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

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

o **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 þ No o

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 o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ
		(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 o No þ

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

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)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Interest Income		
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
Interest Expense		
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
Provision for Loan Losses	175	60
Net Interest Income after Provision for Loan Losses	3,500	3,335
Noninterest Income		
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

Noninterest Expense		
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
Income before Income Taxes	1,635	1,634
Income Taxes	491	497
Net Income	$ 1,144	$ 1,137
Per Share Data		
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)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Interest Income		
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
Interest Expense		
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
Provision for Loan Losses	265	120
Net Interest Income after Provision for Loan Losses	6,840	6,549
Noninterest Income		
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

Noninterest Expense		
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
Income before Income Taxes	3,003	3,078
Income Taxes	855	852
Net Income	$ 2,148	$ 2,226
Per Share Data		
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.

3

Table of Contents

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

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
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
LIABILITIES		
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.

4

Table of Contents

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash Flows from Operating Activities:		
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
Cash Flows from Investing Activities:		
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)
Cash Flows from Financing Activities:		
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

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
Net Decrease (Increase) in Cash and Cash Equivalents	1,215	524
Cash and Cash Equivalents, Beginning of Period	8,705	6,247
Cash and Cash Equivalents, End of Period	$ 9,920	$ 6,771
Supplemental Disclosure		
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)

	Six Months Ended June 30,	
	2008	**2007**
Balance, beginning of period	$ 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)
Total comprehensive income	1,138	1,888
Repurchase of common stock	(713)	(352)
Common stock sold	118	10
Dividends declared	(1,028)	(995)
Balance, end of period	$ 38,680	$ 38,656

The accompanying notes are an integral part of these statements.

6

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
Securities Held to Maturity				
U. S. Treasury and Agency obligations	$ 109	$ 109	$ 109	$ 109
Total	$ 109	$ 109	$ 109	$ 109

	2008		2007	
	Market Value	Cost	Market Value	Cost
Securities Available for Sale				
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:

	2008	2007
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	$ 317,179

NOTE 4 ALLOWANCE FOR LOAN LOSSES:

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2008	2007	2008	2007
Balance, beginning of period	$ 1,703	$ 1,791	$ 1,531	$ 1,856
Provisions charged to operating expenses	265	120	175	60
Net (charge-offs) recoveries:				
Loan recoveries	41	40	20	26
Loan charge-offs	(302)	(53)	(19)	(44)
Total Net Charge-Offs *	(261)	(13)	1	(18)
Balance, End of Period	$ 1,707	$ 1,898	$ 1,707	$ 1,898

* Components of Net Charge-Offs				
Real Estate	1		1	
Commercial	(260)	2	(2)	
Installment	(2)	(15)	2	(18)
Total	$ (261)	$ (13)	$ 1	$ (18)

8

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 six-month periods ended June 30, 2008 and 2007.

	2008	2007
Service cost	$ 161,190	$ 158,393
Interest cost	128,108	118,946
Expected return on plan assets	(188,356)	(137,101)
Amortization of net obligation at transition		5,078
Amortization of prior service cost	(2,650)	(2,650)
Amortization of net (gain) or loss	5,894	22,762
Net periodic benefit cost	$ 104,186	$ 165,428

NOTE 6 FAIR VALUE

FASB Statement No. 157, Fair Value Measurements (SFAS No. 157), defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following sections provide a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Company s securities are considered to be Level 2 securities.

Impaired Loans: SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, Accounting by Creditors for Impairment of a Loan, including impaired loans measured at an observable market price (if available), or at the fair value of the loan s collateral (if the loan is collateral dependent). Fair value of the loan s collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of SFAS No. 157.

Table of Contents

NOTE 6 FAIR VALUE (continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

March 31, 2008	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale	$ 24,248	$4,507	$19,741	
Total assets at fair value	$,24,248	$4,507	$19,741	
Total liabilities at fair value				

There were no assets or liabilities recorded at fair value on a non-recurring basis.

10

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

F & M Bank Corp. (Company) is a one-bank holding company organized under Virginia law which provides financial services through its wholly-owned subsidiaries Farmers & Merchants Bank (Bank) and TEB Life Insurance Company (TEB). Farmers & Merchants Financial Services (FMFS) is a wholly-owned subsidiary of the Bank.

The Bank is a full service commercial bank offering a wide range of banking and financial services through its nine branch offices. TEB reinsures credit life and accident and health insurance sold by the Bank in connection with its lending activities. FMFS provides title insurance, brokerage services and property/casualty insurance to customers of the Bank. The Company s primary trade area services customers in Rockingham County, Shenandoah County, Page County and the northern part of Augusta County.

Management s discussion and analysis is presented to assist the reader in understanding and evaluating the financial condition and results of operations of the Company. The analysis focuses on the consolidated financial statements, footnotes, and other financial data presented. The discussion highlights material changes from prior reporting periods and any identifiable trends which may affect the Company. Amounts have been rounded for presentation purposes. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements presented in Item 1, Part 1 or this Form 10Q.

Forward-Looking Statements

Certain statements in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualified words (and their derivatives) such as expect, believe, estimate, plan, project, or other statements concerning opinions or judgment of the Company and its management about future events.

Although the Company believes that its expectations with respect to certain forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, and consumer spending and savings habits.

We do not update any forward-looking statements that may be made from time to time by or on behalf of the Company.

Critical Accounting Policies

General

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that are used. The fair value of the investment portfolio is based on period end valuations but changes daily with the market. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of these transactions would be the same, the timing of events that would impact these transactions could change.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) Statement of Financial Accounting Standard (SFAS) No. 5, Accounting for Contingencies*,* which requires that losses be accrued when they are probable of occurring and estimable and (ii) SFAS No. 114, Accounting by Creditors for Impairment of a Loan*,* which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

Goodwill and Intangibles

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Additionally, it further clarifies the criteria for the initial recognition and measurement of intangible assets separate from goodwill. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of SFAS No. 142 discontinue the amortization of goodwill and intangible assets with indefinite lives. Instead, these assets will be subject to at least an annual impairment review and more frequently if certain impairment indicators are in evidence. SFAS No. 142 also requires that reporting units be identified for the purpose of assessing potential future impairments of goodwill.

Core deposit intangibles are amortized on a straight-line basis over ten years. The Company adopted SFAS 147 on January 1, 2002 and determined that the core deposit intangible will continue to be amortized over the estimated useful life.

Securities Impairment

The Company evaluates each of its investments in securities, debt and equity, under guidelines contained in SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities.* These guidelines require the Company to determine whether a decline in value below original cost is other than temporary. In making its determination, management considers current market conditions, historical trends in the individual securities, and historical trends in the total market. Expectations are developed regarding potential returns from dividend reinvestment and price appreciation over a reasonable holding period (five years).

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Overview

Net income for the second quarter of 2008 was $1,144,000 or $.49 per share, compared to $1,137,000 or $.48 per share in the second quarter of 2007, an increase of .62%. Core operating earnings, (exclusive of non-recurring items) totaled $1,214,000 in 2008 and $1,096,000 in 2007, an increase of 10.77%. During the second quarter, noninterest income, exclusive of securities transactions, increased 16.21% and noninterest expense increased 6.36% during the same period.

Results of Operations

The 2008 year to date tax equivalent net interest margin increased $463,000 or 6.85% compared to the same period in 2007. The yield on earning assets decreased .43%, while the cost of funds decreased .54% compared to the same period in 2007. In response to the economic slowdown, the Federal Reserve s Federal Open Market Committee (FOMC) began lowering short-term interest rates in September 2007. Through June 30, 2008, the FOMC had lowered the Federal Funds Rate on seven separate occasions by a total of 3.25%.

The Interest Sensitivity Analysis on page 20 indicates the Company is in a liability sensitive position in the one year time horizon (2.50%). This is an improvement compared to the same period in 2007 when the liability sensitive position was (12.42%). During this time period the bank has made a significant shift toward the use of more variable rate assets and liabilities, which has led to the improvement in the interest sensitivity position. This shift has better positioned the Bank to react to changes in short-term rates. The recent decrease in rates has had virtually no impact on the net interest margin compared to the same period in 2007, with the margin remaining at 3.93%.

A schedule of the net interest margin for 2008 and 2007 can be found in Table I on page 19.

Noninterest income, exclusive of securities transactions, increased $166,000 or 11.51% through June 30, 2008. Items contributing to the increase include a $59,000 increase in debit card, ATM surcharge and merchant credit card income, an $87,000 increase in overdraft charges and a $17,000 increase in revenue from FMFS (title, property and casualty insurance commissions and brokerage commissions)

Noninterest expense increased $283,000 (5.52%) in 2008. The increase is the result of a $156,000 increase in salaries and benefits expense (5.09%). The increase in salaries and benefits includes normal salary increases, growth in staff, and an 8.40% increase in the cost of group insurance. Exclusive of personnel expenses, other noninterest expenses increased at an annualized rate of 6.14% in 2008 compared to 2007. Areas that increased include a $23,000 increase in advertising expense, a $21,000 increase in telephone and data circuit expenses, a $19,000 increase in bank franchise taxes, an $18,000 increase in consulting expenses related to internal audit and SOX 404 compliance, a $16,000 increase in FDIC assessment fees and a $13,000 increase in postage and freight expenses.

Advertising expenses increased primarily due to the introduction of a new checking product and expenses related to the Bank s 100th Anniversary celebration activities. Telephone and data circuit expenses increased due to the installation of upgraded data communication circuits, which resulted in some cost overlap between two vendors. The bank franchise tax is a capital stock tax and increased due to growth in bank capital and a reduction in investment securities that qualify for a credit against the bank franchise tax. Postage and freight expenses increased due to mailings related to the introduction of a new checking product and fuel surcharges passed on by shipping carriers.

Operating costs continue to compare very favorably to the peer group. As stated in the most recently available Bank Holding Company Performance Report, the Company s and peer group noninterest expenses averaged 2.68% and 3.32% of average assets, respectively. The Company s operating costs have always compared favorably to the peer group due to an excellent asset to employee ratio and below average facilities costs.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Financial Condition

Federal Funds Sold and Interest Bearing Bank Deposits

The Company s subsidiary bank invests a portion of its excess liquidity in either federal funds sold or interest bearing bank deposits. Federal funds sold offer daily liquidity and pay market rates of interest that at quarter end was benchmarked at 2% by the Federal Reserve. Actual rates received vary slightly based upon money supply and demand among banks. Interest bearing bank deposits are held either in money market accounts or as short-term certificates of deposits.

Securities

The Company s securities portfolio serves several purposes. Portions of the portfolio are held to assist the Company with liquidity, asset liability management, as security for certain public funds and repurchase agreements and for long-term growth potential.

The securities portfolio consists of investment securities (commonly referred to as securities held to maturity) and securities available for sale. Securities are classified as investment securities when management has the intent and ability to hold the securities to maturity. Investment securities are carried at amortized cost. Securities available for sale include securities that may be sold in response to general market fluctuations, liquidity needs and other similar factors. Securities available for sale are recorded at market value. Unrealized holding gains and losses on available for sale securities are excluded from earnings and reported (net of deferred income taxes) as a separate component of shareholders equity.

As of June 30, 2008, the cost of securities available for sale exceeded their market value by $2,421,000. This includes decreases in value in the equity securities portfolio held by the Company and a decrease in the value of government obligations held by the Bank. Declines in the value of the bond portfolio are the result of recent changes in short term rates within the market for fixed income securities. Management has traditionally held debt securities (regardless of classification) until maturity and thus it does not expect the fluctuations in value of these securities to have a direct impact on earnings.

Investments in debt securities decreased $4.8 million in the first six months of 2008. Proceeds of maturing securities were used to support the growth of the loan portfolio. The debt securities portfolio is made up of primarily agency and mortgage-backed securities with an average portfolio life of approximately two and three quarter years. This short average life results in less portfolio volatility and positions the Bank to redeploy assets in response to rising rates. Scheduled maturities for the remainder of 2008 total $1 million and these bonds have an average yield of approximately 2.49%.

The Company s equity securities portfolio was $2,134,000 below cost at June 30, 2008. The portfolio has been impacted by recent market volatility resulting from the slowing economy, sub-prime mortgage crisis, high crude oil prices and the weak dollar. The decrease in the value of the equities portfolio is spread over a number of asset sectors including holdings in the financial sector. To minimize risk the Company holds a diversified portfolio of equity investments in a number of large, regional financial institutions and a variety of other predominantly blue-chip securities. Management continues to believe that these investments offer adequate current returns (dividends) and have the potential for future increases in value.

A review of these investments as of June 30, 2008, revealed four securities that appeared to be impaired based on the criterion that has been consistently employed for the last several years to assess impairment. These securities were written down by $207,000 ($137,000 net of tax). No other securities were deemed to be impaired as of quarter end and management continues to re-evaluate the portfolio for impairment on a quarterly basis.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Loan Portfolio

The Company operates in a predominately rural area that includes the counties of Rockingham, Page and Shenandoah in the western portion of Virginia. The local economy benefits from a variety of businesses including agri-business, manufacturing, service businesses and several universities and colleges. The Bank is an active residential mortgage and residential construction lender and generally makes commercial loans to small and mid size businesses and farms within its primary service area.

The allowance for loan losses (see subsequent section) provides for the risk that borrowers will be unable to repay their obligations and is reviewed quarterly for adequacy. The risk associated with real estate and installment notes to individuals is based upon employment, the local and national economies and consumer confidence. All of these affect the ability of borrowers to repay indebtedness. The risk associated with commercial lending is substantially based on the strength of the local and national economies.

While lending is geographically diversified within the service area, the Company does have loan concentrations in agricultural (primarily poultry farming), construction, hotels, churches, assisted living facilities and multi-family residential properties. Management and the Board of Directors review these concentrations quarterly.

The first six months of 2008 resulted in an increase of $37,248,000 in the Bank s core loan portfolio. The increase is concentrated primarily within the construction, residential and commercial loan portfolios. A portion of the increase is from loan participations purchased from a correspondent bank and from a de novo bank that has a much lower legal lending limit. Several of the loans purchased from the correspondent bank are loans to other bank holding companies or insiders of these bank holding companies and these loans are secured by the stock of these bank holding companies or stock of the underlying subsidiary banks. The other participations purchased are primarily real estate based commercial loans secured by income producing properties.

Nonperforming loans include nonaccrual loans, loans 90 days or more past due and restructured loans. Nonaccrual loans are loans on which interest accruals have been suspended or discontinued permanently. Restructured loans are loans which have had the original interest rate or repayment terms changed due to financial hardship. Nonperforming loans totaled $2,420,000 at June 30, 2008 compared to $4,343,000 at December 31, 2007. Approximately 95% of these past due loans are secured by real estate. Although the potential exists for some loan losses, management believes the bank is generally well secured and continues to actively work with its customers to effect payment. As of June 30, 2008, the Company does not hold any real estate which was acquired through foreclosure.

The following is a summary of information pertaining to risk elements and impaired loans:

	June 30, 2008	December 31, 2007
Nonaccrual loans	$ 628,000	$ 1,758,000
Loans past due 90 days or more and still accruing interest	1,792,000	2,585,000
	$ 2,420,000	$ 4,343,000
As a percentage of loans held for investment	.68%	1.37%

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Allowance for Loan Losses

Management evaluates the allowance for loan losses on a quarterly basis in light of national and local economic trends, changes in the nature and volume of the loan portfolio and the trend of past due and criticized loans. Specific factors evaluated include internally generated loan review reports, past due reports, historical loan loss experience and changes in the financial strength of individual borrowers that have been included on the Banks watch list or schedule of classified loans.

In evaluating the portfolio, loans are segregated into loans with identified potential losses and pools of loans by type (commercial, residential, consumer, credit cards). Loans with identified potential losses include examiner and bank classified loans. Classified relationships in excess of $100,000 are reviewed individually for impairment under FAS 114. A variety of factors are taken into account when reviewing these credits including borrower cash flow, payment history, fair value of collateral, company management, the industry in which the borrower is involved and economic factors. Loan relationships that are determined to have no impairment are placed back into the appropriate loan pool and reviewed under FAS 5.

Loan pools are further segmented into watch list, past due over 90 days and all other loans by type. Watch list loans include loans that are 60 days past due, and may include restructured loans, borrowers that are highly leveraged, loans that have been upgraded from classified or loans that contain policy exceptions (term, collateral coverage, etc.). Loss estimates on these loans reflect the increased risk associated with these assets due to any of the above factors. The past due pools contain loans that are currently 90 days or more past due. Loss rates assigned reflect the fact that these loans bear a significantly higher risk of charge-off. Loss rates vary by loan type to reflect the likelihood that collateral values will offset a portion of the anticipated losses.

The remainder of the portfolio falls into pools by type of homogenous loans that do not exhibit any of the above described weaknesses. Loss rates are assigned based on historical loss rates over the prior five years. A multiplier has been applied to these loss rates to reflect the time for loans to season within the portfolio and the inherent imprecision of these estimates.

All potential losses are evaluated within a range of low to high. An unallocated reserve has been established to reflect other unidentified losses within the portfolio. This helps to offset the increased risk of loss associated with fluctuations in past due trends, changes in the local and national economies, and other unusual events. The Board approves the loan loss provision for the following quarter based on this evaluation and an effort is made to keep the actual allowance at or above the midpoint of the range established by the evaluation process.

The allowance for loan losses of $1,707,000 at June 30, 2008 is equal to .48% of loans held for investment. This compares to an allowance of $1,702,000 (.54%) at December 31, 2007. Management has funded the allowance a total of $265,000 through June 30, 2008. Net charge-offs year to date total $261,000. This includes a $259,000 charge-off on one loan relationship in the medical field, and completes our anticipated losses associated with this borrower. Exclusive of this transaction, total charge-offs exceed recoveries by only $2,000 year to date.

The overall level of the allowance is well below its peer group average. Management feels this is appropriate based on its loan loss history and the composition of its loan portfolio; the current allowance for loan losses is equal to approximately seven years of average loan losses. Based on historical losses, delinquency rates, collateral values of delinquent loans and a thorough review of the loan portfolio, management is of the opinion that the allowance for loan losses fairly states the estimated losses in the current portfolio.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Deposits and Other Borrowings

The Company s main source of funding is comprised of deposits received from individuals, governmental entities and businesses located within the Company s service area. Deposit accounts include demand deposits, savings, money market and certificates of deposit. Total deposits are virtually unchanged since December 31, 2007, increasing only $399,000. Time deposits decreased $4,627,000 during this period while demand deposits and savings deposits increased $5,026,000. Due to competition for deposits within its market, the Bank has introduced a new high yield checking account called Platinum Rewards . This account offers an annual percentage yield of 5.02% on the first $50,000 of balances if the depositor meets certain requirements each statement cycle. The requirements include use of visa check card at least ten times; at least one automated clearing house (ACH) transaction, acceptance of electronic statements and use of internet banking. This account pays an APY of 2.05% on balances in excess of $50,000.

Short-term debt

Short-term debt consists of federal funds purchased, commercial repurchase agreements (repos.) and daily rate credit from the Federal Home Loan Bank (FHLB). Commercial customers deposit operating funds into their checking account and by mutual agreement with the bank their excess funds are swept daily into the repurchase accounts. These accounts are not considered deposits and are not insured by the FDIC. The Bank pledges securities held in its investment portfolio as collateral for these short-term loans. Federal funds purchased are overnight borrowings obtained from the Bank s primary correspondent bank to manage short-term liquidity needs. Daily rate credit from the FHLB has been used to finance loans held for sale and also to finance the increase in short-term residential and commercial construction loans.

Long-term debt

Borrowings from the Federal Home Loan Bank of Atlanta (FHLB) continue to be an important source of funding real estate loan growth. The Company s subsidiary bank borrows funds on a fixed rate basis. These borrowings are used to fund a variety of loan terms. This program allows the Bank to match the maturity of its loan portfolio with the maturity of its debt and thus reduce its exposure to interest rate changes. Scheduled repayments totaled $6,786,000 through June 30, 2008. Additional borrowings of $23 million were obtained to assist in funding loan growth.

In March 2008, the Company entered into an agreement with a correspondent bank (Silverton Bank) to provide a $5 million line of credit to be used for general corporate purposes, including capital contributions to the Bank and for the current stock repurchase program. The loan is unsecured and bears a rate of prime minus 1.25%. At June 30, 2008, $4.5 million was owed on this line of credit.

Capital

The Company seeks to maintain a strong capital base to expand facilities, promote public confidence, support current operations and grow at a manageable level. As of June 30, 2008, the Company s total risk based capital and total capital to total assets ratios were 11.49% and 8.77%, respectively. Both ratios are in excess of regulatory minimums and exceed the ratios of the Company s peers. Earnings have been sufficient to allow an increase in the first quarter dividend in 2008 of 4.76%.

Liquidity

Liquidity is the ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing deposits with banks, federal funds sold, investments and loans maturing within one year. The Company s ability to obtain deposits and purchase funds at favorable rates determines its liquidity exposure. As a result of the Company s management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors requirements and meet its customers credit needs.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Additional sources of liquidity available to the Company include, but are not limited to, loan repayments, the ability to obtain deposits through the adjustment of interest rates and the purchasing of federal funds. To further meet its liquidity needs, the Company also maintains lines of credit with correspondent financial institutions. The Company s subsidiary bank also has a line of credit with the Federal Home Loan Bank of Atlanta that allows for secured borrowings.

Interest Rate Sensitivity

In conjunction with maintaining a satisfactory level of liquidity, management must also control the degree of interest rate risk assumed on the balance sheet. Managing this risk involves regular monitoring of interest sensitive assets relative to interest sensitive liabilities over specific time intervals. The Company monitors its interest rate sensitivity periodically and makes adjustments as needed. There are no off balance sheet items that will impair future liquidity.

As of June 30, 2008, the Company had a cumulative Gap Rate Sensitivity Ratio of (2.50%) for the one year repricing period. This generally indicates that earnings would decrease in an increasing interest rate environment as liabilities reprice more quickly than assets. However, in actual practice, this may not be the case as loans tied to the prime rate of interest will reprice immediately with an increase in short term market rates, while deposit rates will remain stable until competitive market conditions dictate the necessity for an increase in rates. Management constantly monitors the Company s interest rate risk and has decided the current position is acceptable for a well-capitalized community bank.

A summary of asset and liability repricing opportunities is shown in Table II, on page 19.

Stock Repurchase

As previously reported, on September 20, 2007, the Company s Board of Directors approved an increase in the number of shares of common stock that the Company can repurchase under the share repurchase program from 100,000 to 150,000 shares. Shares repurchased through June 30, 2008 totaled 126,233 shares; of this amount, 22,667 shares were repurchased in 2008, at an average cost of $31.45 per share.

Effect of Newly Issued Accounting Standards

The Company does not believe that any newly issued but as yet unapplied accounting standards will have a material impact on the Company s financial position or operations.

Existence of Securities and Exchange Commission Web Site

The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including F & M Bank Corp. and the address is (http: //www.sec.gov).

Table of Contents

TABLE 1

F & M BANK CORP.
NET INTEREST MARGIN ANALYSIS
(ON A FULLY TAXABLE EQUIVALENT BASIS)
(Dollar Amounts in Thousands)

	Six Months Ended June 30, 2008			Six Months Ended June 30, 2007			Three Months Ended June 30, 2008			Three Months Ended June 30, 2007		
	Average Balance	**Income/ Expense**	**Rates**	**Average Balance**	**Income/ Expense**	**Rates**	**Average Balance**	**Income/ Expense**	**Rates**	**Average Balance**	**Income/ Expense**	**Rates**
Rate related income												
Loans held for investment[1,2,3]	$ 330,486	$ 11,253	6.81%	$ 309,623	$ 11,227	7.25%	$ 338,466	$ 5,668	6.70%	$ 310,141	$ 5,663	7.30%
Loans held for sale	5,838	120	4.11%				9,951	99	3.98%			
Federal funds sold	2,513	29	2.31%	3,456	88	5.09%	2,607	13	1.99%	5,704	74	5.19%
Bank deposits	3,017	75	4.97%	1,134	42	7.41%	1,746	22	5.04%	974	19	7.80%
Investments												
Taxable	20,130	557	5.53%	23,352	649	5.56%	19,085	270	5.66%	23,301	340	5.84%
Partially taxable [2]	5,611	244	8.70%	6,082	220	7.23%	5,252	112	8.53%	6,790	129	7.60%
Tax exempt [2]	214	5	4.67%	325	7	4.31%	177	2	4.52%	276	3	4.35%
Total earning assets	367,809	12,283	6.68%	343,972	12,233	7.11%	377,284	6,186	6.56%	347,186	6,228	7.18%
Interest Expense												
Demand deposits	57,762	380	1.32%	51,417	560	2.18%	59,127	162	1.10%	52,535	298	2.27%
Savings	29,114	145	1.00%	30,821	170	1.10%	29,538	72	.98%	30,708	85	1.11%
Time deposits	163,108	3490	4.28%	167,456	3,841	4.59%	161,172	1,659	4.12%	169,788	1,979	4.66%
Short-term debt	16,458	186	2.26%	10,455	251	4.80%	22,186	109	1.97%	8,187	95	4.64%
Long-term debt	43,789	856	3.91%	27,969	648	4.63%	47,172	452	3.84%	27,406	324	4.73%
Total interest bearing liabilities	310,231	5,057	3.26%	288,118	5,470	3.80%	319,154	2,454	3.08%	288,624	2,781	3.85%
Net interest income [2]		$ 7,226			$ 6,763			$ 3,732			$ 3,447	

Net yield on interest earning assets [2]	3.93%	3.93%	3.96%	3.97%

[1] Interest income on loans includes loan fees.

[2] An incremental tax rate of 34% was used to calculate the tax equivalent income on nontaxable and partially taxable loans and investments.

[3] Average balances include non-accrual loans.

19

Table of Contents

TABLE II

F & M BANK CORP.
INTEREST SENSITIVITY ANALYSIS
June 30, 2008
(In Thousands of Dollars)

The following table presents the Company s interest sensitivity.

	0 - 3 Months	**4 - 12 Months**	**1 - 5 Years**	**Over 5 Years**	**Not Classified**	**Total**
Uses of Funds						
Loans						
Commercial	$ 72,843	$ 24,417	$ 74,960	$ 5,407	$	$ 177,627
Installment	9,065	1,047	9,968	2,422		22,502
Real estate for investments	34,034	21,754	81,068	15,643		152,499
Real estate for sale	20,867					20,867
Credit cards	1,799					1,799
Interest bearing bank deposits	1,237	792	198			2,227
Investment securities	1,088	2,887	5,058	10,458	4,866	24,357
Total	140,933	50,897	171,252	33,930	4,866	401,878
Sources of Funds						
Interest bearing demand deposits		19,661	31,762	6,050		57,473
Savings deposits		6,031	18,092	6,031		30,154
Certificates of deposit $100,000 and over	11,408	18,144	12,526			42,078
Other certificates of deposit	24,818	60,633	32,846			118,297
Short-term borrowings	47,606					47,606
Long-term borrowings	5,643	7,929	32,857	4,000		50,429
Total	89,475	112,398	128,083	16,081		346,037
Discrete Gap	51,458	(61,501)	43,169	17,849	4,866	55,841
Cumulative Gap	51,458	(10,043)	33,126	50,975	55,841	
Ratio of Cumulative Gap to Total Earning Assets	12.80%	(2.50)%	8.24%	12.68%	13.90%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of June 30, 2008. In preparing the above table, no assumptions were made with respect to loan prepayments. Loan principal payments are included in the earliest period in which the loan matures or can reprice. Principal payments on installment loans scheduled prior to maturity are included in the period of maturity or repricing. Proceeds from the redemption of investments and deposits are included in the period of maturity. Estimated maturities of deposits, which have no stated maturity dates, were derived from guidance contained in FDICIA 305.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

Item 4. T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As a result of the enactment of the Sarbanes-Oxley Act of 2002, issuers such as F & M Bank Corp. that file periodic reports under the Securities Exchange Act of 1934 (the Act) are required to include in those reports certain information concerning the issuer s controls and procedures for complying with the disclosure requirements of the federal securities laws. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports it files or submits under the Act, is communicated to the issuer s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have established our disclosure controls and procedures to ensure that material information related to the Company is made known to our principal executive officers and principal financial officer on a regular basis, in particular during the periods in which our quarterly and annual reports are being prepared. These disclosure controls and procedures consist principally of communications between and among the Chief Executive Officer and the Chief Financial Officer, and the other executive officers of the Company and its subsidiaries to identify any new transactions, events, trends, contingencies or other matters that may be material to the Company s operations. As required, we will evaluate the effectiveness of these disclosure controls and procedures on a quarterly basis, and most recently did so as of the end of the period covered by this report.

The Company s Chief Executive Officer and Chief Financial Officer, based on their evaluation as of the end of the period covered by this quarterly report of the Company s disclosure controls and procedures (as defined in Rule 13(a)-14(e) of the Securities Exchange Act of 1934), have concluded that the Company s disclosure controls and procedures are adequate and effective for purposes of Rule 13(a)-14(e) and timely, alerting them to financial information relating to the Company required to be included in the Company s filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Changes in Internal Controls

Management is also responsible for establishing and maintaining adequate internal control over the Company s financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended).

There were no changes in the Company s internal control over financial reporting during the Company s quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

Part II Other Information

Item 1. Legal Proceedings Not Applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Not Applicable

Item 3. Defaults Upon Senior Securities Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

On May 10, 2008, the shareholders held their annual meeting. The following items were approved by the shareholders by the required majority:

1) Election of the Board of Directors as proposed in the proxy material without any additions or exceptions.

	Votes For by Proxy by	**Votes Withheld Proxy**
John N. Crist	1,702,933	8,272
Julian D. Fisher	1,679,701	31,504
Daniel J. Harshman	1,706,202	5,003
Dean W. Withers	1,679,701	31,504

2) Appointment of Elliott Davis, LLC as independent auditors as proposed in the Proxy materials; 1,700,148 votes for , 61 votes against and 10,996 abstained.

Item 5. Other Information Not Applicable

Item 6. Exhibits

(a) **Exhibits**

3i Restated Articles of Incorporation of F & M Bank Corp. as incorporated by reference to F & M Bank Corp. s 10-Q filed August 13, 2007.

3ii Amended and Restated Bylaws of F & M Bank Corp. are incorporated by reference to Exhibits to F & M Bank Corp. s Form 10K filed March 1, 2002.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).

32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sabanes-Oxley Act of 2002 (filed herewith).

Table of Contents

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

F & M BANK CORP.

/s/ DEAN W. WITHERS
Dean W. Withers
President and Chief Executive Officer

/s/ NEIL W. HAYSLETT
Neil W. Hayslett
Executive Vice President and Chief Financial Officer

August 13, 2008