

F&M BANK CORP  
Form 10-Q  
August 14, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-Q**

**Quarterly report Under Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2008.**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File Number: 000-13273  
F & M BANK CORP.**

Virginia

54-1280811

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification No.)

P. O. Box 1111  
Timberville, Virginia 22853  
(Address of Principal Executive Offices) (Zip Code)  
(540) 896-8941  
(Registrant's Telephone Number, Including Area Code)

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  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

Smaller reporting  
company

(do not check if a smaller reporting company)

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

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

Class	Outstanding at June 30, 2008
Common Stock, par value \$5	2,325,174 shares

**F & M BANK CORP.**  
**INDEX**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	<b>2</b>
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Income Three Months Ended June 30, 2008 and 2007</u>	2
<u>Consolidated Statements of Income Six Months Ended June 30, 2008 and 2007</u>	3
<u>Consolidated Balance Sheets June 30, 2008 and December 31, 2007</u>	4
<u>Consolidated Statements of Cash Flows Six Months Ended June 30, 2008 and 2007</u>	5
<u>Consolidated Statements of Changes in Stockholders Equity Six Months June 30, 2008 and 2007</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4. T. Controls and Procedures</u>	21
<b><u>PART II OTHER INFORMATION</u></b>	<b>22</b>
<u>Item 1. Legal Proceedings</u>	22
Item 1a. Risk Factors	22
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 3. Defaults upon Senior Securities</u>	22
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	22
<u>Item 5. Other Information</u>	22
<u>Item 6. Exhibits</u>	22
<b><u>SIGNATURES</u></b>	<b>23</b>
<b><u>CERTIFICATIONS</u></b>	<b>24</b>
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32</u>	



**Table of Contents**

Part I Financial Information  
Item 1 Financial Statements

**F & M BANK CORP.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In Thousands of Dollars Except per Share Amounts)  
(Unaudited)

	<b>Three Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b><i>Interest Income</i></b>		
Interest and fees on loans held for investment	\$ 5,635	\$ 5,640
Interest and fees on loans held for sale	99	
Interest on federal funds sold	13	74
Interest on interest bearing deposits	22	19
Dividends on equity securities	133	140
Interest on debt securities	226	303
 Total Interest Income	 6,128	 6,176
 <b><i>Interest Expense</i></b>		
Interest on demand deposits	162	298
Interest on savings accounts	72	85
Interest on time deposits over \$100,000	550	571
Interest on time deposits	1,109	1,408
 Total interest on deposits	 1,893	 2,362
Interest on short-term debt	109	95
Interest on long-term debt	451	324
 Total Interest Expense	 2,453	 2,781
 Net Interest Income	 3,675	 3,395
 <b><i>Provision for Loan Losses</i></b>	 175	 60
 Net Interest Income after Provision for Loan Losses	 3,500	 3,335
 <b><i>Noninterest Income</i></b>		
Service charges	336	280
Insurance and other commissions	114	98
Other	400	346
Income on bank owned life insurance	75	72
Security gains (losses)	(29)	99
 Total Noninterest Income	 896	 895

<b><i>Noninterest Expense</i></b>		
Salaries	1,246	1,159
Employee benefits	374	383
Occupancy expense	136	149
Equipment expense	133	170
Intangible amortization	69	69
Other	803	666
Total Noninterest Expense	2,761	2,596
<b>Income before Income Taxes</b>	1,635	1,634
Income Taxes	491	497
<b>Net Income</b>	\$ 1,144	\$ 1,137
<b>Per Share Data</b>		
Net Income	\$ .49	\$ .48
Cash Dividends	\$ .22	\$ .21
Weighted Average Shares Outstanding	2,331,027	2,365,278

*The accompanying notes are an integral part of these statements.*

**Table of Contents**

## Part I Financial Information

## Item 1 Financial Statements

**F & M BANK CORP.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(In Thousands of Dollars Except per Share Amounts)**  
**(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b><i>Interest Income</i></b>		
Interest and fees on loans held for investment	\$ 11,190	\$ 11,183
Interest and fees on loans held for sale	120	
Interest on federal funds sold	29	88
Interest on interest bearing deposits	75	42
Dividends on equity securities	260	230
Interest on debt securities	488	596
 Total Interest Income	 12,162	 12,139
<b><i>Interest Expense</i></b>		
Interest on demand deposits	380	560
Interest on savings accounts	145	170
Interest on time deposits over \$100,000	1,064	1,141
Interest on time deposits	2,427	2,700
 Total interest on deposits	 4,016	 4,571
Interest on short-term debt	186	251
Interest on long-term debt	855	648
 Total Interest Expense	 5,057	 5,470
 Net Interest Income	 7,105	 6,669
 <b><i>Provision for Loan Losses</i></b>	 265	 120
 Net Interest Income after Provision for Loan Losses	 6,840	 6,549
<b><i>Noninterest Income</i></b>		
Service charges	640	553
Insurance and other commissions	169	152
Other	651	592
Income on bank owned life insurance	148	145
Security gains (losses)	(31)	218
 Total Noninterest Income	 1,577	 1,660

<b><i>Noninterest Expense</i></b>		
Salaries	2,494	2,303
Employee benefits	726	761
Occupancy expense	277	292
Equipment expense	266	327
Intangible amortization	138	138
Other	1,513	1,310
Total Noninterest Expense	5,414	5,131
<b>Income before Income Taxes</b>	3,003	3,078
Income Taxes	855	852
<b>Net Income</b>	\$ 2,148	\$ 2,226
<b>Per Share Data</b>		
Net Income	\$ .92	\$ .94
Cash Dividends	\$ .44	\$ .42
Weighted Average Shares Outstanding	2,335,897	2,367,992

*The accompanying notes are an integral part of these statements.*



**Table of Contents**

**F & M BANK CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
(In Thousands of Dollars)

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	(Unaudited)	(Audited)
<b>ASSETS</b>		
Cash and due from banks	\$ 9,920	\$ 8,705
Interest bearing deposits in banks	2,226	3,132
Securities held to maturity (note 2)	109	109
Securities available for sale (note 2)	24,248	30,214
Other investments	8,471	6,291
Loans held for sale		20,867
Loans held for investment (note 3)	354,427	317,179
Less allowance for loan losses (note 4)	(1,707)	(1,702)
Net Loans Held for Investment	352,720	315,477
Bank premises and equipment	7,532	7,221
Interest receivable	1,818	1,932
Deposit intangible	736	874
Goodwill	2,639	2,639
Bank owned life insurance	6,153	6,005
Other assets	3,748	4,128
Total Assets	\$ 441,187	\$ 386,727
<b>LIABILITIES</b>		
Deposits		
Noninterest bearing demand	\$ 50,957	\$ 49,755
Interest bearing		
Demand	30,250	25,196
Money Market	27,224	30,393
Savings deposits	30,154	28,214
Time deposits over \$100,000	42,078	44,512
Time deposits	118,297	120,490
Total Deposits	298,960	298,560
Short-term debt	47,606	12,743
Long-term debt	50,429	29,714
Accrued expenses	5,512	6,545
Total Liabilities	402,507	347,562

**STOCKHOLDERS EQUITY**

Common stock, \$5 par value, 2,325,174 and 2,343,890 issued and outstanding, in 2008 and 2007, respectively	11,626	11,720
Retained earnings	29,028	28,409
Accumulated other comprehensive income (loss)	(1,974)	(964)
Total Stockholders Equity	38,680	39,165
Total Liabilities and Stockholders Equity	\$ 441,187	\$ 386,727

*The accompanying notes are an integral part of these statements.*

**Table of Contents**

**F & M BANK CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Thousands of Dollars)  
(Unaudited)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b><i>Cash Flows from Operating Activities:</i></b>		
Net income	\$ 2,148	\$ 2,226
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	307	360
Amortization (accretion) of security premiums (discounts)	(21)	(89)
Net (increase) decrease in loans held for sale	(20,867)	
Provision for loan losses	265	120
Intangible amortization	138	138
(Increase) decrease in interest receivable	114	56
(Increase) decrease in other assets	802	150
Increase in accrued expenses	(989)	(528)
(Gain) loss on security transactions	31	(218)
Amortization of limited partnership investments	250	311
Income from life insurance investment	(148)	(145)
Net Adjustments	(20118)	155
Net Cash Provided (Used) by Operating Activities	(17,970)	2,381
<b><i>Cash Flows from Investing Activities:</i></b>		
Purchase of investments held to maturity		(108)
Purchase of investments available for sale	(17,837)	(14,743)
Proceeds from sales of investments available for sale	971	1,981
Proceeds from maturity of investments available for sale	18,930	13,691
Proceeds from maturity of investments held to maturity		110
Net increase in loans held for investment	(37,508)	1,323
Purchase of property and equipment	(618)	(187)
Change in federal funds sold		(9,467)
Purchase of investment in life insurance		
Net (increase) decrease in interest bearing bank deposits	906	805
Net Cash Used in Investing Activities	(35,156)	(6,595)
<b><i>Cash Flows from Financing Activities:</i></b>		
Net change in demand and savings deposits	5,026	4,516
Net change in time deposits	(4,626)	6,086
Net change in short-term debt	32,428	784
Cash dividends paid	(1,041)	(997)
Repurchase of common stock	(713)	(352)
Change in federal funds purchased	2,435	(2,562)
Proceeds of long-term debt	27,500	5,000

Edgar Filing: F&M BANK CORP - Form 10-Q

Proceeds from issuance of common stock	118	10
Repayment of long-term debt	(6,786)	(7,747)
Net Cash Provided (Used) by Financing Activities	54,341	4,738
<b>Net Decrease (Increase) in Cash and Cash Equivalents</b>	1,215	524
<b>Cash and Cash Equivalents, Beginning of Period</b>	8,705	6,247
<b>Cash and Cash Equivalents, End of Period</b>	\$ 9,920	\$ 6,771
<b>Supplemental Disclosure</b>		
Cash paid for:		
Interest expense	\$ 5,169	\$ 5,268
Income taxes	400	625

*The accompanying notes are an integral part of these statements.*

Table of Contents

**F & M BANK CORP.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**  
(In Thousands of Dollars)  
(Unaudited)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
<i>Balance, beginning of period</i>	\$ 39,165	\$ 38,105
Comprehensive Income		
Net income	2,148	2,226
Net change in unrealized appreciation on securities available for sale, net of taxes	(1,010)	(338)
<b>Total comprehensive income</b>	<b>1,138</b>	<b>1,888</b>
Repurchase of common stock	(713)	(352)
Common stock sold	118	10
Dividends declared	(1,028)	(995)
<i>Balance, end of period</i>	<b>\$ 38,680</b>	<b>\$ 38,656</b>

*The accompanying notes are an integral part of these statements.*

**Table of Contents****F & M BANK CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1 ACCOUNTING PRINCIPLES:**

The consolidated financial statements include the accounts of F & M Bank Corp. and its subsidiaries (the Company ). Significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements conform to accounting principles generally accepted in the United States and to general industry practices. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2008 and the results of operations for the six month periods ended June 30, 2008 and June 30, 2007. The notes included herein should be read in conjunction with the notes to financial statements included in the 2007 annual report to stockholders of the F & M Bank Corp.

The Company does not expect the anticipated adoption of any newly issued accounting standards to have a material impact on future operations or financial position.

**NOTE 2 INVESTMENT SECURITIES:**

The amounts at which investment securities are carried in the consolidated balance sheets and their approximate market values at June 30, 2008 and December 31, 2007 are as follows:

	2008		2007	
	Cost	Market Value	Cost	Market Value
<b>Securities Held to Maturity</b>				
U. S. Treasury and Agency obligations	\$ 109	\$ 109	\$ 109	\$ 109
Total	\$ 109	\$ 109	\$ 109	\$ 109

	2008		2007	
	Market Value	Cost	Market Value	Cost
<b>Securities Available for Sale</b>				
Government sponsored enterprises	\$ 9,142	\$ 8,980	\$ 16,459	\$ 16,283
Equity securities	4,507	6,641	5,668	6,620
Mortgage-backed securities	9,188	9,306	5,411	5,402
Corporate Bonds	1,285	1,617	2,426	2,617
Municipals	126	125	250	250
Total	\$ 24,248	\$ 26,669	\$ 30,214	\$ 31,172

**Table of Contents****F & M BANK CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENT****NOTE 3 LOANS HELD FOR INVESTMENT:**

Loans outstanding at June 30, 2008 and December 31, 2007 are summarized as follows:

	<b>2008</b>	<b>2007</b>
Real Estate		
Construction	\$ 62,231	\$ 51,301
Residential	150,449	143,248
Commercial and agricultural	120,328	101,749
Installment loans to individuals	19,134	18,772
Credit cards	1,799	1,800
Other	486	309
Total	\$ 354,427	\$