

FARMERS & MERCHANTS BANCORP
Form DEF 14A
April 11, 2011

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

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

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

Check the appropriate box:

o Preliminary Proxy Statement

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

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

Farmers & Merchants Bancorp

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(3) Filing Party:

(4) Date Filed:

FARMERS & MERCHANTS BANCORP

111 West Pine Street, Lodi, CA 95240

April 11, 2011

Dear Stockholder:

The annual meeting of stockholders of Farmers & Merchants Bancorp (the "Company") will be held this year in the Ole Mettler Grape Pavilion at the Lodi Grape Festival, 413 E. Lockeford Street, Lodi, CA, on Monday, May 16, 2011, 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.

A copy of the Company's 2010 Annual Report to Stockholders is also enclosed.

We hope you will be able to attend the annual meeting in person. We would also like to invite you to be our guest for dinner immediately following the meeting. Please note that the annual meeting is only open to stockholders. Space will be limited and we cannot accommodate other guests. We thank you in advance for your understanding on this issue.

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 and return it as soon as possible in the postage-paid envelope that has been provided for your convenience.

Sincerely,

/s/ Kent A. Steinwert

Kent A. Steinwert
Chairman, President and Chief Executive Officer

Enclosures

FARMERS & MERCHANTS BANCORP
111 West Pine Street, Lodi, CA 95240

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 16, 2011

To Our Stockholders:

NOTICE IS HEREBY GIVEN that the 2011 annual meeting of stockholders of Farmers & Merchants Bancorp (the "Company") will be held this year in the Ole Mettler Grape Pavilion at the Lodi Grape Festival, 413 E. Lockeford Street, Lodi, CA, on Monday, May 16, 2011, at 4:00 p.m. to:

1. Elect the following seven (7) Directors:

Stewart C. Carl A. Bruce A.
Adams, Jr. Wishek, Jr. Mettler
Kevin Kent A.
Sanguinetti Steinwert
Edward Calvin
Corum, Jr. (Kelly) Sues

2. Hold an advisory (non-binding) vote to approve the compensation paid to the Company's named executive officers (commonly referred to as "Say-on-Pay").
3. Hold an advisory (non-binding) vote on the frequency of future advisory "Say-on-Pay" votes.
4. 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 18, 2011 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.

You are encouraged to attend the annual meeting. If you are a beneficial owner of common stock held by a broker, bank or other nominee, you will need proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from a bank or broker are examples of proof of ownership.

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,

/s/ Stephen W. Haley

Stephen W. Haley
Secretary

Dated: April 11, 2011

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

PROXY STATEMENT
FARMERS & MERCHANTS BANCORP
111 West Pine Street, Lodi, CA 95240

I - INTRODUCTION

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 May 16, 2011 in the Ole Mettler Pavilion at the Lodi Grape Festival, 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 April 11, 2011.

For information on how to vote your shares, see the instructions included on the enclosed proxy card and under “Information About Voting and the Annual Meeting.”

II - INFORMATION ABOUT VOTING AND THE ANNUAL MEETING

Voting Rights and Vote Required

Only stockholders of record at the close of business on March 18, 2011 (the “record date”), will be entitled to vote in person at the meeting or by proxy. On the record date, there were 779,424 shares of common stock outstanding and entitled to vote.

Holders of common stock of the Company are entitled to one vote for each share held.

However, with respect to the election of Directors, 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 7 Directors are being elected, you have 70 votes – you can cast all of them for one nominee, or two or more nominees if you so choose. No stockholder 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 and, in accordance with Article II, Section 2.9 of the 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. Since the Company’s Annual Meeting of Stockholders is expected to be held on May 16, 2011, any stockholder nomination for election to the Board of Directors for the 2011 Annual Meeting of Stockholders, to be timely, would need to have been received by the Company not later than April 16, 2011 and not earlier than March 17, 2011. As of the printing of this proxy statement, no stockholder has given such notice. Discretionary authority to cumulate votes in the event of such a nomination is solicited in this proxy statement.

In the election of Directors, the 7 nominees receiving the highest number of votes will be elected. Proposals 2 and 3 are advisory, non-binding votes where the Board will take into consideration the results of the voting. Approval of any 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 (see "Voting of Proxies"). Abstentions will not count as votes in favor of the election of Directors or any other proposals.

Voting of Proxies

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: (1) "FOR" the election of the 7 nominees for Director recommended by the Board of Directors; (2) "FOR" the approval of the compensation paid to the Company's named executive officers; (3) "FOR" the three year frequency for future advisory votes to approve the compensation of the Company's named executive officers; and (4) 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 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.

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.

Notice Regarding Electronic Access of Stockholder Meeting Documents

Farmers & Merchants Bancorp is now offering electronic access in lieu of mail delivery of our annual report and proxy statement at <http://www.cfpproxy.com/4723> where the 2010 Annual Report and 2011 Proxy Statement are available. Should you want to discontinue receiving a paper copy of our Annual Report and Proxy Statement, please mark the box on the Proxy Card that states "Mark here to enroll in our Electronic Access Program." You may rescind electronic access at any time by contacting the Company at the number below.

If you make this election on the enclosed proxy card, shortly before each annual meeting you will receive a proxy card, along with voting instructions and the web address where you can access that year's annual report and proxy statement.

If you have any questions regarding electronic access, please call Sue Clark, AVP – Stockholder Relations, at (209) 367-2348.

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 (1)	Amount and Nature of Beneficial Ownership (2)	Percent of Class
Common Stock	Sheila M. Wishek 111 West Pine Street Lodi, CA, 95240	42,350	5.43%
Common Stock	Joan Rider 111 West Pine Street Lodi, CA, 95240	42,788	5.49%

- (1) Mail should be sent to these individuals at the Company's address marked "c/o Stockholder Relations."
(2) Shares are beneficially owned, directly and indirectly, together with spouses, and unless otherwise indicated, holders share voting power with their spouses. None of the shares are pledged.

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.

The following table shows the number of common shares and the percentage of the total shares of common stock of the Company beneficially owned by each of the current Directors, by each of the nominees for election to the office of Director, by the Named Executive Officers (defined as the CEO, CFO and three other most highly compensated executive officers) and by all Directors and Named 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.	963	*
Edward Corum, Jr.	406	*
Richard S. Erichson	819	*
Stephen W. Haley	198	*
Deborah E. Hodkin	115	*
Bruce A. Mettler	41,832	5.37 %
Kevin Sanguinetti	6,738	*
Kenneth W. Smith	113	*
Kent A. Steinwert	4,202	*
Calvin (Kelly) Suess	1,108	*
Carl A. Wishek, Jr.	37,600	4.82 %
All Directors, Nominees and Named Executive Officers as a group (11 persons)	94,094	12.07 %

* Indicates less than 1%.

- (1) Mail should be sent to these individuals at the Company's address marked "c/o Stockholder Relations."
(2) Shares are beneficially owned, directly and indirectly, together with spouses, and, unless otherwise indicated, holders share voting power with their spouses. None of the shares are pledged.

III -

ITEMS TO BE VOTED ON

Proposal #1 – Election of Directors

The Board of Directors recommends a vote for each of the nominees listed below.

At this year's annual meeting, it will be proposed to elect seven (7) 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 seven (7) nominees named below.

As of last year's annual meeting, the Board of Directors was comprised of eight (8) members. In June 2010, Mr. James E. Podesta, a Director since 1980, retired. Since the Company's By-Laws: (i) authorize the number of Directors to be between seven (7) and fifteen (15), and (ii) authorize the Board of Directors to establish the exact number of Directors within these limits, the Board has established the number of Directors at seven (7).

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 a Director of the Company (or the Bank).

Name	Age	Principal Occupation During Past Five Years	Director Since
Stewart C. Adams, Jr.	73	Attorney	1997
Edward Corum, Jr.	59	Managing General Partner, Corum Real Estate	2003
Bruce A. Mettler	66	Vineyardist	2010
Kevin Sanguinetti	53	Retired President, 1st American Title Company - Stockton	2001
Kent A. Steinwert	58	Chairman, President & C.E.O. of the Company and Bank	1998
Calvin (Kelly) Suess	75	General Manager, Specialty Commodities Inc.	1990
Carl A. Wishek, Jr.	72	Assistant Vice President of the Bank	1988

THE BOARD OF DIRECTORS RECOMMENDS A

VOTE FOR THE NOMINEES

LISTED ABOVE.

Directors are nominated based upon their business experience, knowledge of the Company's key markets and business segments, community involvement and commitment to serving the interests of all stockholders:

Mr. Adams has served as a director for thirteen years, lives and is actively involved in the Lodi market area, and provides legal expertise to the Board.

Mr. Corum has served as a director for seven years, lives and is actively involved in the Sacramento market area, and provides real estate and financial expertise to the Board.

Mr. Mettler joined the Board in 2010, lives and is actively involved in the Lodi market area, and provides agricultural production and processing expertise to the Board.

Mr. Sanguinetti has served as a director for nine years, lives and is actively involved in the Stockton market area, and provides real estate and financial expertise to the Board.

Mr. Steinwert has served as a director for twelve years, and has thirty-seven years of business, agriculture, real estate and consumer banking experience.

Mr. Suess has served as a director for twenty years, lives and is actively involved in the Lodi market area, and provides agricultural production and processing expertise to the Board.

Mr. Wishek has served as a director for twenty-two years, lives and is actively involved in the Lodi market area, and provides investment management and community relations expertise to the Board.

With the exception of Messrs. Steinwert and Wishek who are employees of the Company, all nominees are considered to be "independent" as such term is defined by Rule 5605(a)(2) of the Nasdaq's current listing rules.

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.

While the Nominating Committee of the Board of Directors does not have a written policy regarding diversity in identifying new director candidates, the Committee takes diversity into account in looking for the best available candidates to serve on the Board of Directors. The Committee looks to establish diversity on the Board through a number of demographics, experiences, including operational experience, skills, and viewpoints, all with a view to identify candidates that can assist the Board with its decision making. The Committee believes that the current Board of Directors reflects diversity on a number of these factors.

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 Board of Directors reserve the right to substitute as nominee another person of their choice in the place and stead of any nominee unable so to serve. Proxy holders would vote to approve the election of such substitute nominee. 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.

Proposal #2 – Stockholder Vote on Executive Compensation

The Board of Directors recommends a vote for Proposal #2.

In accordance with the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Company is asking stockholders to provide advisory approval of executive compensation as described in the “Executive Compensation Discussion and Analysis” section of this proxy statement. While this vote is advisory, and not binding on the Company, it will provide information to the Board of Director’s Personnel Committee regarding stockholder views about the Company’s executive compensation philosophy, policies and practices, which the Personnel Committee will then consider when determining executive compensation in future years.

The Company believes that the information provided within the Executive Compensation Discussion and Analysis section of this proxy statement demonstrates the reasons why the Company’s compensation programs are appropriate for achieving the objective of the Company’s compensation strategy: “To establish a competitive compensation package that rewards each officer based on their contribution and performance, thereby serving to attract and retain talented individuals who can implement the Company’s strategic plan and maximize long-term stockholder value.”

The Company has consistently been one of the highest performing bank holding companies in California over the past 10 years, reflecting what the Board considers well balanced compensation practices that caused Senior Management to carefully consider the risks it assumed in the context of long-term financial performance. The Board believes that its approach to “pay-for-performance” has achieved, and will continue to achieve, the desired results.

Accordingly, the Board of Directors unanimously recommends that stockholders approve the compensation of the named executive officers by approving the following advisory resolution:

RESOLVED, that the stockholders of Farmers & Merchants Bancorp approve, on an advisory basis, the compensation of the individuals identified in the Summary Compensation Table, as disclosed in this proxy statement pursuant to the compensation disclosure rules of the SEC (which disclosure includes the Executive Compensation Discussion and Analysis section, the compensation tables and the accompanying footnotes and narratives within the Executive Compensation Discussion and Analysis section of this proxy statement).

THE BOARD OF DIRECTORS RECOMMENDS A

VOTE FOR

PROPOSAL #2

Proposal #3 – Stockholder Vote on Frequency of Stockholder Votes on Executive Compensation

The Board of Directors recommends a vote for “three years” on Proposal #3.

The Company is also seeking stockholder input with regard to the frequency of future stockholder advisory votes on our executive compensation programs. Consistent with the requirements of the Dodd-Frank Act, stockholders are provided the option of selecting a frequency of one, two or three years, or they may abstain from the vote.

The Company’s executive compensation program is designed to attract and retain talented individuals who can implement the Company’s strategic plan and maximize long-term stockholder value. As described in the Executive Compensation Discussion and Analysis section of this proxy statement, one of the core principles of the executive compensation program is that many parts are structured such that the benefits cannot be withdrawn by the participant until they retire from the Company. This results in a significant portion of each executive’s compensation remaining at risk during their employment, so as to encourage adopting a long-term perspective and conservative risk management practices. This ensures management’s interests are aligned with the stockholders’ interests to maximize long-term stockholder value.

Accordingly, the Company recommends a stockholder vote every three years which would allow executive compensation programs to be evaluated in relation to longer-term performance.

Additionally, a vote every three years will provide:

1. Board members sufficient time to thoughtfully consider the results of the advisory vote and to implement any desired changes to the Company’s executive compensation program.
2. Stockholders sufficient time to evaluate the effectiveness of our short- and long-term compensation strategies and the related business outcomes of the Company.

The Board of Directors unanimously recommends that stockholders select “three years” when voting on the frequency of advisory votes on executive compensation.

THE BOARD OF DIRECTORS RECOMMENDS A

VOTE FOR “THREE YEARS”

ON PROPOSAL #3.

IV –

BOARD MATTERS

Code of Ethics

The Company has adopted a Code of Conduct which complies with the Code of Ethics requirements of the Securities and Exchange Commission. A copy of the Code of Conduct is posted on the Company's website at <http://www.fmbonline.com>. The Company intends to disclose promptly any amendment to, or waiver from any provision of, the Code of Conduct applicable to executive officers and Directors, on its website.

Director Independence

The Company uses Rule 5605(a)(2) of the Nasdaq's current listing rules to determine whether a Director is independent. With the exception of Messrs. Steinwert and Wishek who are employees of the Company, all nominees are considered to be "independent."

Board of Directors Meetings

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. During the calendar year ending December 31, 2010, the Board of Directors of the Company met sixteen (16) times and the Board of Directors of the Bank met twenty-five (25) times. Beginning in January 2011 the Bank's Board changed its meeting frequency from twice per month to once per month. Each incumbent attended more than 75% of the meetings of the Board of Directors. The Company expects Directors to attend the annual meeting of stockholders and all Directors attended the annual meeting of stockholders in 2010.

Roles and Responsibilities of the Board of Directors

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.

Leadership Structure

Until his retirement in March 2010, Mr. Ole Mettler had served as the Chairman of the Board for 37 years, and had been an employee of the Bank for 50 years. Upon Mr. Mettler's retirement, the Board of Directors determined that the Chairmanship needed to continue to reside with the Director who was most familiar with the banking industry, and who would be most capable of setting strategic direction and integrating that direction with the Company's day-to-day business development and risk management activities. Accordingly, Mr. Steinwert was unanimously elected to the position of Chairman in addition to his role for the past thirteen years as President and Chief Executive Officer of the Company. As of this date, the Board of Directors has not formally designated a lead independent director.

The Board believes that the combination of these positions does not compromise the important "check-and-balance" role that independent Directors play in the oversight of the Company since Mr. Steinwert is not a voting member of the Audit or Personnel Committees of the Board, and therefore key Board decisions and oversight regarding: (1) accounting, financial reporting, and overall risk management; and (2) executive compensation; are made only by "independent" Directors.

Role in Risk Management

The Board of Directors' involvement in risk management centers around the following key roles and responsibilities:

1. The Board approves the annual strategic plan and financial budget, and receives monthly reporting of financial and non-financial performance relative to plan.
2. The Asset and Liability Management Committee is a joint committee of management and the Board. As a result, "independent" Directors are actively involved in interest rate, liquidity and investment risk management processes.
3. The Loan Committee is a joint committee of management and the Board. The Committee meets weekly to review all new and renewed loans over \$2 million and evaluate overall portfolio performance and risk. As a result, "independent" Directors are actively involved in the credit risk management process.

More detail on all Board committees, including the composition and roles and responsibilities of each follows.

Committees of the Board

Audit Committee

The Audit Committee of the Company and the Bank oversees the activities of the internal and independent auditors of the Company and the Bank with the aim of ensuring compliance with applicable laws. The Committee's charter was included as Exhibit A to the 2010 proxy statement. 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, credit examiners, and regulatory agencies and reports the results to the Boards of Directors of the Bank and the Company. The Committee met twelve (12) times in 2010 and is comprised of the following members: Messrs. Sanguinetti (Chairman), Corum and Adams. 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 5605(a)(2) of the Nasdaq's current listing rules and in SEC rules relating to audit committees. Mr. Sanguinetti has been determined by the Board of Directors to be a "financial expert".

Asset and Liability Management Committee

The Asset and Liability Management 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 a joint committee of management and Directors. The following Directors are voting members: Messrs. Wishek, Adams, Mettler, Suess and Steinwert. The Committee met four (4) times in 2010.

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 and loan risk management. The Loan Committee meets weekly and is responsible for approving all new and renewed loans between \$2 million and \$10 million (over \$10 million requires full Board approval) and reviewing all loans over \$500,000. The Loan Committee is a joint committee of management and Directors. The following Directors are voting members: Messrs. Corum and Steinwert. The Committee met forty-nine (49) times in 2010.

Budget and Finance Committee

The Budget and Finance Committee of the Company and the Bank reviews and examines Bank and Company expenses on a quarterly basis comparing the results with: (1) the established annual budget, the previous quarter and prior year; and (2) selected peer banks and the community banking industry as a whole; and proposes recommendations to management regarding improving financial performance. The Committee met nine (9) times in 2010 and is comprised of the following voting members: Messrs. Wishek, Mettler, Suess and Sanguinetti.

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 the communities it serves. The Committee met twelve (12) times in 2010 and is comprised of the following voting members: Messrs. Suess (Chairman), Mettler and Wishek.

Nominating Committee

The Nominating Committee of the Company and the Bank identifies candidates to serve as Directors of the Bank and the Company in the event of future Board openings. The Committee's charter was included as Exhibit C to the 2010 proxy statement. The Committee is comprised of the following voting members: Messrs. Steinwert (Chairman), Adams, Corum and Suess. The Committee met three (3) times in 2010. Messrs. Corum, Adams and Suess have been determined by the Board of Directors to be "independent" as such term is defined by Rule 5605(a)(2) of the Nasdaq's current listing rules.

Personnel Committee

The Personnel Committee of the Company and the Bank: (1) reviews the Company's overall compensation strategies and practices; (2) reviews the employment contracts of all executive officers; (3) annually establishes executive compensation levels and performance evaluation measures for the Chief Executive Officer and Directors; and (4) reviews the executive compensation levels and performance evaluation measures for the other executive officers of the Company. The Committee's charter was included as Exhibit B to the 2010 proxy statement.

The Company's management: (1) provides information, analysis and recommendations for the Personnel Committee; and (2) manages the ongoing operations of the compensation program.

In fulfilling their duties, the Personnel Committee periodically evaluates information obtained from independent sources regarding peer banking institutions in California and in similar markets nationally.

The Personnel Committee is comprised of the following voting members: Messrs. Adams (Chairman), Corum and Sanguinetti. The Committee met four (4) times in 2010. Each of the Directors serving on the Personnel Committee has been determined by the Board of Directors to be "independent" as such term is defined by Rule 5605(a)(2) of the Nasdaq's current listing rules.

Certain Relationships and Related Person Transactions

Certain Directors and Named 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 2010. Such loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with borrowers not related to the Company or Bank. These loans did not involve more than the normal risk of collection or have other unfavorable features. All Director and Named Executive Officer loans must be approved by the Board of Directors. With the exception of the previous banking transactions, the Company had no Related Person Transactions as defined by Item 407(a) of Regulation S-K with its Directors or Named Executive Officers.

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. Executive 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 Executive Officers and Directors complied with all filing requirements applicable to them with respect to transactions during 2010. The Company has no greater than ten percent stockholders.

Communications with Board of Directors

Any person, including any stockholder, desiring to communicate with, or make any concerns known to, the Company, directors generally, non-management Directors or an individual Director only may do so by submitting them in writing to Stephen W. Haley, Secretary of Farmers & Merchants Bancorp, 111 W. Pine Street, Lodi, CA 95240. All correspondence must include information to identify the person submitting the communication or concern, including name, address, telephone number and e-mail address (if applicable) together with information indicating the relationship of such person to the Company. The Secretary is responsible for maintaining a record of any such communications or concerns and submitting them to the appropriate addressee(s) for potential action or response. The

Company may institute appropriate procedures to establish the authenticity of any communication or concern before forwarding. The Company is not obligated to investigate any anonymous submissions.

V –

DIRECTOR AND EXECUTIVE COMPENSATION

Director Compensation Discussion and Analysis

Directors who are employees of the Company or Bank (Ole Mettler until his retirement on March 31, 2010, Kent Steinwert and Carl Wishek) do not receive additional compensation for their services as Directors.

A Director who is not an employee of the Company or Bank receives a \$2,800 fee for each monthly Bank Board Meeting attended (no additional fees are paid for Company Board meetings), and a \$700 fee for each Committee Meeting attended (Committee Chairmen receive \$900 with the exception of the Audit Committee Chairman who receives \$1,100). In addition, each Director is eligible to receive an annual bonus. Directors may elect to defer receipt of some or all Directors' fees under the Company's Deferred Compensation Plan. Directors who are not employees of the Company or Bank are compensated up to \$538 per month to cover a portion of the cost of outside medical insurance. Directors who are not employees of the Company or Bank do not participate in any retirement or medical plans. The summary compensation earned by each Director (other than Mr. Steinwert who is a Named Executive Officer) during 2010 is disclosed in the "Director Compensation Table" on the following page.

Executive Compensation Discussion and Analysis

Roles and Responsibilities

The Board of Directors of the Company, operating through its Personnel Committee: (1) reviews the Company's overall compensation strategies and practices; (2) reviews the employment contracts of all Named Executive Officers (defined as the CEO, CFO and three other most highly compensated executive officers); (3) annually establishes executive compensation levels and performance evaluation measures for the Chief Executive Officer; and (4) reviews the executive compensation levels and performance evaluation measures for the other Named Executive Officers of the Company.

The role of the Company's management is to: (1) provide information, analysis and recommendations for the Personnel Committee's consideration; and (2) manage the ongoing operations of the compensation program.

In fulfilling their duties, the Personnel Committee periodically evaluates information obtained from independent sources regarding peer banking institutions in California and in similar markets nationally.

Executive Compensation Strategy and Programs

The objective of the Company's compensation strategy is to attract and retain talented individuals who can implement the Company's strategic plan and maximize long-term stockholder value.

In order to achieve these objectives, the Board has structured a compensation program that includes three major components: (1) annual base salary; (2) annual performance-based bonus; and (3) qualified and non-qualified retirement plans.

2010 DIRECTOR COMPENSATION TABLE

Name	(1) Fees Earned or Paid in Cash (\$)	(2) Stock Awards (\$)	(2) Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	(3) Change in Pension Value & Nonqualified Deferred Compensation Earnings (\$)	(4) All Other Compensation (\$)	Total (\$)
Kent A. Steinwert	\$-	\$-	\$-	\$ -	\$ -	\$ -	\$-
Stuart C. Adams, Jr.	\$46,500	\$-	\$-	\$ -	\$ -	\$ 45,820	\$92,320
Edward Corum, Jr.	\$69,800	\$-	\$-	\$ -	\$ -	\$ 46,460	\$116,260
Bruce A. Mettler (7)	\$33,300	\$-	\$-	\$ -	\$ -	\$ -	\$33,300
Ole R. Mettler (5)	\$-	\$-	\$-	\$ -	\$ -	\$ 166,254	\$166,254
James E. Podesta (6)	\$28,500	\$-	\$-	\$ -	\$ -	\$ 43,395	\$71,895
Kevin Sanguinetti	\$46,500	\$-	\$-	\$ -	\$ -	\$ 46,460	\$92,960
Calvin (Kelly) Suess	\$52,100	\$-	\$-	\$ -	\$ -	\$ 45,820	\$97,920
Carl A. Wishek, Jr.	\$-	\$-	\$-	\$ -	\$ -	\$ 103,091	\$103,091

(1) Messrs. Kent Steinwert, Ole Mettler and Carl Wishek were employees of the Company in 2010 and received no additional compensation for their services as Directors. Mr. Kent Steinwert is a Named Executive Officer and his compensation is listed in the Summary Compensation Table. The salaries paid Messrs. Ole Mettler (prior to his retirement) and Carl Wishek are included in All Other Compensation. Directors who are not employees receive a \$2,800 monthly Board Meeting Fee and \$700 Committee Meeting Fees (Committee Chairs receive \$900, with the exception of the Audit Committee Chair who receives \$1,100).

(2) The Company has no stock based award programs.

(3) The Company has no Defined Benefit Pension Program. All earnings on Nonqualified Deferred Compensation Plan balances are assumed to be at market rates (see Footnote 4 in the Non-Qualified Deferred Compensation Table).

(4) Mr. Ole Mettler received a \$135,000 bonus in 2010. All other Directors received a \$40,000 bonus in 2010. Non-employee Directors are compensated up to \$538 per month towards the cost of outside medical insurance. As an employee, a \$7,863 Profit Sharing Plan contribution was made for Mr. Carl Wishek.

(5) Mr. Ole Mettler retired from the Company and Board on March 31, 2010.

(6) Mr. Podesta retired from the Board on June 3, 2010.

(7) Mr. Bruce Mettler joined the Board on April 1, 2010.

Performance Evaluation Measures

In evaluating the performance of each Named Executive Officer, the Personnel Committee considers a combination of objective and subjective factors, including the following:

1. the Company's annual financial performance (relative to both the current year's budget and the overall performance of a select group of peer community banks as well as the community bank industry as a whole) as measured by Return on Assets; Return on Equity; Efficiency Ratios; and Net Income performance;
2. progress towards achieving the Company's five year strategic plan;
3. results of the Company's and Bank's regulatory examinations; and
4. current economic and industry conditions.

These performance measurement factors are evaluated at least annually. Both the annual budget and strategic plan are approved in advance by the Board of Directors and reevaluated during the year. The Board periodically evaluates information obtained from independent sources regarding peer banking institutions in California and in similar markets nationally, and makes recommendations regarding changes to compensation programs.

Impact of Compensation Practices on the Company's Risk Profile

The Company is a "traditional" community bank that generates the majority of its income from the margin generated between taking customer deposits and making customer loans. Furthermore, credit risk is centrally controlled as reflected by: (1) no loan approval authority resides in the branches, therefore, all loans must be approved by Credit Administration personnel, and none of Credit Administration's compensation is tied to loan volume or production; and (2) the Loan Committee, which includes outside Directors, must approve all loans over \$2 million.

We do not have non-traditional fee-based financial business units that could materially increase this risk profile. Nor do we have any business units where employees generate any substantial amount of their total compensation based upon generating large volumes of activity or taking significant risks.

In order to ensure that the Company's compensation strategies and programs do not result in inappropriate risk taking on the part of executive management, the Board has determined that:

1. Annual Performance Based Bonuses must include consideration of the results of the Company's and Bank's regulatory examinations by the FRB, FDIC and California Department of Financial Institutions, all of which involve a review of the Company's and Bank's risk management practices and resulting risk profile.
2. A