FARMERS & MERCHANTS BANCORP INC
Form 10-Q
August 01, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2008

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 0-14492

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

OHIO	34-1469491
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)

307-11 North Defiance Street, Archbold, Ohio	43502
(Address of principal executive offices)	(Zip Code)

(419) 446-2501
Registrant's telephone number, including area code

(Former name, former address and former fiscal year, if changed since last report.)

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 [X] 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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

Indicate the number of shares of each of the issuers classes of common stock, as of the latest practicable date:

Common Stock, No Par Value	4,835,255
Class	Outstanding as of July 30, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10Q

FARMERS & MERCHANTS BANCORP, INC.
INDEX

ITEM 1 FINANCIAL STATEMENTS

FARMERS & MERCHANTS BANCORP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands of dollars)

	June 30, 2008	Dec 31, 2007
ASSETS:		
Cash and due from banks	$ 21,130	$ 21,753
Interest bearing deposits with banks	0	0
Federal funds sold	732	27,134
Investment Securities:		
U.S. Treasury	0	0
U.S. Government	142,075	144,104
State & political obligations	45,934	41,467
All others	4,443	4,346
Loans and leases (Net of reserve for loan losses of $5,763 and $5,921 respectively)	546,608	523,474
Bank premises and equipment-net	17,181	17,051
Accrued interest and other assets	21,594	20,638
Goodwill	4,074	4,007
TOTAL ASSETS	$803,771	$ 803,974
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest bearing	$ 59,243	$ 75,670
Interest bearing	555,187	558,923
Federal funds purchased and securities sold under agreement to repurchase	51,235	41,329
Other borrowed money	43,628	31,816
Accrued interest and other liabilities	6,100	6,861
Total Liabilities	715,393	714,599
SHAREHOLDERS' EQUITY:		
Common stock, no par value - authorized 6,500,000 shares; issued 5,200,000 shares	12,677	12,677
Treasury Stock - 346,750 shares 2008, 256,160 shares 2007	(7,249)	(5,366)
Unearned Stock Awards 16,995 for 2008 and 17,240 for 2007	(386)	(391)
Undivided profits	83,474	81,575
Accumulated other comprehensive income (expense)	(138)	880
Total Shareholders' Equity	88,378	89,375
LIABILITIES AND SHAREHOLDERS' EQUITY	$803,771	$ 803,974

See Notes to Condensed Consolidated Unaudited Financial Statements.

Note: The December 31, 2007 Balance Sheet has been derived from the audited financial statements of that date.

FARMERS & MERCHANTS BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(in thousands of dollars, except per share data)

	Three Months Ended		S
	June 30, 2008	June 30, 2007	June 30,
INTEREST INCOME:			
Loans and leases	$ 8,875	$ 9,468	$ 17
Investment Securities:			
U.S. Treasury securities	--	4	
Securities of U.S. Government agencies	1,710	1,394	3
Obligations of states and political subdivisions	439	409	
Other	58	65	
Federal funds	52	26	
Deposits in banks	--	3	
Total Interest Income	11,134	11,369	22
INTEREST EXPENSE:			
Deposits	4,003	4,626	8
Borrowed funds	656	744	1
Total Interest Expense	4,659	5,370	9
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	6,475	5,999	12
PROVISION FOR LOAN LOSSES	180	154	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,295	5,845	11
OTHER INCOME:			
Service charges	859	795	1
Other	749	762	1
Net securities gains (losses)	--	--	
	1,608	1,557	3
OTHER EXPENSES:			
Salaries and wages	2,086	2,062	4
Pension and other employee benefits	819	742	1
Occupancy expense (net)	208	122	
Other operating expenses	1,968	1,707	3
	5,081	4,633	10
INCOME BEFORE FEDERAL INCOME TAX	2,822	2,769	4
FEDERAL INCOME TAXES	783	778	1
NET INCOME	2,039	1,991	3
OTHER COMPREHENSIVE INCOME (NET OF TAX):			
Unrealized gains (losses) on securities	(2,917)	(948)	(1
COMPREHENSIVE INCOME (EXPENSE)	$ (878)	$ 1,043	$ 2
NET INCOME PER SHARE	$ 0.42	$ 0.39	$

Based upon average weighted shares outstanding of:	4,867,824	5,117,901	4,892
DIVIDENDS DECLARED	$ 0.16	$ 0.16	$

No disclosure of diluted earnings per share is required as shares are antidiluted as of quarter end.

See Notes to Condensed Consolidated Unaudited Financial Statements.

2

FARMERS & MERCHANTS BANCORP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands of dollars)

	Six Months Ended	
	June 30, 2008	June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,607	$ 4,070
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization	586	594
Premium amortization	186	161
Discount amortization	(54)	(96)
Provision for loan losses	449	135
Provision (Benefit) for deferred income taxes	(211)	
(Gain) Loss on sale of fixed assets	15	(1)
(Gain) Loss on sale of investment securities	(15)	--
Changes in Operating Assets and Liabilities:		
Accrued interest receivable and other assets	(940)	(1,664)
Accrued interest payable and other liabilities	(240)	(843)
Net Cash Provided by Operating Activities	3,383	2,356
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(734)	(988)
Proceeds from sale of fixed assets	3	--
Proceeds from maturities of investment securities:	46,173	33,684
Proceeds from sale of investment securities:	25	--
Purchase of investment securities	(50,391)	(26,373)
Purchase of Bank Owned Life Insurance	--	(3,000)
Net (increase) decrease in loans and leases	(23,583)	167
Net Cash Provided (Used) by Investing Activities	(28,507)	3,490
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(20,163)	(32,641)
Net change in short-term borrowings	9,906	9,705
Increase in long-term borrowings	12,000	--
Payments on long-term borrowings	(188)	(365)
Purchase of Treasury stock	(1,878)	(1,302)
Payment of Stock Awards	--	--
Payments of dividends	(1,578)	(1,596)
Net Cash Provided (Used) by Financing Activities	(1,901)	(26,199)

Net change in cash and cash equivalents	(27,025)	(20,353)
Cash and cash equivalents - Beginning of year	48,887	37,247
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 21,862	$ 16,894
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash and cash due from banks	$ 21,130	$ 15,309
Interest bearing deposits	--	303
Federal funds sold	732	1,282
	$ 21,862	$ 16,894

See Notes to Condensed Consolidated Unaudited Financial Statements.

3

FARMERS & MERCHANTS BANCORP, INC.
NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10Q and Rule 10-01 of Regulation S-X; accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2008 are not necessarily indicative of the results that are expected for the year ended December 31, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2007.

RECENT ACCOUNTING PRONOUNCEMENT

In September 2006, the FASB ratified the Emerging Issues Task Force's (EITF) Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split- Dollar Life Insurance Arrangements, which requires companies to recognize a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee extending to post retirement periods. The liability should be recognized based on the substantive agreement with the employee. This Issue was effective beginning January 1, 2008. The Issue was applied as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of January 1, 2008 approximating $152,000.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

INTRODUCTION

Farmers & Merchants Bancorp, Inc. was incorporated on February 25, 1985, under the laws of the State of Ohio. Farmers & Merchants Bancorp, Inc., and its subsidiary The Farmers & Merchants State Bank are engaged in commercial banking. On December 31, 2007 the Bank closed on it's Knisely Bank, Indiana acquisition adding two more full service locations. During 2007, the Company operated another subsidiary, Farmers and Merchants Life Insurance which offered life and disability insurance to the Bank's credit customers. The subsidiary was dissolved at the end of 2007. The executive offices of Farmers & Merchants Bancorp, Inc are located at 307-11 North Defiance Street, Archbold, Ohio 43502.

CRITICAL ACCOUNTING POLICY AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, and the Company follows general practices within the industries in which it operates. At times the application of these principles requires Management to make assumptions estimates and judgments that affect the amounts reported in the financial statements. These assumptions, estimates and judgments are based on information available as of the date of the financial statements. As this information changes, the financial statements could reflect different assumptions, estimates and judgments. Certain policies inherently have a greater reliance on assumptions, estimates and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Examples of critical assumptions, estimates and judgments are when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not required to be recorded at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability must be recorded contingent upon a future event.

Based on the valuation techniques used and the sensitivity of financial statement amounts to assumptions, estimates, and judgments underlying those amounts, management has identified the determination of the Allowance for Loan and Lease Losses (ALLL), the valuation

of its Mortgage Servicing Rights and the valuation of its post retirement benefit liability as the accounting areas that requires the most subjective or complex judgments, and as such have the highest possibility of being subject to revision as new information becomes available.

The ALLL represents management's estimate of credit losses inherent in the Bank's loan portfolio at the report date. The estimate is composite of a variety of factors including past experience, collateral value and the general economy. ALLL includes a specific portion, a formula driven portion, and a general nonspecific portion.

FAIR VALUE MEASUREMENTS

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis at June 30, 2008, and the valuation techniques used by the Company to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Disclosures concerning assets and liabilities measured at fair value are as follows:

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2008

($ in Thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Signifi Observable (Leve
Assets - Securities Available for Sale	$142,075	$45,934	$0
Liabilities	$ 0	$ 0	$0

The Company did not have any assets or liabilities measured at fair value that were categorized as Level 3 during the period. All of the Company's available for sale securities, including any bonds issued by local municipalities, have CUSIP numbers making them marketable and comparable as Level 2.

The Company also has assets that, under certain conditions, are subject to measurement at fair value on a non-recurring basis. At June 30, 2008, such assets consist primarily of impaired loans. The Company has established the fair values of these assets using Level 3 inputs, specifically discounted cash flow

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Continued) projections. During the quarter ended June 30, 2008, the impairment charges recorded to the income statement for impaired loans were not significant.

Impaired loans accounted for under FAS 114 categorized as Level 3 assets consist of non-homogeneous loans that are considered impaired . The Company estimates the fair value of the loans based on the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

Other assets, including bank owned life insurance, are also subject to periodic impairment assessments under other accounting principles generally accepted in the United States of America. These assets are not considered financial instruments. Effective February 12, 2008, the FASB issued a staff position, FSP FAS 157-2, which delayed the applicability of FAS 157 to non-financial instruments. Accordingly, these assets have been omitted from the above disclosures.

LIQUIDITY, CAPITAL RESOURCES AND MATERIAL CHANGES IN FINANCIAL CONDITION

In comparing the balance sheet of June 30, 2008 to that of December 31, 2007, the largest change is the switch in the Federal Funds position. At December 31, just over $27 million was being sold and in June 2008, $9.7 million was being purchased. The almost $40 million change in liquidity funded $23.5 million in loan growth and replaced over $20 million of deposits. The investment portfolio increased almost $2.5 million along with other borrowed money of almost $10 million. The December 31, 2007 cash balance was unusually high due to an acquisition that closed on the last business day of the year and was a cash purchase. The proceeds of the purchase, around $10 million, remained in the selling holding company's account maintained at the Bank. Proceeds were dispersed to shareholders in 2008 which is partially responsible for the decrease in non-interest bearing deposit balances in the first six months of 2008. The other factor in lowering of the non-interest bearing deposit balances is the Bank offering a new high interest bearing transaction account. The balance in the new product was over $14 million as of June 30, 2008 with funds being moved from free non-interest checking balances into the new interest bearing checking balances. It has also attracted new money and some funds have also moved from the certificate of deposit portfolio. The expense of the high interest rate is offset by an increase in the non-interest fee activity and decrease in non-interest expense. The new product has been well received by existing customers and has attracted new customers as well.

Liquidity and capital remain strong with capital decreasing due to the market value change of securities and the continued repurchasing of treasury stock. The Company repurchased 228,000 shares during 2007 and continued with an additional 44,900 shares during the 1st quarter 2008 and 45,445 shares during the 2nd quarter. In terms of dollars spent, 2007 purchases cost just over $4.7 million and 2008 purchases cost over $1.877 million. The Company has authorization to purchase up to 250 thousand shares during 2008.

The Company continues to be well-capitalized as the capital ratios below show:

Primary Ratio	11.20%

Tier I Leverage Ratio	10.52%
Risk Based Capital Tier 1	13.76%
Total Risk Based Capital	14.74%
Stockholders' Equity/Total Assets	11.00%

Undivided profits increased with the net income from the Bank. The Bank's capital was also impacted by the establishment of a post retirement benefit liability as required by EITF 06-4 of its Bank Owned Life Insurance (BOLI). The funding of just under $152 thousand was provided by decreasing retained earnings. The transaction was completed in the first quarter and the liability was established using the present value calculation of a third party administrator.

As stated previously, loans increased $23.5 million during the first half 2008. Past due loans over 30 days improved to end June 30, 2008 at 2.41% compared to December 31, 2007 past due percentage of 2.88%. While an improvement over December's numbers, the percentage is higher than most of 2007. Driving the percentage is the commercial and agricultural portfolios. Those same loans have increased the non-accrual balances of the Bank. A loan is placed in non-accrual automatically once it has reached 90 days past due. The balance in non-accruals increased over $5 million during the first quarter and an additional $1.2 million during the second quarter. The increases were based on just a few relationships experiencing difficulty. Residential mortgage delinquency was under two percent and consumer loan is less than one quarter of a percent. A discussion of the additional impact to profitability caused by the non accruals will follow in the results of operations.

Unlike many of the industry headlines, the Bank has not experienced losses due to the subprime mortgage market. The Bank did not participate in subprime lending and the local economies have dealt more with decreased working hours and bonuses. Overall the credit quality remains strong and the issues manageable.

MATERIAL CHANGES IN RESULTS OF OPERATIONS

Due to the impact of the first quarter activity on the year-to-date numbers, some of the discussion to follow will reference the change between first and second quarter 2008 as compared to 2007.

Interest income and yield on the loan portfolio was down significantly in the first quarter 2008 compared to first quarter 2007. Reversal of interest income due to the loans whose status went to nonaccrual totaled over $370 thousand. Any interest that has been accrued but not yet collected is reversed out of interest income when the loan goes into nonaccrual. At a minimum, loans with monthly payments may have four months of accrued interest reversed. Those whose payments are less frequent may have even more months reversed. This reversal does not exclude collection of the interest but rather it may only be taken into income when collected on a cash basis once a loan is in nonaccrual status. As mentioned earlier, these loans were mainly in the commercial and agricultural portfolios. During the second quarter, an additional $88 thousand of interest income was reversed due to the increase in non accrual balances. This was offset by smaller interest collections but overall, the high non accrual balances remain a barrier to higher profitability.

The Federal Fund rate cuts during 2007 and 2008 also impacted the yield of the portfolio. Lines of credit, adjustable rate mortgages subject to repricing, home equities and new loans all priced considerably lower in first half 2008 versus 2007. This was the other large factor in the lower interest income.

While the yield on the Federal Funds was impacted by the cuts, the sheer volume of Federal Funds compared to first quarter 2007 out weighed the yield. Interest earned on Federal Funds was $182 thousand higher in 2008. The same rationale applies to the interest income from the investment portfolio which was $640 thousand higher in the first half 2008 than the first half 2007.

Interest expense increased $119 thousand in 2008 when comparing the first quarters. The cost of funds or yield, however, decreased. During the second quarter, as higher rate certificate of deposits matured along with the run off of deposits, the interest expense was significantly lower compared to same quarter last year. A large percentage of the certificate of deposit portfolio will continue to reprice during the third quarter of 2008 sustaining the improvement in the net interest margin. Interest on borrowed funds was also lower as compared for the quarter and first half 2008 to 2007. As maturities occurred in 2007, the replacement and addition of borrowings were at significantly lower interest costs.

Overall net interest income reversed the position of first quarter performance where 2008 was running below 2007. Second quarter 2008 was $437 thousand higher as compared to 2007. Year to date June 30th, net interest income was $141 thousand higher in 2008 as compared to 2007. Net interest income should continue to increase as the Bank continues to work to reduce the amount of loans in nonaccrual, maintains a smaller cash position, and lastly continues the decrease in the cost of funds as a result of the repricing certificates of deposit.

Provision for loan loss was $314 thousand higher in 2008 than 2007. As mentioned earlier, the increase in the non accrual loans along with loan growth, warranted a higher provision to the loan loss reserve. The net charge-off position was also slightly higher in 2008 by around $125 thousand compared to 2007.

Non interest income increased by $247 thousand for first quarter 2008 compared to 2007. The acquisition added core deposits upon which more revenue was generated in service charges and also in other fees associated with the accounts. Four Automated Teller Machines (ATM's) were added from the acquisition. One remote ATM has heavier foreign volume, on which fees are charged, than typical of the Bank's other ATMs. The new checking product is expected to increase non interest income through increased debit card activity the second half of the year. As the accounts have switched, the debit card activity has doubled for those customers. The convenience to the customers and increased revenue to the Bank will continue to be a positive for all involved. Overall, non interest income for the three months ended June 30, 2008 was $51 thousand higher than the same period 2007, bringing the year to date total $297 higher than 2007.

Due to state regulatory restrictions, stock was sold during the first quarter to maintain a relationship with only one banker's bank which resulted in the $15 thousand gain on investments.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Continued)

Non interest expense was $404 thousand higher for first quarter 2008 as compared to same quarter 2007. The second quarter was $409 thousand higher comparing 2008 to 2007. Even though the number of full time equivalent employees increased to 259 for the first quarter, it decreased to 256 the second quarter. The number of employees remains higher in 2008 than 2007, while the salary and wage expense has decreased $35 thousand. Underlying the decrease is a lower accrual for incentive pay for 2008 as compared to 2007. The lower incentive accrual is a direct correlation to the lower Return on Assets for the year as compared to 2007; ROA being a primary determinant of incentive compensation. Base salary expense has increased due to the higher number of employees. The Bank has three new locations compared to same time last year and one office was relocated. The relocation occurred at the end of June 2008. This is also reflected in the increased expense in pension and other employee benefits. The Bank expects medical benefit costs to increase 11% during 2008 over 2007. At this point, the increase in pension and other employee benefits is 7.3%.

Occupancy expense is higher with the addition of three offices in the fourth quarter of 2007. The Bank's Perrysburg office opened in November and the acquisition which added two offices was completed on December 31, 2007. The acquired locations are expected to be accretive to earnings in 2008 and the Bank projects the Perrysburg office to be profitable on a monthly basis within 18 to 24 months. An additional location is to be added in August and additional expense was occurred in preparation. The new location will operate from a leased property.

Adding the offices and specifically the addition of accounts caused the increase in the other operating expenses of $546 thousand for first half of 2008 compared to 2007. The second quarter comparison of $222 thousand more expense than same quarter last year was lower than the $324 thousand in comparing first quarter 2008 to 2007. The Bank's data processing expense is based mainly on the number of accounts under management. Each application, such as loan, checking, certificate of deposit, are costed individually along with the household account database. Additional expense was also carried the first part of 2008 until the software conversion of the Knisely Bank was completed in January. Most of the outstanding contracts of the Knisely Bank have been reviewed and either modified or terminated. Only minor bills were presented for payment in the second quarter. While the expense will remain higher, the on going expense will continue to decrease as one time expenses to establish the offices and carry back room support have been incurred.

Overall, net income was down just $463 thousand in comparing 2008 to 2007 first half performance. The performance of the three months ended June 30 were actually better than the same three months last year. The Company expects for the performance to continue to improve the remaining quarters of 2008. Additional new products and the focus on returning asset quality to a higher level will accomplish this. The Company remains positioned for continued improvement in the net interest margin in the next quarter due to decreasing cost of funds. The Company continues to focus on positioning the balance sheet for a neutral rate position going forward. The Company does remain, however, a reflection of the local economy in which it operates. To the degree that the local economies continue to deal with slow downs, the Company will be hampered to achieve its growth goals. The addition of a new market in the second half of the year along with the new additions in 2007 will aid in the growth effort.

FORWARD LOOKING STATEMENTS

Statements contained in this portion of the Company's report may be forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as "intend," "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." Such forward-looking statements are based on current expectations, but may differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time. Other factors which could have a material adverse effect on the operations of the company and its subsidiaries which include, but are not limited to, changes in interest rates, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Bank's market area, changes in relevant accounting principles and guidelines and other factors over which management has no control. The forward-looking statements are made as of the date of this report, and the Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results differ from those projected in the forward-looking statements.

ITEM 3 QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates and equity prices. The primary market risk to which the Company is subject is interest rate risk. The majority of the Company's interest rate risk arises from the instruments, positions and transactions entered into for purposes, other than trading, such as lending, investing and securing sources of funds. Interest rate risk occurs when interest bearing assets and liabilities reprice at different times as market interest rates change. For example, if fixed rate assets are funded with variable rate debt, the spread between asset and liability rates will decline or turn negative if rates increase.

Interest rate risk is managed within an overall asset/liability framework for the Company. The principal objectives of asset/liability management are to manage sensitivity of net interest spreads and net income to potential changes in interest rates. Funding positions are kept within predetermined limits designed to ensure that risk-taking is not excessive and that liquidity is properly managed. The Company employs a sensitivity analysis in the form of a net interest rate shock as shown in the table following.

Interest Rate Shock on Net Interest Margin			Interest Rate Shock on Net Interest Income		
Net Interest	% Change to	Rate	Rate	Cumulative	% Change to

Margin (Ratio)	Flat Rate	Direction	Changes by	Total ($000)	Flat Rate
3.17%	-16.498%	Rising	3.000%	12,752	-16.893%
3.39%	-10.931%	Rising	2.000%	13,624	-11.210%
3.59%	-5.432%	Rising	1.000%	14,488	-5.579%
3.80%	0.000%	Flat	0.000%	15,344	0.000%
4.00%	5.191%	Falling	-1.000%	16,140	5.186%
4.11%	8.051%	Falling	-2.000%	16,574	8.013%
4.13%	8.779%	Falling	-3.000%	16,720	8.965%

The net interest margin represents the forecasted twelve month margin. It also shows what effect rate changes will have on both the margin and the net interest income. The shock report has consistently shown an improvement in a falling rate environment. The goal of the Company is to lengthen some of the liabilities or sources of funds to decrease the exposure to a raising rate environment. The Bank has offered higher rates on certificates of deposits for longer periods so far during 2008 than it did during the same period in 2007. Of course, customer desires also drive the ability to capture longer term deposits. Currently, the customer looks for terms twelve months and under while the Bank would prefer 24 months and longer. It is often a meeting in the middle that satisfies both.

The Bank continues to remain focused on gaining more relationships per customer as a way to help control the cost of funds also. Promotions continue to focus on special incentives or rewards being based on a multiple deposit account relationship with each customer. A new program also promotes a high rate interest bearing checking account with the increased interest expense offset by fees and savings in operating efficiency. The promotion has been extremely successful since its release in early March.

ITEM 4 CONTROLS AND PROCEDURES

As of June 30, 2008, an evaluation was performed under the supervision and with the participation of the Company's management including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of June 30, 2008. There have been no significant changes in the Company's internal controls that occurred during the quarter ended June 30, 2008.

PART II

ITEM 1 LEGAL PROCEEDINGS

None

ITEM 1A RISK FACTORS

There have been no material changes in the risk factors disclosed by Registrant in its Report on Form 10-K for the fiscal year ended December 31, 2007.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs	(d) Maximu that may ye the Pl
4/1/2008 to 4/30/2008				
5/1/2008 to 5/31/2008	25,741	$21.53	25,741	
6/1/2008 to 6/30/2008	19,704	$22.80	19,704	
Total	45,445	$22.08	45,445(1)	

(1) The Company purchased these shares in the market pursuant to a stock repurchase program publicly announced on November 16, 2007. On that date, the Board of Directors authorized the repurchase of 250,000 common shares between January 1, 2008 and December 31, 2008.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

The Annual Meeting of Shareholders of Farmers & Merchants Bancorp, Inc. was held on April 17, 2008. The following directors were elected to a new term of office:

Dexter L. Benecke
Joe E. Crossgrove
Steven A. Everhart
Robert G. Frey
Jack C. Johnson
Dean E. Miller
Steven J. Planson
Anthony J. Rupp
David P. Rupp Jr.
James C. Saneholtz
Kevin J. Sauder
Merle J. Short
Paul S. Siebenmorgen
Steven J. Wyse

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS (Continued)

1. A proposal to elect fourteen (14) directors of the Corporation The results of the voting on the proxy items are as follows:

	Votes Cast For	Votes Withhold
Dexter L. Benecke	3,719,861	13,174
Joe E. Crossgrove	3,718,151	14,884
Steven A. Everhart	3,709,671	23,364
Robert G. Frey	3,703,510	29,524
Jack C. Johnson	3,699,749	33,286
Dean E. Miller	3,719,711	13,324
Steven J. Planson	3,718,461	14,574
Anthony J. Rupp	3,709,391	23,644
David P. Rupp Jr.	3,700,181	32,854
James C. Saneholtz	3,708,719	24,316
Kevin J. Sauder	3,689,321	43,714
Merle J. Short	3,719,811	13,224
Paul S. Siebenmorgen	3,704,497	28,538
Steven J. Wyse	3,705,369	27,666

ITEM 5 OTHER INFORMATION

ITEM 6 EXHIBITS

3.1 Amended Articles of Incorporation of the Registrant (incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 1, 2006)

3.2 Code of Regulations of the Registrant (incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 10, 2004)

31.1 Rule 13-a-14(a) Certification -CEO

31.2 Rule 13-a-14(a) Certification -CFO

32.1 Section 1350 Certification - CEO

32.2 Section 1350 Certification - CFO

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Farmers & Merchants Bancorp, Inc.,

Date: July 30, 2008

By: /s/ Paul S. Siebenmorgen
Paul S. Siebenmorgen

President and CEO

Date: July 30, 2008

By: /s/ Barbara J. Britenriker
Barbara J. Britenriker
Exec. Vice-President and CFO