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Bank of Marin Bancorp
Form 10-Q
August 08, 2012

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 June 30, 2012

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 001-33572

Bank of Marin Bancorp
(Exact name of Registrant as specified in its charter)

California 20-8859754
(State or other jurisdiction of incorporation) (IRS Employer Identification No.)

504 Redwood Blvd., Suite 100, Novato, CA 94947
(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code: (415) 763-4520

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b(2) of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark if the registrant is a shell company, as defined in Rule 12b(2) of the Exchange Act.

Yes No

As of July 31, 2012, there were 5,364,912 shares of common stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF CONDITION

at June 30, 2012 and December 31, 2011

(in thousands, except share data; 2012 unaudited)

	June 30, 2012	December 31, 2011
Assets		
Cash and due from banks	\$98,321	\$127,732
Short-term investments	—	2,011
Cash and cash equivalents	98,321	129,743
Investment securities		
Held to maturity, at amortized cost	83,134	59,738
Available for sale (at fair market value; amortized cost \$159,024 and \$132,348 at June 30, 2012 and December 31, 2011, respectively)	161,803	135,104
Total investment securities	244,937	194,842
Loans, net of allowance for loan losses of \$13,435 and \$14,639 at June 30, 2012 and December 31, 2011, respectively	1,011,759	1,016,515
Bank premises and equipment, net	9,074	9,498
Interest receivable and other assets	42,909	42,665
Total assets	\$1,407,000	\$1,393,263
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Non-interest bearing	\$399,835	\$359,591
Interest bearing		
Transaction accounts	149,822	134,673
Savings accounts	86,590	75,617
Money market accounts	423,682	434,461
CDARS® time accounts	27,297	46,630
Other time accounts	143,491	152,000
Total deposits	1,230,717	1,202,972
Federal Home Loan Bank borrowings	15,000	35,000
Subordinated debenture	5,000	5,000
Interest payable and other liabilities	11,957	14,740
Total liabilities	1,262,674	1,257,712
Stockholders' Equity		
Preferred stock, no par value,		
Authorized - 5,000,000 shares, none issued	—	—
Common stock, no par value		
Authorized - 15,000,000 shares		
Issued and outstanding - 5,362,222 and 5,336,927 shares at June 30, 2012 and December 31, 2011, respectively	57,543	56,854
Retained earnings	85,171	77,098
Accumulated other comprehensive income, net	1,612	1,599
Total stockholders' equity	144,326	135,551

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Total liabilities and stockholders' equity	\$ 1,407,000	\$ 1,393,263
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The accompanying notes are an integral part of these consolidated financial statements.

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BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands, except per share amounts; unaudited)	Three months ended			Six months ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Interest income					
Interest and fees on loans	\$15,324	\$15,328	\$16,862	\$30,652	\$32,762
Interest on investment securities					
Securities of U.S. Government agencies	817	967	745	1,784	1,478
Obligations of state and political subdivisions	455	387	303	842	605
Corporate debt securities and other	285	201	171	486	282
Interest on Federal funds sold and short-term investments	56	50	56	106	96
Total interest income	16,937	16,933	18,137	33,870	35,223
Interest expense					
Interest on interest bearing transaction accounts	45	44	48	89	86
Interest on savings accounts	24	22	25	46	54
Interest on money market accounts	180	183	341	363	678
Interest on CDARS® time accounts	21	32	48	53	142
Interest on other time accounts	269	304	315	573	673
Interest on borrowed funds	117	147	357	264	709
Total interest expense	656	732	1,134	1,388	2,342
Net interest income	16,281	16,201	17,003	32,482	32,881
Provision for loan losses	100	—	3,000	100	4,050
Net interest income after provision for loan losses	16,181	16,201	14,003	32,382	28,831
Non-interest income					
Service charges on deposit accounts	549	524	468	1,073	911
Wealth Management and Trust Services	488	456	469	944	903
Debit card interchange fees	259	234	203	493	391
Merchant interchange fees	186	193	159	379	265
Earnings on Bank-owned life insurance	192	188	193	380	362
Other income	126	100	89	226	348
Total non-interest income	1,800	1,695	1,581	3,495	3,180
Non-interest expense					
Salaries and related benefits	5,314	5,604	5,220	10,918	10,149
Occupancy and equipment	1,056	987	1,093	2,043	2,000
Depreciation and amortization	341	341	314	682	622
Federal Deposit Insurance Corporation insurance	218	233	214	451	601
Data processing	660	606	909	1,266	1,491
Professional services	516	585	740	1,101	1,473
Other expense	1,580	1,479	1,508	3,059	2,792
Total non-interest expense	9,685	9,835	9,998	19,520	19,128
Income before provision for income taxes	8,296	8,061	5,586	16,357	12,883
Provision for income taxes	3,345	3,121	2,147	6,466	4,935
Net income	\$4,951	\$4,940	\$3,439	\$9,891	\$7,948
Net income per common share:					

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Basic	\$0.93	\$0.93	\$0.65	\$1.86	\$1.50
Diluted	\$0.91	\$0.91	\$0.64	\$1.82	\$1.48
Weighted-average shares used to compute net income per common share:					
Basic	5,337	5,326	5,300	5,331	5,292
Diluted	5,419	5,425	5,385	5,422	5,376
Dividends declared per common share	\$0.17	\$0.17	\$0.16	\$0.34	\$0.32
Comprehensive income					
Net income	\$4,951	\$4,940	\$3,439	\$9,891	\$7,948
Other comprehensive (loss) income					
Change in net unrealized gain on available for sale securities	(39	) 28	1,068	(11	) 10
Reclassification adjustment for (gain) losses included in net income	(4	) 38	—	34	—
Net change in unrealized gain on available for sale securities, before tax	(43	) 66	1,068	23	10
Deferred tax (benefit) expense	(18	) 28	449	10	4
Other comprehensive (loss) income, net of tax	(25	) 38	619	13	6
Comprehensive income	\$4,926	\$4,978	\$4,058	\$9,904	\$7,954

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

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
for the year ended December 31, 2011 and the six months ended June 30, 2012

(dollars in thousands; 2012 unaudited)	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Total
	Shares	Amount			
Balance at December 31, 2010	5,290,082	\$55,383	\$64,991	\$1,546	\$121,920
Net income	—	—	15,564	—	15,564
Other comprehensive income	—	—	—	53	53
Stock options exercised	34,913	741	—	—	741
Excess tax benefit - stock-based compensation	—	120	—	—	120
Stock issued under employee stock purchase plan	982	33	—	—	33
Restricted stock granted	5,675	—	—	—	—
Restricted stock forfeited / cancelled	(315)	—	—	—	—
Stock-based compensation - stock options	—	234	—	—	234
Stock-based compensation - restricted stock	—	143	—	—	143
Cash dividends paid on common stock	—	—	(3,457)	—	(3,457)
Stock issued in payment of director fees	5,590	200	—	—	200
Balance at December 31, 2011	5,336,927	\$56,854	\$77,098	\$1,599	\$135,551
Net income	—	—	9,891	—	9,891
Other comprehensive income	—	—	—	13	13
Stock options exercised	13,580	324	—	—	324
Excess tax benefit - stock-based compensation	—	41	—	—	41
Stock issued under employee stock purchase plan	385	14	—	—	14
Restricted stock granted	9,030	—	—	—	—
Restricted stock forfeited	(380)	—	—	—	—
Stock-based compensation - stock options	—	111	—	—	111
Stock-based compensation - restricted stock	—	95	—	—	95
Cash dividends paid on common stock	—	—	(1,818)	—	(1,818)
Stock purchased by directors under director stock plan	100	4	—	—	4
Stock issued in payment of director fees	2,580	100	—	—	100
Balance at June 30, 2012	5,362,222	\$57,543	\$85,171	\$1,612	\$144,326

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

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS

for the six months ended June 30, 2012 and 2011

(in thousands, unaudited)

	June 30, 2012	June 30, 2011
Cash Flows from Operating Activities:		
Net income	\$9,891	\$7,948
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	100	4,050
Compensation expense--common stock for director fees	100	110
Stock-based compensation expense	206	204
Excess tax benefits from exercised stock options	(36)	(73)
Amortization of investment security premiums, net of accretion of discounts	931	776
Accretion of discount on acquired loans	(1,502)	(2,211)
Decrease in deferred loan origination fees, net ¹	(631)	(914)
Loss on sale of investment securities	34	—
Depreciation and amortization	682	622
Loss on disposal of premise and equipment	5	—
Bargain purchase gain on acquisition, net of tax	—	(85)
Loss on sale of repossessed assets	3	36
Earnings on bank owned life insurance policies ¹	(380)	(362)
Net change in operating assets and liabilities:		
Interest receivable	(188)	(196)
Interest payable	(123)	25
Deferred rent and other rent-related expenses	87	162
Other assets ¹	718	1,724
Other liabilities	(2,346)	(1,668)
Total adjustments	(2,340)	2,200
Net cash provided by operating activities	7,551	10,148
Cash Flows from Investing Activities:		
Proceeds from sale of premises and equipment	—	18
Purchase of securities held to maturity	(25,661)	(700)
Purchase of securities available for sale	(52,710)	(76,537)
Proceeds from sale of securities available for sale	2,186	—
Proceeds from paydowns/maturity of securities held to maturity	1,843	—
Proceeds from paydowns/maturity of securities available for sale	23,305	20,203
Loans originated and principal collected, net ¹	6,364	17,070
Purchase of bank owned life insurance policies	(364)	(2,500)
Purchase of premises and equipment	(263)	(1,466)
Proceeds from sale of repossessed assets	22	199
Cash receipt from acquisition	—	44,042
Net cash (used in) provided by investing activities	(45,278)	329
Cash Flows from Financing Activities:		
Net increase in deposits	27,745	29,086
Proceeds from stock options exercised	324	472
Repayment of Federal Home Loan Bank borrowings	(20,000)	(13,500)
Cash dividends paid on common stock	(1,818)	(1,698)
Stock issued under employee and director stock purchase plans	18	17
Excess tax benefits from exercised stock options	36	73

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Net cash provided by financing activities	6,305	14,450
Net (decrease) increase in cash and cash equivalents	(31,422) 24,927
Cash and cash equivalents at beginning of period	129,743	85,232
Cash and cash equivalents at end of period	\$98,321	\$ 110,159
Supplemental disclosure of cash flow information:		
Cash paid in interest	\$1,511	\$2,318
Cash paid in income taxes	\$7,936	\$6,049
Supplemental disclosure of non-cash investing and financing activities:		
Change in unrealized gain on available-for- sale securities	\$23	\$ 10
Loans transferred to repossessed assets	\$65	\$ 100
Stock issued in payment of director fees	\$ 100	\$ 100
Acquisition:		
Fair value of assets acquired	\$—	\$ 107,763
Fair value of liabilities assumed	\$—	\$ 107,678

1 Amounts for prior periods have been reclassified to conform to current financial statement presentation.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Introductory Explanation

References in this report to “Bancorp” mean the Bank of Marin Bancorp as the parent holding company for Bank of Marin, the wholly-owned subsidiary (the “Bank”). References to “we,” “our,” “us” mean the holding company and the Bank that are consolidated for financial reporting purposes.

Note 1: Basis of Presentation

The consolidated financial statements include the accounts of Bancorp and its only wholly-owned bank subsidiary, the Bank. All material intercompany transactions have been eliminated. In the opinion of Management, the unaudited interim consolidated financial statements contain all adjustments necessary to present fairly our financial position, results of operations, changes in stockholders' equity and cash flows. All adjustments are of a normal, recurring nature. Management has evaluated subsequent events through the date of filing, and has determined that there are no subsequent events that require recognition or disclosure except for discussion in Note 7, Note 8 and Note 9 herein.

Certain information and footnote disclosures presented in the annual consolidated financial statements are not included in the interim consolidated financial statements. Accordingly, the accompanying unaudited interim consolidated financial statements should be read in conjunction with our 2011 Annual Report on Form 10-K. The results of operations for the three months and six months ended June 30, 2012 are not necessarily indicative of the operating results for the full year.

The following table shows: 1) weighted average basic shares, 2) potential common shares related to stock options, unvested restricted stock and stock warrant, and 3) weighted average diluted shares. Basic earnings per share (“EPS”) are calculated by dividing net income by the weighted average number of common shares outstanding during each period, excluding unvested restricted stock. Diluted EPS are calculated using the weighted average diluted shares. The number of potential common shares included in quarterly diluted EPS is computed using the average market prices during the three months included in the reporting period under the treasury stock method. The number of potential common shares included in year-to-date diluted EPS is a year-to-date weighted average of potential common shares included in each quarterly diluted EPS computation. We have two forms of our outstanding common stock: common stock and unvested restricted stock awards. Holders of restricted stock awards receive non-forfeitable dividends at the same rate as common stockholders and they both share equally in undistributed earnings.

(in thousands, except per share data; unaudited)	Three months ended			Six months ended	
	June 30, 2012	March 31, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Weighted average basic shares outstanding	5,337	5,326	5,300	5,331	5,292
Add: Potential common shares related to stock options	39	49	43	44	43
Potential common shares related to unvested restricted stock	2	5	3	4	4
Potential common shares related to warrants	41	45	39	43	37
Weighted average diluted shares outstanding	5,419	5,425	5,385	5,422	5,376
Net income	\$4,951	\$4,940	\$3,439	\$9,891	\$7,948
Basic EPS	\$0.93	\$0.93	\$0.65	\$1.86	\$1.50
Diluted EPS	\$0.91	\$0.91	\$0.64	\$1.82	\$1.48

Weighted average anti-dilutive shares not included in the calculation of diluted EPS