

FIRST FARMERS & MERCHANTS CORP
Form 10-Q
May 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended **March 31, 2007**

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 Numbers: 0-10972

First Farmers and Merchants Corporation

(Exact name of registrant as specified in its charter)

Tennessee

62-1148660

(State or other jurisdiction of incorporation or organization)
No.)

(I.R.S. Employer Identification

816 South Garden Street

Columbia, Tennessee

38402-1148

(Address of principal executive offices)

(Zip Code)

931-388-3145

(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.

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Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

5,740,000 shares as of May 4, 2007

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The following unaudited consolidated financial statements of the Registrant and its subsidiaries are included in this Report:

Consolidated balance sheets - March 31, 2007 and December 31, 2006.

Consolidated statements of income - For the three months ended March 31, 2007 and March 31, 2006.

Consolidated statements of cash flows - For the three months ended March 31, 2007 and March 31, 2006.

Selected notes to consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		March 31, 2007 (Unaudited)	December 31, 2006 (1)
<i>(Dollars In Thousands, Except Per Share Data)</i>			
ASSETS			
	Cash and due from banks	\$ 18,165	\$ 45,558
	Interest-bearing deposits in banks	1,657	2,573
	Federal funds sold	16,250	26,850
	Total cash and cash equivalents	36,072	74,981
	Securities		
	Available for sale (amortized cost \$147,626 and \$149,040, respectively)	146,071	147,001
	Held to maturity (fair value \$79,389 and \$82,109 respectively)	78,562	81,247
	Total securities	224,633	228,248
	Loans, net of deferred fees	489,186	473,353
	Allowance for possible loan losses	(7,303)	(7,262)
	Net loans	481,883	466,091
	Bank premises and equipment, at cost less allowance for depreciation	10,278	10,428
	Core deposit and other intangibles	9,610	9,874
	Other assets	31,575	30,462
	TOTAL ASSETS	\$ 794,051	\$ 820,084
LIABILITIES			
	Deposits		
	Noninterest-bearing	\$ 125,728	\$ 142,933
	Interest-bearing (including certificates of deposit over \$100: 2007 - \$87,877; 2006 - \$91,504)	547,280	556,029
	Total deposits	673,008	698,962
	Federal funds purchased and securities sold under agreements to repurchase	3,246	2,654
	Dividends payable	-	1,971
	Other short-term liabilities	-	385
	Accounts payable and accrued liabilities	12,546	12,305
	TOTAL LIABILITIES	688,800	716,277
SHAREHOLDERS' EQUITY			
	Common stock - \$10 par value, 8,000,000 shares authorized; 5,742,000 and 5,760,000 issued and outstanding shares as of 03/31/07 and 12/31/06, respectively	57,420	57,600
	Additional paid-in capital	400	1,120
	Retained earnings	48,388	46,342
	Accumulated other comprehensive loss	(957)	(1,255)
	TOTAL SHAREHOLDERS' EQUITY	105,251	103,807
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 794,051	\$ 820,084

(1) Derived from audited financial statements.

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

		<i>Three Months Ended March 31,</i>	
<i>(Dollars In Thousands, Except Per Share Data)</i>		2007	2006
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	\$ 7,953	\$ 7,268
	Income on investment securities		
	Taxable interest	1,283	1,634
	Exempt from federal income tax	1,023	1,079
	Dividends	63	49
		2,369	2,762
	Other interest income	308	34
	TOTAL INTEREST INCOME	10,630	10,064
INTEREST EXPENSE	Interest on deposits	3,995	2,988
	Interest on other short-term borrowings	31	77
	TOTAL INTEREST EXPENSE	4,026	3,065
	NET INTEREST INCOME	6,604	6,999
	PROVISION FOR POSSIBLE LOAN LOSSES	-	-
	NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,604	6,999
NONINTEREST INCOME	Trust department income	707	540
	Service fees on deposit accounts	1,753	1,815
	Other service fees, commissions and fees	130	87
	Other operating income	274	184
	TOTAL NONINTEREST INCOME	2,864	2,626
NONINTEREST EXPENSE	Salaries and employee benefits	3,737	4,135
	Net occupancy expense	543	562
	Furniture and equipment expense	277	297
	Other operating expenses	2,581	2,711
	TOTAL NONINTEREST EXPENSES	7,138	7,705
	INCOME BEFORE PROVISION FOR INCOME TAXES	2,330	1,920
	PROVISION FOR INCOME TAXES	284	276
	NET INCOME	\$ 2,046	\$ 1,644
BASIC EARNINGS PER SHARE	Weighted Average Shares Outstanding	5,757,139	5,840,000
		\$ 0.36	\$ 0.28

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<i>(Dollars In Thousands, Except Per Share Data)</i>		<i>Three Months Ended March 31,</i>	
		2007	2006
OPERATING	Net income	\$ 2,046	\$ 1,644
ACTIVITIES	Adjustments to reconcile net income to net cash provided by operating activities		
	Excess (deficiency) of provision for possible loan losses over net charge offs	41	(64)
	Provision for depreciation and amortization of premises and equipment	226	274
	Amortization of deposit base intangibles	264	264
	Amortization of investment security premiums, net of accretion of discounts	171	355
	Increase in cash surrender value of life insurance contracts	(108)	(90)
	Increase in		
	Deferred income taxes	(148)	(1)
	Interest receivable	(92)	(40)
	Other assets	(593)	(292)
	(Decrease) increase in		
	Interest payable	(157)	399
	Other liabilities	303	295
	Total adjustments	(93)	1,100
	Net cash provided by operating activities	1,953	2,744
INVESTING	Proceeds from maturities, calls and sales of		
ACTIVITIES	available-for-sale securities	6,032	24,045
	Proceeds from maturities and calls of held-to-maturity securities	2,660	1,260
	Purchases of investment securities		
	Available-for-sale	(4,752)	(17,280)
	Net increase in loans	(15,833)	(12,522)
	Purchase of life insurance policies	(369)	-
	Purchases		