson	107	*
James R. Podesta	958	*
Kevin Sanguinetti	3,395	*
Harry C. Schumacher	4,941	*
Kenneth W. Smith	103	*
Kent A. Steinwert	3,660	*
Calvin (Kelly) Suess	847	*
Carl A. Wishek, Jr.	41,684	5.46%
All Directors and executive officers as a group (17 persons)	87,549	11.47%
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\* Indicates less than 1%.

- (1) Unless otherwise indicated, the business address for each of the persons listed in the table is 111 West Pine Street, Lodi, CA, 95240-2184.
- (2) Shares are beneficially owned, directly and indirectly, together with spouses, and, unless otherwise indicated, holders share voting power with their spouses.

18

### PROPOSAL 2

#### RATIFICATION OF AUDITORS

At the meeting a vote will be taken on a proposal to ratify the appointment of PricewaterhouseCoopers LLP, by the Audit Committee of the Board of Directors, to act as independent auditors of the Company for the year ending December 31, 2004. PricewaterhouseCoopers LLP are independent accountants. Representatives of PricewaterhouseCoopers LLP are not expected to be present at the meeting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF  
PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT AUDITORS FOR THE  
YEAR ENDING DECEMBER 31, 2004.

19

#### STOCKHOLDER PROPOSALS FOR 2005 PROXY STATEMENT

Under the Rules of the Securities and Exchange Commission, if a stockholder intends to include a proposal in the Company's Proxy Statement and form of proxy for presentation at the Company's 2005 Annual Meeting of Stockholders, the proposal must be received by the Company at its principal executive offices by November 18, 2004.

In addition to these advance notice requirements, there are other requirements that a stockholder must meet in order to have a proposal included in the Company's Proxy Statement under the rules of the Securities and Exchange Commission.

In addition, Article III, Section 3.4 of the By-Laws of the Company provides a procedure for nomination for election of members of the Board of Directors of the Company. Nominations for election to the Board of Directors may be made by the Board of Directors or by any holder of any outstanding class of capital stock of the Company entitled to vote for the election of Directors. Nominations, other than those made by the Board of Directors, shall be made by

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notification in writing delivered or mailed to the President of the Company not less than thirty (30) days or more than sixty (60) days prior to any meeting of stockholders called for election of Directors, provided, however, that if less than twenty-one (21) days notice of the meeting is given to stockholders, such nomination shall be mailed or delivered to the President of the Company not later than the close of business on the seventh (7th) day following the day on which the notice of meeting was mailed. If the Company's 2005 Annual Meeting of Stockholders is held on the third Monday of April (as it will be in 2004), any stockholder nomination, to be timely, must be received by the Company not later than March 19, 2005 and not earlier than February 17, 2005. Notification must contain certain information as to each proposed nominee and as to each person acting alone or in conjunction with one or more persons, in making such nomination or in organizing, directing or financing such nomination. If the Chairman of the meeting acknowledges the nomination of a person not made in accordance with the foregoing procedures, the persons named as proxies in the proxy materials relating to the meeting will use their discretion in voting the proxies when the nomination is made at the meeting. A copy of the By-Laws of the Company can be obtained by written request to the Secretary of the Company, Deborah Hodkin, 111 West Pine Street, Lodi, CA 95240-2184.

Pursuant to Article II, Section 2.6 of the Company's By-Laws, in order for other business to be properly brought before a meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Company and must have been a stockholder of record at the time such notice is given. To be timely, a stockholder's notice shall be delivered to or mailed (by United States registered mail, return receipt requested) and received at the principal executive offices of the Company not less than seventy (70) days nor more than ninety (90) days prior to the first anniversary date of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than twenty (20) days, or delayed by more than seventy (70) days, from such anniversary date, notice by a stockholder to be timely must be so delivered or mailed (by U.S. registered mail, return receipt requested) and received not earlier than the ninetieth (90th) day prior to such annual meeting and not later than the close of business on the later of the seventieth (70th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. Notice of any stockholder proposal by a stockholder to properly bring business before the 2005 annual meeting, to be timely, must be received by the Company no later than February 7, 2005, and no earlier than January 18, 2005. Such stockholder's notice to the Secretary must contain certain additional information, which is more particularly described in Article II, Section 2.6 of the Company's By-Laws. No business shall be conducted at an annual meeting of stockholders unless proposed in accordance with the foregoing procedures. The Chairman of the meeting shall, if the factors warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the foregoing procedure and such business shall not be transacted.

20

### ANNUAL REPORT

Together with this proxy statement, Farmers & Merchants Bancorp has distributed to each of its stockholders an annual report for the year ended December 31, 2003. The annual report contains the consolidated financial statements of the Company and the Bank and the report thereon of PricewaterhouseCoopers LLP, the Company's independent public accountants.

Upon written request by any person entitled to vote at the meeting, addressed to Deborah Hodkin, Secretary of the Company, at 111 West Pine Street, Lodi, CA 95240-2184, we will provide, without charge, a copy of the Company's

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2003 Annual Report on Form 10-K, including the financial statements and the schedules thereto filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934. You can also obtain a copy of the Company's annual report on form 10-K and other periodic filings with the Securities and Exchange Commission through the F&M Bank website. The Company address is <http://www.fmbonline.com>. The link to the Securities and Exchange Commission is on the About F&M Bank page

### OTHER MATTERS

The Management and Directors of the Company are not aware of any other matters to be presented for consideration at the meeting to be held on April 19, 2004 or any adjournments or postponements thereof. If any other matters should properly come before the meeting, it is intended that the persons named in the enclosed proxy will vote the shares represented thereby in accordance with their best business judgment, pursuant to the discretionary authority granted therein.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Deborah Hodkin  
Deborah Hodkin  
Secretary

21

### Exhibit A

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Audit Committee Charter  
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The Audit Committee Charter provides general guidelines for members of the Audit Committee (Committee) for the Board of Directors of Farmers & Merchants Bank of Central California (Bank). These guidelines will assist the Committee in its efforts to ensure ongoing adequacy of the Bank's internal audit system as recommended by section 132 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), Securities Exchange Commission and the AICPA's Auditing Standards Board. The Audit Committee of the Board of Directors of the Bank shall also serve to discharge the functions and responsibilities of the Committee of the Board of Directors of the Company, as described hereinafter.

#### COMMITTEE MEMBERSHIP

The Committee shall be composed of at least three outside Directors of the Board who are independent of the management of the Bank and the Company. The Board shall annually determine whether members are "independent" of management of the Bank and the Company as such term is defined by Rule 4200(a)(14) of the NASD's current listing standards.

To maintain independence, members may not (directly or indirectly):

- o accept any consulting, advisory or other compensatory fee from the Bank or Bancorp, other than in his or her capacity as a member of the audit committee, board or other board committee; or
- o be affiliated with the Bank, Bancorp or any subsidiary.

#### DESIGNATION OF AUDIT COMMITTEE FINANCIAL EXPERT

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The Committee shall designate one of its members as a "financial expert". The financial expert is an individual who is determined by the board of Directors to possess all of the following attributes:

- o an understanding of financial statements and generally accepted accounting principles (GAAP);
- o an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- o experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to what can be expected to be raised by the Bank's or Bancorp's financial statements or experience actively supervising one or more persons engaged in such activities;
- o an understanding of internal controls and procedures for financial reporting; and
- o an understanding of audit committee functions.

These attributes may be acquired by:

- o education and experience as a principal financial officer, principal accounting officer, controller, public accountant, or auditor, or experience in one or more positions that involve the performance of similar functions;
- o experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor, or person performing similar functions or experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing, or evaluation of financial statements; and/or
- o other relevant experience.

### COMMITTEE MEETINGS

The Committee shall meet at least bi-monthly to review all recent audit reports (including reports by internal auditors, independent public accountants, and/or regulatory agencies). Management reports shall also be reviewed as they relate to audit findings. The Committee shall maintain and report to the Boards of the Company and the Bank, minutes and other relevant records of their meetings and decisions.

22

### AUDIT SYSTEM

The Committee shall approve an internal audit system, which provides for:

- o Audit Programs. These items will be annually presented by the auditor:
  - scope and frequency of the audit work;
  - documentation of the work performed; and
  - conclusions reached and reports issued.
- o Program Effectiveness. Audit Reports and responses thereto shall be presented to determine if controls are effective and if appropriate corrective action has been taken.
- o Audit Arrangements. The independent auditor, operations auditor and credit examination vendors are ultimately accountable to the Board of Directors and Audit Committee. It is management's responsibility to evaluate and recommend vendor selection and replacement. It is the Committee's responsibility to review management's recommendation and recommend approval to the Board of Directors. It is the Board's responsibility to approve and replace the independent auditor, if deemed appropriate or necessary. The Committee shall preapprove all non-audit engagements of the independent

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auditor. The Committee shall review the report by the independent auditor which is required by Section 10A of the Securities Exchange Act of 1934. The following information shall be presented to the Committee with Management's recommendations at least annually:

- Written Agreement. Annual written contract or engagement letter.
- Vendor Competence. A resume and references for each individual responsible for maintaining the audit relationship.
- Vendor Independence. A formal written statement of independence.

### RESPONSIBILITIES

The Committee shall:

- o review the Forms 10-Q and 10-K prior to presentation to the Board and filing with the Securities Exchange Commission and recommend inclusion of the Company's financial statements therein;
- o report to the Board that its members have reviewed the Forms 10-Q and 10-K, and whether anything came to the attention of the Committee members which caused them to believe that the audited financial statements contain any materially misleading statements or omit any material information;
- o review and discuss with management, the internal auditor and the independent auditor the matters relating to the conduct of the audit required to be discussed by SAS Nos. 61 and 90 (Communications with Audit Committees); and
- o ensure that a copy of this Charter is disclosed in the Company's Proxy Statement at least every three years.