

F&M BANK CORP
Form 10-Q
May 13, 2009

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**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 March 31, 2009.**

**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 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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting Company <input checked="" type="checkbox"/>
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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 May 5, 2009
Common Stock, par value \$5	2,287,375 shares

F & M BANK CORP.
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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)

	Three Months Ended	
	March 31,	
	2009	2008
<i>Interest income</i>		
Interest and fees on loans held for investment	\$ 6,186	\$ 5,555
Interest and fees on loans held for sale	227	21
Interest on federal funds sold	1	16
Interest on interest bearing deposits	14	53
Dividends on equity securities	46	127
Interest on debt securities	227	262
 Total interest income	 6,701	 6,034
<i>Interest expense</i>		
Interest on demand deposits	234	218
Interest on savings accounts	63	73
Interest on time deposits over \$100,000	559	514
Interest on time deposits	1,213	1,318
 Total interest on deposits	 2,069	 2,123
Interest on short-term debt	28	77
Interest on long-term debt	604	404
 Total Interest Expense	 2,701	 2,604
 Net interest income	 4,000	 3,430
 <i>Provision for loan losses</i>	 210	 90
 Net interest income after provision for loan losses	 3,790	 3,340
<i>Noninterest income</i>		
Service charges	286	304
Insurance and other commissions	102	55
Other	189	251
Income on bank owned life insurance	90	73
Security gains (losses)	(330)	(2)

Total noninterest income	337	681
<i>Noninterest expense</i>		
Salaries	1,236	1,248
Employee benefits	428	352
Occupancy expense	139	141
Equipment expense	132	133
Intangible amortization	69	69
Other	790	710
Total noninterest expense	2,794	2,653
<i>Income before income taxes</i>		
Income taxes	432	364
Minority interest in consolidated subsidiary (earnings) losses	(17)	
Net income	\$ 884	\$ 1,004
<i>Per share data</i>		
Net income	\$.39	\$.43
Cash dividends	\$.23	\$.22
Weighted average shares outstanding	2,288,563	2,337,493

The accompanying notes are an integral part of these statements.

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F & M BANK CORP.
Consolidated Balance Sheets
(In Thousands of Dollars)

	March 31, 2009 (Unaudited)	December 31, 2008 (Audited)
Assets		
Cash and due from banks	\$ 4,813	\$ 5,687
Federal funds sold	1,458	8,979
Cash and cash equivalents	6,271	14,666
Interest bearing deposits in banks	1,413	1,162
Securities:		
Held to maturity fair value of \$110,000 in 2009 and 2008, respectively (note 2)	110	110
Available for sale (note 2)	20,890	22,237
Other investments	9,055	8,439
Loans held for sale	19,717	3,780
Loans held for investment (note 3)	408,766	399,233
Less allowance for loan losses (note 4)	(2,381)	(2,189)
Net loans held for investment	406,385	397,044
Bank premises and equipment	7,396	7,457
Interest receivable	2,065	2,056
Core deposit intangible	529	598
Goodwill	2,670	2,670
Bank owned life insurance	6,375	6,304
Other assets	5,306	5,535
Total assets	\$ 488,182	\$ 472,058
Liabilities		
Deposits:		
Noninterest bearing	\$ 49,449	\$ 49,786
Interest bearing:		
Demand	45,385	39,773
Money market accounts	21,752	22,779
Savings	31,841	29,367
Time deposits over \$100,000 (note 8)	76,825	63,855
All other time deposits (note 8)	139,071	136,665
Total deposits	364,323	342,225
Short-term debt	13,675	20,510
Accrued liabilities	7,578	7,687

Long-term debt	66,378	65,331
Total liabilities	451,954	435,753
Minority interest in consolidated subsidiary	64	47
Stockholders Equity		
Common stock, \$5 par value, 6,000,000 shares authorized, 2,287,375 and 2,289,497 shares issued and outstanding in 2009 and 2008, respectively	11,437	11,447
Retained earnings	27,999	27,687
Accumulated other comprehensive income (loss)	(3,272)	(2,876)
Total stockholders equity	36,164	36,258
Total liabilities and stockholders equity	\$ 488,182	\$ 472,058

The accompanying notes are an integral part of these statements.

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F & M BANK CORP.
Consolidated Statements of Cash Flows
(In Thousands of Dollars)
(Unaudited)

	Three Months Ended	
	March 31,	
	2009	2008
<i>Cash flows from operating activities</i>		
Net income	\$ 884	\$ 1,004
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	158	156
Amortization (accretion) of security premiums (discounts)	11	(12)
Net (increase) decrease in loans held for sale	(15,937)	(7,002)
Provision for loan losses	210	90
Intangible amortization	69	69
(Increase) decrease in interest receivable	(9)	295
Decrease in other assets	357	343
Increase in accrued expenses	(114)	(461)
Gain on security transactions	330	2
Amortization of limited partnership investments	93	121
Income from life insurance investment	(71)	(73)
Net adjustments	(14,903)	(6,472)
Net cash provided by operating activities	(14,019)	(5,468)
<i>Cash flows from investing activities</i>		
Purchase of investments available for sale	(736)	(7,666)
Proceeds from sales of investments available for sale	4	95
Proceeds from maturity of investments available for sale	529	11,403
Proceeds from maturity of investments held to maturity		
Net increase in loans held for investment	(9,552)	(11,033)
Purchase of property and equipment	(97)	(345)
Change in federal funds sold	7,521	(317)
Net (increase) decrease in interest bearing bank deposits	(251)	986
Net cash used in investing activities	(2,582)	(6,877)
<i>Cash flows from financing activities</i>		
Net change in demand and savings deposits	6,722	3,834
Net change in time deposits	15,375	(2,051)
Net change in short-term debt	(6,836)	(1,400)
Cash dividends paid	(528)	(520)
Repurchase of common stock	(54)	(364)
Proceeds from sale of common stock		
Change in federal funds purchased		(2,932)

Proceeds of long-term debt	7,250	16,000
Repayment of long-term debt	(6,202)	(893)
Net cash provided (used) by financing activities	15,727	11,674
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(874)	(671)
<i>Cash and cash equivalents, beginning of period</i>	5,687	8,706
<i>Cash and cash equivalents, end of period</i>	\$ 4,813	\$ 8,035
<i>Supplemental disclosure</i>		
Cash paid for:		
Interest expense	\$ 2,805	\$ 2,708
Income taxes		100

The accompanying notes are an integral part of these statements.

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F & M BANK CORP.
Consolidated Statements of Changes in Stockholders Equity
(In Thousands of Dollars)
(Unaudited)

	Three Months Ended	
	March 31,	
	2009	2008
<i>Balance, beginning of period</i>	\$ 36,258	\$ 39,165
Comprehensive income		
Net income	884	1,004
Net change in unrealized appreciation on securities available for sale, net of taxes	(396)	(388)
Total comprehensive income	488	616
Issuance of Common Stock		
Repurchase of common stock	(54)	(364)
Dividends declared	(528)	(515)
<i>Balance, end of period</i>	\$ 36,164	\$ 38,902

The accompanying notes are an integral part of these statements.

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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 March 31, 2009 and the results of operations for the three month periods ended March 31, 2009 and March 31, 2008. The notes included herein should be read in conjunction with the notes to financial statements included in the 2008 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 March 31, 2009 and December 31, 2008 are as follows:

	2009		2008	
	Cost	Market Value	Cost	Market Value
Securities held to maturity				
U. S. Treasury and agency obligations	\$ 110	\$ 110	\$ 110	\$ 110
Total	\$ 110	\$ 110	\$ 110	\$ 110

	2009		2008	
	Market Value	Cost	Market Value	Cost
Securities available for sale				
Government sponsored enterprises	\$ 10,175	\$ 10,002	\$ 10,194	\$ 10,013
Equity securities	2,222	5,453	3,064	5,430
Mortgage-backed securities	8,140	7,862	8,573	8,391
Corporate Bonds	228	281	281	281
Municipals	125	125	125	125
Total	\$ 20,890	\$ 23,723	\$ 22,237	\$ 24,240

Note 3. Loans Held for Investment:

Loans outstanding at March 31, 2009 and December 31, 2008 are summarized as follows:

	2009	2008
Real Estate		
Construction	\$ 76,068	\$ 71,259
Residential	173,720	169,122
Commercial and agricultural	134,933	134,008
Installment loans to individuals	22,126	22,792
Credit cards	1,816	1,940

Other	103	112
Total	\$ 408,766	\$ 399,233

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 4. Allowance for Loan Losses:

A summary of transactions in the allowance for loan losses follows:

	Three Months Ended March 31,	
	2009	2008
<i>Balance, beginning of period</i>	\$ 2,189	\$ 1,703
Provisions charged to operating expenses	210	90
Net (charge-offs) recoveries:		
Loan recoveries	12	21
Loan charge-offs	(30)	(283)
Total Net (Charge-Offs) Recoveries*	(18)	(262)
<i>Balance, End of Period</i>	\$ 2,381	\$ 1,531
* Components of Net (Charge-Offs) Recoveries		
Real Estate		
Commercial		258
Installment	18	4
Total	\$ 18	\$ 262

Note 5. Employee Benefit Plan

The Bank has a qualified noncontributory defined benefit pension plan that covers substantially all of its employees. The benefits are primarily based on years of service and earnings. The following is a summary of net periodic pension costs for the three-month periods ended March 31, 2009 and 2008.

	2009	2008
Service cost	\$ 89,700	\$ 80,595
Interest cost	68,333	64,054
Expected return on plan assets	(78,428)	(94,178)