

To: **Bluffview Securities, L.P. (the "Custodian"), Beneficiaries and Other Interested Persons with respect to the Tejas PSF, Inc. Defined Benefit Plan (the "Plan") and Peter G. Fagan (the "Applicant").**

### NOTICE TO INTERESTED PERSONS

You are hereby notified that a written submission has been filed on behalf of the Plan and the Applicant with the United States Department of Labor (the "Department") seeking authorization pursuant to Prohibited Transaction Class Exemption 96-62: Class Exemption to Permit Certain Authorized Transactions Between Plans and Parties In Interest ("Exemption"). *Class Exemption to Permit Certain Authorized Transactions Between Plans and Parties In Interest*, 61 Fed. Reg. 39,988 (July 31, 1996), as amended by *Adoption of Amendment to Prohibited Transaction Exemption 96-62 to Permit Certain Authorized Transactions Between Plans and Parties In Interest*, 67 Fed. Reg. 44622 (July 2, 2002) (referred to as "PTE 96-62"), for an exemption from the sanctions resulting from the application of section 4975 of the Internal Revenue Code of 1986, as amended (the "Code") to the proposed transaction (the "Proposed Transaction"), as described below.

The submission has met the requirements for tentative authorization under PTE 96-62.

If the Proposed Transaction is authorized by the Department pursuant to PTE 96-62, the sanctions resulting from the application of section 4975 of the Code by reason of section 4975 (c)(1)(A) through (E) of the Code shall not apply to the cash sale by the Plan to the Applicant of shares of common stock (the "Company Stock") of F&M Bancshares, Inc. (the "Company").

The Applicant is the trustee, sole participant and sole beneficiary of the Plan, which is a defined benefit plan intended to qualify under Code section 401(a). As of the most recently available statements, the assets of the Plan consisted of: (i) cash, including certificates of deposit, in the amount \$256,000, (ii) fixed income assets of \$648,250, (iii) a brokerage management account consisting of mutual funds and other equity investments valued at \$387,457, and (iv) 50,407 shares of common stock of the Company ("Company Stock") with a value of \$592,282.25 (based upon the March 31, 2006 appraised value of \$11.75 per share). The estimated total aggregate fair market value of the Plan was approximately \$1,883,989.25. The Company Stock held in the Plan is not subject to option, hypothecation or pledge, and is only subject to the required restrictions under federal securities laws. As of the date of the Application, the Applicant was a director of the Company and its banking subsidiary, Farmers & Merchants Bank of De Leon, Texas. As of August 31, 2006, the Applicant beneficially owned, in the aggregate, a total of 50,407 shares of Company Stock, all of which was held in the Plan, and which constitutes approximately 10% of the total estimated outstanding shares of Company Stock. No other member of the Applicant's family owns shares of Company Stock.

The Custodian of the Plan is Bluffview Securities, L.P., 100 Crescent Court, Suite 575, Dallas, Texas 75201, Attn: Stephen Goldstein (the "Custodian"). The Plan's trustee ("Trustee") is the Applicant, Peter G. Fagan, P.O. Box 488, De Leon, Texas 76444, (254) 893-4099.

The authorization is subject to the following conditions:

1. The terms and conditions of the Proposed Transaction are at least as favorable to the Plan as those obtainable in an arm's length transaction with an unrelated party.
2. The Proposed Transaction is a one-time transaction for cash.
3. The Plan will receive the fair market value of the Company Stock on the date of the Proposed Transaction, based upon an updated appraisal of Company Stock determined by The Bank Advisory Group, L.L.C. ("BAG").

4. Neither the Plan nor the Applicant will pay commissions, costs or other expenses in connection with the Proposed Transactions.
5. The Applicant is the only person who will be affected by the Proposed Transaction.
6. The Plan meets the requirements of section 401(a) of the Code.

The Company Stock held by the Plan is further described as follows. The Plan currently owns 50,407 shares of Company Stock, which constitutes approximately 10% of the issued and outstanding shares of Company Stock as of August 31, 2006. The Plan acquired 46,010 shares of Company Stock directly from the Company in June 1992 for \$2.17 per share. This price was determined as a result of arms'-length negotiations between the Applicant and the Company. In February 2003, the Plan acquired 554 shares of Company from another shareholder of the Company for \$9.46 per share, and 3,843 shares of Company Stock from another Company shareholder for \$9.53 per share, each price determined as a result of arms'-length negotiations between the Applicant and the selling shareholders. The Plan's basis in the Company Stock is therefore \$141,706.33. During the time the Plan has held Company Stock, \$106,795 in cash dividends were paid on the Company Stock, as set forth on *Exhibit A* to this Notice. The payment method used by the Plan to acquire the Company Stock was cash. During the holding of the Company Stock, the Plan incurred no expenses directly related to the holding of Company Stock, other than standard maintenance fees. As of March 31, 2006, the estimated aggregate fair market value of the Company Stock held by the Plan was \$592,282.25, based upon the approved fair market value of Company Stock as of March 31, 2006 (\$11.75 per Share). This price was based upon an independent appraisal of Company Stock by BAG. In an appraisal report dated March 31, 2006, BAG determined the fair market value of a minority, non-marketable interest and a minority, marketable interest in Company Stock to be \$11.75 per share. As a result of the acquisition, holding and proposed sale of the Company Stock, the Plan will experience a net gain in the amount of \$557,370.92. As noted above, the estimated total fair market value of the assets of the Plan (based upon the March 31, 2006 appraised value of \$11.75 for the Company Stock) totaled approximately \$1,883,989.25. Accordingly, the percentage of the Plan's assets represented by the Company Stock was approximately 31.44%.

The Proposed Transaction would provide additional liquidity the Plan and diversification of the Plan's holdings. In addition, in the event that the Applicant is an officer and/or director of the Company or any of its subsidiaries, the Applicant may have had an interest in acquiring the Company Stock on behalf of the Plan which affected his or her best judgment as a fiduciary of the Plan. In such circumstances, the acquisition of the Company Stock by the Plan may have violated sections 4975(c)(1)(D) and (E) of the Code. Accordingly, the Department is providing no relief, herein, for the acquisition and holding of the Company Stock by the Plan. The Applicant is aware that the Department is not providing relief or an exemption to the extent there were violations of sections 4975(c)(1)(D) and (E) of the Code with respect to the Plan's acquisition of the Company Stock.

The Proposed Transaction is expected to take place on or about December 31, 2006, provided that the Department grants "final authorization" for the Proposed Transaction. The purchase price paid by the Applicant for the Company Stock held in the Plan will be based on the "fair market value" per share of Company Stock, as determined by BAG. BAG performed a valuation of Company Stock as of March 31, 2006. BAG intends to "bring down" this valuation to approximately the date of the Proposed Transaction. The valuation, as well as the "bring down" valuation, was based upon numerous factors, including, but not limited to: (i) the Company's current financial condition and recent operating performance, (ii) estimates of the Company's business potential and the present state of business development, and (iii) the business of banking in general in the south-western United States. The Company's board of directors will use the "bring down" valuation to agree with the Applicant upon a per share price at which the Proposed Transaction will occur.

Upon the consummation of the Proposed Transaction, the Company Stock will be purchased from the Plan by the Applicant. The Applicant proposes to purchase the shares of Company Stock from the Plan to facilitate the Company's election to be treated as a Subchapter S Corporation under section 1362(a) of the Code for federal income tax purposes. This election has been determined to be in the best interest of the shareholders by the Company's board of directors. The Applicant notes that the election is conditioned upon the receipt by the Plan of final authorization from the Department pursuant to PTE 96-62.

The Proposed Transaction will not result in a loss to the Plan because the sale of Company Stock will be at the current fair market value of Company Stock, as determined by BAG. In addition, because the sale will result in the exchange of an illiquid, nonmarketable asset for cash, the sale will enhance the liquidity of, and ability to diversify the assets of, the Plan.

This final authorization application is being filed under the Department's expedited application program as outlined in PTE 96-62. This option is available because the Proposed Transaction is substantially similar to those described in one individual exemption granted by the Department within the past 120 months and one transaction which received final authorization under the expedited prohibited transaction class exemption rules (EXPRO) within the last 60 months. The Federal Register citations for the individual exemptions and the Final Authorization Numbers for the EXPRO cases are as follows:

- **Prohibited Transaction Exemption 98-59 for the Individual Retirement Accounts for William N. Albright, Victor Hamre and Richard Pearson, 63 FR 69326 (December 16, 1998).** This exemption permits the proposed cash sales in First Community Bancshares, Corp. by the above referenced individual retirement accounts to the owners of such accounts where such bank holding corporation has elected sub-chapter S status.
- **Final Authorization 2004-23 and 2004-25E involving the James W. Collins and Kathleen C. Collins Individual Retirement Accounts (the IRAs) (December 10, 2004).** This authorization permits the cash sale of company stock by the IRAs and the money purchase pension plan account of James W. Collins (the Account) to five separate trusts established for the benefit of the Collins's children, where INB Financial Corp. made a sub-chapter S election, and the respective IRAs and the Account became ineligible shareholders of such S corporation as a result of this election.

As a person who may be affected by this submission, you have the right to comment on the proposed transaction. Written comments should be addressed to:

Office of Exemption Determinations  
Employee Benefits Security Administration  
U.S. Department of Labor  
200 Constitution Avenue, NW  
Room N-5700  
Washington, D.C. 20210  
Attn: E-00538

Comments may also be submitted by fax to (202) 219-0204, or by email to [Uzlyan.Katie@dol.gov](mailto:Uzlyan.Katie@dol.gov). The comment period will close on December 24, 2006. Final Authorization of the Proposed Transaction will not occur until the Department reviews all comments received in response to this notice.

**Exhibit A  
Dividend History**

<b>Year</b>	<b>Total Dividends</b>	<b>Payment Date</b>
1993	None Paid	N/A
1994	\$ 7,669.23	January 13, 1995
1995	None Paid	N/A
1996	\$ 8,611.99	January 11, 1997
1997	\$ 10,762.50	January 22, 1998
1998	\$ 10,762.50	January 16, 1999
1999	\$ 8,610.00	December 28, 1999
2000	\$ 12,915.00	January 24, 2001
2001	\$ 4,305.00	January 22, 2002
2002	\$ 12,915.00	January 14, 2003
2003	\$ 9,073.26	January 16, 2004
2004	\$ 10,080.83	January 25, 2005
2005	\$ 11,089.54	January 5, 2006