

F&M BANK CORP  
Form 10-Q  
August 16, 2010

**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, 2010.**

**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 website, 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"/>	Smaller reporting Company <input checked="" type="checkbox"/>
		(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 August 5, 2010
Common Stock, par value \$5	2,297,946 shares

**F & M BANK CORP.**  
**Index**

	<b>Page</b>
<b><u>Part I Financial Information</u></b>	<b>2</b>
<b><u>Item 1. Financial Statements</u></b>	
<u>Consolidated Statements of Income Three Months Ended June 30, 2010 and 2009</u>	2
<u>Consolidated Statements of Income Six Months Ended June 30, 2010 and 2009</u>	3
<u>Consolidated Balance Sheets June 30, 2010 and December 31, 2009</u>	4
<u>Consolidated Statements of Cash Flows Six Months Ended June 30, 2010 and 2009</u>	5
<u>Consolidated Statements of Changes in Stockholders Equity Six Months June 30, 2010 and 2009</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>15</b>
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>25</b>
<b><u>Item 4. Controls and Procedures</u></b>	<b>25</b>
<b><u>Part II Other Information</u></b>	<b>26</b>
<b><u>Item 1. Legal Proceedings</u></b>	<b>26</b>
<b><u>Item 1a. Risk Factors</u></b>	<b>26</b>
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b>26</b>
<b><u>Item 3. Defaults upon Senior Securities</u></b>	<b>26</b>
<b><u>Item 4. Removed and reserved</u></b>	<b>26</b>
<b><u>Item 5. Other Information</u></b>	<b>26</b>
<b><u>Item 6. Exhibits</u></b>	<b>26</b>
<b><u>Signatures</u></b>	<b>27</b>
<b><u>Certifications</u></b>	<b>28</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>2010</b>	<b>2009</b>
<b><i>Interest income</i></b>		
Interest and fees on loans held for investment	\$ 6,421	\$ 6,417
Interest and fees on loans held for sale	307	324
Interest on federal funds sold	4	1
Interest on interest bearing deposits	7	12
Dividends on equity securities	57	58
Interest on debt securities	106	207
 Total interest income	 6,902	 7,019
<b><i>Interest expense</i></b>		
Interest on demand deposits	505	281
Interest on savings accounts	50	45
Interest on time deposits over \$100,000	372	544
Interest on time deposits	767	1,099
 Total interest on deposits	 1,694	 1,969
Interest on short-term debt	6	28
Interest on long-term debt	552	551
 Total Interest Expense	 2,252	 2,548
 Net interest income	 4,650	 4,471
 <b><i>Provision for loan losses</i></b>	 900	 310
 Net interest income after provision for loan losses	 3,750	 4,161
<b><i>Noninterest income</i></b>		
Service charges	309	315
Insurance and other commissions	115	113
Other	397	432
Income on bank owned life insurance	94	90
Other than temporary impairment losses		(496)
Gain (loss) on the sale of securities		(5)
 Total noninterest income	 915	 449
<b><i>Noninterest expense</i></b>		

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

Salaries	1,261	1,251
Employee benefits	341	453
Occupancy expense	144	144
Equipment expense	152	136
Intangible amortization	69	69
FDIC insurance assessment	297	221
Other	979	814
Total noninterest expense	3,243	3,088
<b><i>Income before income taxes</i></b>	1,422	1,522
Income taxes	422	402
<b><i>Consolidated net income</i></b>	1,000	1,120
Net income Noncontrolling interest	(20)	(29)
<b><i>Net Income F &amp; M Bank Corp</i></b>	\$ 980	\$ 1,091
<b><i>Per share data</i></b>		
Net income	\$ .43	\$ .48
Cash dividends	\$ .15	\$ .23
Weighted average shares outstanding	2,297,096	2,289,675

See notes to unaudited consolidated financial statements.

**Table of Contents**

**F & M BANK CORP.**  
**Consolidated Statements of Income**  
(In Thousands of Dollars Except per Share Amounts)  
(Unaudited)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b><i>Interest income</i></b>		
Interest and fees on loans held for investment	\$ 12,892	\$ 12,603
Interest and fees on loans held for sale	464	551
Interest on federal funds sold	17	2
Interest on interest bearing deposits	12	26
Dividends on equity securities	105	104
Interest on debt securities	219	434
Total interest income	13,709	13,720
<b><i>Interest expense</i></b>		
Interest on demand deposits	963	515
Interest on savings accounts	96	108
Interest on time deposits over \$100,000	788	1,103
Interest on time deposits	1,615	2,312
Total interest on deposits	3,462	4,038
Interest on short-term debt	13	56
Interest on long-term debt	1,181	1,155
Total Interest Expense	4,656	5,249
Net interest income	9,053	8,471
<b><i>Provision for loan losses</i></b>		
Net interest income after provision for loan losses	7,253	7,951
<b><i>Noninterest income</i></b>		
Service charges	614	601
Insurance and other commissions	196	215
Other	667	621
Income on bank owned life insurance	167	180
Other than temporary impairment losses		(826)
Gain (loss) on the sale of securities	30	(5)
Total noninterest income	1,674	786
<b><i>Noninterest expense</i></b>		
Salaries	2,578	2,487
Employee benefits	761	881
Occupancy expense	292	283

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

Equipment expense		298	268
Intangible amortization		138	138
FDIC insurance assessment		579	281
Other		1,743	1,544
Total noninterest expense		6,389	5,882
<b><i>Income before income taxes</i></b>		2,538	2,855
Income taxes		779	834
<b><i>Consolidated net income</i></b>		1,759	2,021
Net income	Noncontrolling interest	(23)	(46)
<b><i>Net Income F &amp; M Bank Corp</i></b>		\$ 1,736	\$ 1,975
<b><i>Per share data</i></b>			
Net income		\$ .76	\$ .86
Cash dividends		\$ .30	\$ .46
Weighted average shares outstanding		2,296,374	2,289,122

See notes to unaudited consolidated financial statements.



**Table of Contents**

**F & M BANK CORP.**  
**Consolidated Balance Sheets**  
(In Thousands of Dollars Except per Share Amounts)

	<b>June 30, 2010 (Unaudited)</b>	<b>December 31, 2009 (Audited)</b>
<b>Assets</b>		
Cash and due from banks	\$ 6,330	\$ 5,314
Federal funds sold	8,960	18,326
Cash and cash equivalents	15,290	23,640
Interest bearing deposits in banks	2,986	65
Securities:		
Held to maturity fair value of \$109,000 in 2010 and \$110,000 in 2009. (note 2)	109	110
Available for sale (note 2)	15,857	16,430
Other investments	9,476	9,681
Loans held for sale	32,448	31,168
Loans held for investment (note 3)	445,416	434,403
Less allowance for loan losses (note 4)	(4,890)	(3,836)
Net loans held for investment	440,526	430,567
Other real estate owned	1,076	526
Bank premises and equipment, net	6,918	7,080
Interest receivable	2,044	2,038
Core deposit intangible	184	322
Goodwill	2,670	2,670
Bank owned life insurance	6,737	6,593
Other assets	8,054	8,333
Total assets	\$ 544,375	\$ 539,223
<b>Liabilities</b>		
Deposits:		
Noninterest bearing	\$ 56,380	\$ 53,475
Interest bearing:		
Demand	86,511	77,483
Money market accounts	22,236	23,231
Savings	35,097	34,229
Time deposits over \$100,000	93,597	99,330
All other time deposits	133,793	132,895
Total deposits	427,614	420,643
Short-term debt	5,397	9,085

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

Accrued liabilities	7,716	7,397
Subordinated debt	5,229	2,715
Long-term debt	58,083	60,381
<b>Total liabilities</b>	<b>504,039</b>	<b>500,221</b>
<b>Stockholders Equity</b>		
Common stock, \$5 par value, 6,000,000 shares authorized, 2,297,883 and 2,295,053 shares issued and outstanding in 2010 and 2009, respectively	11,489	11,475
Retained earnings	29,082	27,989
Noncontrolling interest	119	123
Accumulated other comprehensive income (loss)	(354)	(585)
<b>Total stockholders equity</b>	<b>40,336</b>	<b>39,002</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 544,375</b>	<b>\$ 539,223</b>

See notes to unaudited consolidated financial 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>2010</b>	<b>2009</b>
<b><i>Cash flows from operating activities</i></b>		
Net income	\$ 1,736	\$ 1,975
Net change Noncontrolling interest	(3)	(46)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	323	315
Amortization (accretion) of security premiums (discounts)	18	16
Net (increase) decrease in loans held for sale	(1,280)	(16,584)
Provision for loan losses	1,800	520
Intangible amortization	138	138
(Increase) decrease in interest receivable	(7)	35
(Increase) decrease in other assets	(325)	527
Increase (decrease) in accrued expenses	864	(87)
(Gain)/loss on security transactions	(30)	831
Amortization of limited partnership investments	204	182
Income from life insurance investment	(144)	(143)
Net adjustments	1,561	(14,250)
Net cash provided (used) by operating activities	3,294	(12,321)
<b><i>Cash flows from investing activities</i></b>		
Purchase of investments available for sale	(13,085)	(924)
Proceeds from sales of investments available for sale	853	16
Proceeds from maturity of investments available for sale	13,110	5,481
Net increase in loans held for investment	(12,574)	(17,237)
Proceeds from the sale of other real estate owned	265	
Purchase of property and equipment	(162)	(200)
Change in federal funds sold		4,873
Net (increase) decrease in interest bearing bank deposits	(2,920)	305
Net cash used in investing activities	(14,513)	(7,686)
<b><i>Cash flows from financing activities</i></b>		
Net change in demand and savings deposits	11,806	20,528
Net change in time deposits	(4,835)	13,681
Net change in short-term debt	(3,688)	(13,367)
Cash dividends paid	(690)	(1,057)
Repurchase of common stock		(54)
Proceeds from issuance of common stock	60	152

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

Proceeds of long-term debt	7,250	7,400
Repayment of long-term debt	(7,034)	(7,556)
Net cash provided (used) by financing activities	2,869	19,727
<b><i>Net Increase (Decrease) in Cash and Cash Equivalents</i></b>	<b>(8,350)</b>	<b>(280)</b>
<b><i>Cash and cash equivalents, beginning of period</i></b>	<b>23,640</b>	<b>5,687</b>
<b><i>Cash and cash equivalents, end of period</i></b>	<b>\$ 15,290</b>	<b>\$ 5,407</b>
<b><i>Supplemental disclosure</i></b>		
Cash paid for:		
Interest expense	\$ 4,643	\$ 5,420
Income taxes	250	520
Transfers from loans to Other Real Estate Owned	815	526

See notes to unaudited consolidated financial statements.

5

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>2010</b>	<b>2009</b>
<i>Balance, beginning of period</i>	\$ 39,002	\$ 36,258
Comprehensive income		
Net income F & M Bank Corp	1,736	2,021
Change Noncontrolling interest (net of dividends)	(3)	(46)
Net change in unrealized appreciation on securities available for sale, net of taxes	231	558
Total comprehensive income	1,964	2,533
Issuance of common stock	60	152
Repurchase of common stock		(54)
Dividends declared	(690)	(1,053)
<i>Balance, end of period</i>	\$ 40,336	\$ 37,836

See notes to unaudited consolidated financial 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, 2010 and the results of operations for the six month periods ended June 30, 2010 and June 30, 2009. The notes included herein should be read in conjunction with the notes to financial statements included in the 2009 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.

**Comprehensive Income**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and gains or losses on certain derivative contracts, are reported as a separate component of the equity section of the balance sheet. Such items, along with operating net income, are components of comprehensive income.

The components of comprehensive income and related tax effects are as follows:

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Changes in:		
Net Income:		
Net Income F & M Bank Corp	\$ 1,756	\$ 2,021
Net Income Noncontrolling Interest	(23)	(46)
	1,733	1,975
Unrealized holding gains (losses) on available-for-sale securities:		
Other than temporary impairment losses	380	1,667
Reclassification adjustment for (gains) losses realized in income	(30)	5
Net unrealized gains (losses)	350	846
Tax effect	119	288
Unrealized holding gain (losses), net of tax	231	558
Net change in comprehensive income	\$ 1,964	\$ 2,533

**Subsequent Events**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

**Table of Contents**

**F & M BANK CORP.**  
**Notes to Consolidated Financial Statements**

**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, 2010 and December 31, 2009 are as follows:

	<b>2010</b>		<b>2009</b>	
	<b>Cost</b>	<b>Market Value</b>	<b>Cost</b>	<b>Market Value</b>
<b>Securities held to maturity</b>				
U. S. Treasury and agency obligations	\$ 109	\$ 109	\$ 110	\$ 110
Total	\$ 109	\$ 109	\$ 110	\$ 110

	<b>2010</b>		<b>2009</b>	
	<b>Market Value</b>	<b>Cost</b>	<b>Market Value</b>	<b>Cost</b>
<b>Securities available for sale</b>				
Government sponsored enterprises	\$ 7,007	\$ 7,007	\$ 6,012	\$ 5,976
Equity securities	3,196	3,006	3,743	3,768
Mortgage-backed securities	5,064	4,760	6,170	5,896
Corporate Bonds	590	281	505	281
Municipals				
Total	\$ 15,857	\$ 15,054	\$ 16,430	\$ 15,921

The amortized cost and fair value of securities at June 30, 2010, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<b>Securities Held to Maturity</b>		<b>Securities Available for Sale</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Due in one year or less	\$ 109	\$ 109	\$ 1,113	\$ 1,113
Due after one year through five years			6,170	6,167
Due after five years			4,765	5,381
	109	109	12,048	12,661
Marketable equities			3,006	3,196
Total	\$ 109	\$ 109	\$ 15,054	\$ 15,857

There were no sales of debt securities during the second quarter of 2010 or in all of 2009. Following is a table reflecting gains and losses on sales of equity securities:

	<b>Six Months Ended</b>		<b>Three Months Ended</b>	
	<b>June 30, 2010</b>	<b>December 31, 2009</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Gains	\$ 114	\$	\$	\$
Losses	(84)	(5)		(5)
Net Gains (Losses)	\$ 30	\$ (5)	\$	\$ (5)
	8			

---



**Table of Contents**

**F & M BANK CORP.**

**Notes to Consolidated Financial Statements**

**Note 2. Investment Securities, continued**

**Securities Impairment**

The Company follows the guidance in ASC 320-10 and Staff Accounting Bulletin (SAB) Topic 5M, *Other Than Temporary Impairment* in evaluating if these impairments are temporary or other than temporary in nature. This determination is made on an investment by investment basis and includes all available evidence at the time of the determination including the following:

The length of time of impairment;

The extent of the impairment relative to the cost of the investment;

Recent volatility in the market value of the investment;

The financial condition and near-term prospects of the issuer, including any specific events which may impair the earnings potential of the issuer; or

The intent and ability of the Company to hold its investment for a period of time sufficient to allow for any anticipated recovery in market value.

The following description provides our policies/procedures for the evaluation for Other Than Temporary Impairment (OTTI):

We begin our evaluation using a default position that OTTI has occurred and then use all available evidence to determine whether prospects for the individual security are sufficient to support temporary impairment at the date of the SEC filing. This evaluation will be conducted at each filing date.

For purposes of determining OTTI, the security value recovery period will be projected for a maximum of a two year holding period. This will be the maximum; a shorter period may be used when there are particular conditions related to the individual security which make recovery unlikely.

The primary focus in determining whether a security is OTTI, and projecting potential recovery, is the prospects for the individual security, rather than broad market indices. All available evidentiary material is considered, including the Company's public filings with the SEC, press releases, analyst reports, etc.

Secondary consideration is given to historic returns, but only to the extent that this evidence is instructive in determining whether the individual security has shown a history of outperforming (or underperforming) the market (or industry) in prior economic cycles. This factor is only considered when the declines in value were not limited to the individual security, but were prevalent over the broader market. This measure is considered to aid in determining whether OTTI should be recognized earlier, rather than later (ie. a security which underperforms relative to the industry or market will result in early recognition of OTTI). In no event will OTTI recognition be delayed beyond the two year projection period.

OTTI may be recognized as early as quarter 1, regardless of holding period projections, when there are specific factors relative to the security which make recovery unlikely. These factors could include evidence contained in the aforementioned SEC filings, press releases, analyst reports, but may also be based on the severity of the impairment.

Situations where a security has declined in value more rapidly than the industry (or market), absent strong evidence supporting prospects for recovery, will result in OTTI being recognized in quarter 1 or quarter 2 rather than continuing to evaluate the security over several quarters, based on holding period projections.

Declines determined to be other than temporary are charged to operations and included in gain (loss) on security sales.

There were no securities which were deemed to have other than temporary impairment through June of 2010. Such charges were \$826,000 through June of 2009.

**Table of Contents****F & M BANK CORP.****Notes to Consolidated Financial Statements****Note 2. Investment Securities, continued**

The fair value and gross unrealized losses for securities, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at June 30, 2010 and December 31, 2009 were as follows (dollars in thousands):

	<b>Less than 12 Months</b>		<b>More than 12 Months</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>June 30, 2010</b>						
Government sponsored Enterprises	\$ 2,002	\$ (4)	\$	\$	\$ 2,002	\$ (4)
Mortgage backed Obligations			276	(2)	276	(2)
Marketable equities	275	(60)	184	(75)	459	(135)
<b>Total</b>	<b>\$ 2,277</b>	<b>\$ (64)</b>	<b>\$ 460</b>	<b>\$ (77)</b>	<b>\$ 2,737</b>	<b>\$ (141)</b>
<b>December 31, 2009</b>						
Government sponsored Enterprises	\$	\$	\$	\$	\$	\$
Mortgage backed Obligations			300	(2)	300	(2)
Marketable equities			1,891	(289)	1,891	(289)
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$ 2,191</b>	<b>\$ (291)</b>	<b>\$ 2,191</b>	<b>\$ (291)</b>

**Table of Contents****F & M BANK CORP.****Notes to Consolidated Financial Statements****Note 3. Loans Held for Investment**

Loans outstanding at June 30, 2010 and December 31, 2009 are summarized as follows:

	<b>2010</b>	<b>2009</b>
Real Estate		
Construction	\$ 86,246	\$ 86,320
Residential	185,093	191,382
Commercial and agricultural	152,281	134,993
Consumer loans to individuals	19,249	19,247
Credit cards	2,475	2,355
Other	72	106
Total	\$ 445,416	\$ 434,403

**Note 4. Allowance for Loan Losses**

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

	<b>Six Months Ended</b>		<b>Three Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<i>Balance, beginning of period</i>	\$ 3,836	\$ 2,189	\$ 4,510	\$ 2,381
Provisions charged to operating expenses	1,800	520	900	310
Net (charge-offs) recoveries:				
Loan recoveries	40	29	13	18
Loan charge-offs	(786)	(182)	(533)	(153)
Total Net (Charge-Offs) Recoveries*	(746)	(153)	(520)	(135)
<i>Balance, End of Period</i>	\$ 4,890	\$ 2,556	\$ 4,890	\$ 2,556

\*Components of Net (Charge-Offs) Recoveries

Real Estate	(654)	(87)	(470)	(87)
Commercial	(31)	(44)	(31)	(44)
Consumer and other	(61)	(22)	(19)	(4)
Total	\$ (746)	\$ (153)	\$ (520)	\$ (135)

**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 Bank contributed \$1 million to the plan in the first quarter of 2010 and does not anticipate additional contributions for the 2010 plan year. The following is a summary of net periodic pension costs for the six-month and three-month periods ended June 30, 2010 and 2009.

	<b>Six Months Ended</b>		<b>Three Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>

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

Service cost	\$ 193,958	\$ 179,400	\$ 96,979	\$ 89,700
Interest cost	158,500	136,666	79,250	68,333
Expected return on plan assets	(240,854)	(156,856)	(120,427)	(78,428)
Amortization of net obligation at transition				
Amortization of prior service cost	(2,650)	(2,650)	(1,325)	(1,325)
Amortization of net (gain) or loss	32,756	62,102	16,378	31,051
Net periodic benefit cost	\$ 141,710	\$ 218,662	\$ 70,855	\$ 109,331

**Table of Contents**

**F & M BANK CORP.**  
**Notes to Consolidated Financial Statements**

**Note 6. Fair Value**

Accounting Standards Codification (ASC) 820, 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.

**Impaired Loans:** ASC 820 applies to loans measured for impairment using the practical expedients permitted by ASC 310 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 the lower of carrying amount or fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of ASC 820.

**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.

<b>June 30, 2010</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Government sponsored enterprises	7,007		7,007	
Mortgage-backed obligations of federal agencies	5,064		5,064	
Marketable Equities	3,196	3,196		
Corporate Bonds	590	590		
Investment securities available for sale	15,857	3,786	12,071	
Total assets at fair value	15,857	3,786	12,071	
Total liabilities at fair value				

**Table of Contents**

**F & M BANK CORP.**  
**Notes to Consolidated Financial Statements**

**Note 6. Fair Value, continued**

<b>December 31, 2009</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Government sponsored enterprises	6,013		6,013	
Mortgage-backed obligations of federal agencies	6,170		6,170	
Marketable Equities	3,743	3,743		
Corporate Bonds	504	504		
Investment securities available for sale	16,430	4,247	12,183	
Total assets at fair value	16,430	4,247	12,183	

Total liabilities at fair value

**Assets and Liabilities Recorded at Fair Value on a Non-recurring Basis**

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

<b>June 30, 2010</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Loans Held for Sale	32,448		32,448	
Other Real Estate Owned	1,076		1,076	
Real Estate	648		648	
Commercial	5,821		5,821	
Consumer				
Impaired loans	6,469		6,469	
Total assets at fair value	39,993		39,993	

Total liabilities at fair value

<b>December 31, 2009</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Loans Held for Sale	31,168		31,168	
Other Real Estate Owned	526		526	
Real Estate	1,123		1,123	
Commercial	5,585		5,585	
Consumer				
Impaired loans	6,708		6,708	
Total assets at fair value	38,402		38,402	

Total liabilities at fair value

There were no significant transfers between levels 1 and 2.

13

---



**Table of Contents****F & M BANK CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 7. Disclosures About Fair Value of Financial Instruments**

ASC 825 Financial Instruments defines the fair value of a financial instrument as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. As the majority of the Bank's financial instruments lack an available trading market, significant estimates, assumptions and present value calculations are required to determine estimated fair value. Estimated fair value and the carrying value of financial instruments at June 30, 2010 and December 31, 2009 are as follows (in thousands):

	<b>June 30, 2010</b>		<b>December 31, 2009</b>	
	<b>Estimated Fair Value</b>	<b>Carrying Value</b>	<b>Estimated Fair Value</b>	<b>Carrying Value</b>
<b><i>Financial Assets</i></b>				
Cash	\$ 6,330	\$ 6,330	\$ 5,314	\$ 5,314
Interest bearing deposits	2,986	2,986	65	65
Federal funds sold	8,960	8,960	18,326	18,326
Securities available for sale	15,857	15,857	16,430	16,430
Securities held to maturity	109	109	110	110
Other investments	9,476	9,476	9,681	9,681
Loans	476,653	445,416	481,967	434,403
Loans held for sale	32,448	32,448	31,168	31,168
Bank owned life insurance	6,737	6,737	6,593	6,593
Accrued interest receivable	2,044	2,044	2,038	2,038
<b><i>Financial Liabilities</i></b>				
Demand Deposits:				
Non-interest bearing	56,380	56,380	53,475	53,475
Interest bearing	108,747	108,747	100,714	100,714
Savings deposits	35,097	35,097	34,229	34,229
Time deposits	225,024	222,390	234,032	232,225
Short-term debt	5,397	5,397	9,085	9,085
Subordinated debt	5,229	5,229	2,715	2,715
Long-term debt	59,767	58,083	61,216	60,381

The carrying value of cash and cash equivalents, other investments, deposits with no stated maturities, short-term borrowings, and accrued interest approximate fair value. The fair value of securities was calculated using the most recent transaction price or a pricing model, which takes into consideration maturity, yields and quality. The remaining financial instruments were valued based on the present value of estimated future cash flows, discounted at various rates in effect for similar instruments entered into as of the end of each respective period shown above.

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

F & M Bank Corp. (Company) incorporated in Virginia in 1983, is a one-bank holding company pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956, which provides financial services through its wholly-owned subsidiary Farmers & Merchants Bank (Bank). TEB Life Insurance Company (TEB) and Farmers & Merchants Financial Services (FMFS) are wholly-owned subsidiaries of the Bank. The Bank also holds a majority ownership in VBS Mortgage LLC (VBS).

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. VBS originates conventional and government sponsored mortgages through their offices in Harrisonburg and Woodstock. VBS began operating its Woodstock office in February 2010 in space leased from Farmers & Merchants 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 of this Form 10-Q.

**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 and 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.

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

**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) ASC 450 "Contingencies", which requires that losses be accrued when they are probable of occurring and estimable and (ii) ASC 310 "Receivables", 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. For further discussion refer to page 20 in the Management Discussion & Analysis.

**Goodwill and Intangibles**

ASC 805 "Business Combinations" and ASC 350 "Intangibles" require 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. ASC 350 prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of ASC 350 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. ASC 350 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 ASC 350 on January 1, 2002 and determined that the core deposit intangible will continue to be amortized over the estimated useful life.

**Securities Impairment**

For a complete discussion of securities impairment see Note 2 of the Notes to Consolidated Financial Statements.

**Overview**

Net income for the six months ended June 30, 2010 was \$1,736,000 or \$.76 per share, compared to \$1,975,000 or \$.86 in the same period in 2009, a decrease of 12.10%. During the six months ended June 30, 2010, noninterest income, exclusive of securities transactions, increased 1.67% and noninterest expense increased 8.6% during the same period. Net income from Bank operations adjusted for income or loss from Parent activities is as follows:

<b>In thousands</b>	<b>2010</b>	<b>2009</b>
Net Income from Bank Operations	\$ 1,848	\$ 2,471
Income or loss from Parent Company Activities	(112)	(496)
Net Income for the six months ended June 30	1,736	1,975

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

Core operating earnings, (exclusive of gains or losses on the Parent's equity portfolio and historic rehabilitation credits related to the investment in low income housing projects) totaled \$1,746,000 in 2010 and \$2,507,000 in 2009, a decrease of 30.36%. Income from core operations declined due to an increase in FDIC Assessments and increased funding of the Provision for Loan Losses. A reconciliation of core earnings follows:

<b>In thousands</b>	<b>2010</b>	<b>2009</b>
Net Income	\$ 1,736	\$ 1,975
Non-recurring Tax Items	29	(16)
Non-recurring Securities Transactions	(19)	548
Core Earnings for the six months ended June 30	\$ 1,746	\$ 2,507

Management and the Board of Directors use Core Earnings (a non-GAAP financial measure) in a variety of ways, including comparing various operating units (branches) to prior periods, establishing goals and incentive plans that are based on Core Earnings.

**Results of Operations**

The 2010 year to date tax equivalent net interest income increased \$577,000 or 6.74% compared to the same period in 2009. The yield on earning assets decreased .45%, while the cost of funds decreased .47% compared to the same period in 2009. The Federal Reserve has continued to maintain short-term interest rates at historically low levels. Longer term rates are also at historical lows due to the sluggish economy and Federal Reserve monetary policy. Yields on assets and costs of liabilities continue to reprice at lower levels due to the current monetary policy described above.

The Interest Sensitivity Analysis on page 24 indicates the Company is in an asset sensitive position in the one year time horizon, the recent decrease in rates and asset growth has resulted in a .04% decrease in the net interest margin compared to the same period in 2009. A schedule of the net interest margin for the three month and six month periods ending June 30, 2010 and 2009 can be found in Table I on page 23.

Noninterest income, exclusive of securities transactions, increased \$27,000 or 1.67% through June 30, 2010 compared to the same period in 2009. Increases in customer service charges and debit card fee income were partially offset by decreases in secondary market mortgage fees, revenue from low income housing investments and income from bank owned life insurance.

Noninterest expense increased \$507,000 through six months of 2010 as compared to 2009. Salary and benefits expense decreased \$29,000 (.86%) through June 2010. This decrease resulted from a reduction in pension and employee stock ownership plan (ESOP) expenses (\$109,000), which were partially offset by normal salary increases and increases in group health insurance premiums. Exclusive of personnel expenses, other noninterest expenses increased at an annualized rate of 21.32% in 2010 compared to 2009. The majority of the increase is an increase in the FDIC assessment of \$298,000 (\$579,000 in 2010 versus \$281,000 in 2009). The increase in FDIC assessment is due to the growth of the Bank as well as increased assessment rates imposed to cover FDIC fund shortages. Other loan expense increased \$169,000; this increase resulted when the bank forfeited an escrow deposit on a loan participation when it chose to not pursue the purchase of the controlling interest in the loan. Operating costs continue to compare very favorably to the peer group. As stated in the most recently available (March 31, 2010) Bank Holding Company Performance Report, the Company's and peer's noninterest expenses averaged 2.37% and 3.00% 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.

**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 0% to .25% 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. Combined balances in fed funds sold and interest bearing bank deposits have decreased due to growth in the loan portfolio.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)  
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 Held to Maturity investment securities when management has the intent and ability to hold the securities to maturity. Held 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 stockholders' equity.

As of June 30, 2010, the market value of securities available for sale exceeded their cost by \$803,000. This includes increases in value in the equity securities portfolio held by the Company and an increase in the value of government obligations held by the Bank. 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 have decreased approximately \$105,000 in 2010. The portfolio is made up of primarily agency and mortgage-backed securities with an average portfolio life of approximately two years. This short average life results in less portfolio volatility and positions the Bank to redeploy assets in response to rising rates. Given the historically low interest rates proceeds from bond maturities and mortgage backed security pay downs have been used to support growth in the loan portfolio. Scheduled maturities for the remainder of 2010 total \$1.8 million and these bonds have an average yield of approximately 2.50%. Based on current market rates, as these bonds mature, the funds will be reinvested at rates that are significantly lower.

In reviewing these investments as of June 30, 2010, no other than temporary impairments were identified. Management continues to re-evaluate the portfolio for impairment on a quarterly basis.

**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/development, hotels, and multifamily housing. Management and the Board of Directors review these concentrations quarterly. The first six months of 2010 resulted in an increase of \$11 million in the Bank's core loan portfolio.

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

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 \$7,932,000 at June 30, 2010 compared to \$7,653,000 at December 31, 2009. Although the potential exists for 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, 2010, the Company holds \$1,076,000 of real estate which was acquired through foreclosure. The Company is under contract to sell foreclosed property totaling \$600,000 in value. Closing is expected on this sale during the third quarter of 2010.

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

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
Nonaccrual Loans:		
Real Estate	923	3,245
Commercial	4,279	261
Other	348	
Loans past due 90 days or more:		
Real Estate	1,584	3,850
Commercial	662	57
Other	136	240
Total Nonperforming loans	7,932	7,653
Nonperforming loans as a percentage of loans held for investment	1.78%	1.76%
Net Charge Offs to Total Loans	.17%	.59%
Allowance for loan and lease losses to nonperforming loans	61.65%	50.12%

**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 Bank's 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 \$200,000 are reviewed individually for impairment under ASC 310. 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 ASC 450.

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 \$4,890,000 at June 30, 2010 is equal to 1.10% of loans held for investment. This compares to an allowance of \$3,836,000 (.88%) at December 31, 2009. Based on the evaluation of the loan portfolio described above management has funded the allowance a total of \$1,800,000 in the first half of 2010. Net charge-offs year to date totaled \$746,000.

The overall level of the allowance is below its peer group average, but has been increasing in recent quarters. Management feels a lower reserve is appropriate based on its loan loss history and the composition of its loan portfolio. 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 have increased \$6,971,000 since December 31, 2009. Time deposits decreased \$4,835,000 during this period while demand deposits and savings deposits increased \$11,806,000. The decrease in certificates of deposits is a result of the Bank's membership in the CDARS One-Way Buy program. CDARS (Certificate of Deposit Account Registry Service) is a program that allows the bank to accept customer deposits in excess of FDIC limits and through reciprocal agreements with other network participating banks offer FDIC insurance up to as much as \$50 million in deposits. The CDARS program also allows the Bank to purchase funds through its One-Way Buy program. At quarter end the Bank had a total of \$41.8 million in CDARS funding, a decrease of \$5 million since December 31, 2009.

**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 either a fifteen-year fixed rate loan or a twenty-year loan, of which the first ten years have a fixed rate. This program allows the Bank to match the maturity of its fixed rate real estate portfolio with the maturity of its debt and thus reduce its exposure to interest rate changes. Scheduled repayments totaled \$9,050,000 through June 30, 2010. Additional borrowings of \$7,250,000 through June 30, 2010, were obtained to refinance maturing debt at more favorable longer term rates.

In November 2009, the Company entered into an agreement with Page Valley Bank (and several sub-participants) to refinance the Silverton Bank line of credit as a five year, fixed rate, amortizing loan at 6%. At June 30, 2010 the outstanding balance was \$4,500,000.

In August 2009, the Company began to issue Subordinated debt agreements with local investors with terms of 7 to 10 years. Interest rates are fixed on the notes for the full term but vary by maturity. Rates range from 7.0% on the 7 year note to 8.05% on the 10 year note. As of June 30, 2010 the balance outstanding was \$5,229,000.

**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, 2010, the Company's total risk based capital and total capital to total assets ratios were 11.65% and 7.15%, respectively. Both ratios are in excess of regulatory minimums. For the same period, Bank only total risk based capital and total capital to total assets ratios were 12.11% and 7.44%, respectively.

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

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, 2010, the Company had a cumulative Gap Rate Sensitivity Ratio of 12.81% for the one year repricing period. This generally indicates that earnings would increase in an increasing interest rate environment as assets reprice more quickly than liabilities. However, in actual practice, this may not be the case as balance sheet leverage, funding needs and competitive factors within the market could dictate the need to raise deposit rates more quickly. 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 24.

**Stock Repurchase**

On September 18, 2008, 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 150,000 to 200,000 shares. There were no stock repurchases in 2010.

**Effect of Newly Issued Accounting Standards**

Income Tax guidance was amended in April 2010 to reflect an SEC Staff Announcement after the President signed the Health Care and Education Reconciliation Act of 2010 on March 30, 2010, which amended the Patient Protection and Affordable Care Act signed on March 23, 2010. According to the announcement, although the bills were signed on separate dates, regulatory bodies would not object if the two Acts were considered together for accounting purposes. This view is based on the SEC staff's understanding that the two Acts together represent the current health care reforms as passed by Congress and signed by the President. The amendment had no impact on the financial statements.

**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 I**

**F & M BANK CORP.**  
**Net Interest Margin Analysis**  
**(on a fully taxable equivalent basis)**  
**(Dollar Amounts in Thousands)**

	Six Months Ended June 30, 2010			Six Months Ended June 30, 2009			Three Months Ended June 30, 2010			Three Months Ended June 30, 2009		
	Average Balance <sup>2</sup>	Income/ Expense	Average Rates	Average Balance <sup>2</sup>	Income/ Expense	Average Rates	Average Balance <sup>2</sup>	Income/ Expense	Average Rates	Average Balance <sup>2</sup>	Income/ Expense	Average Rates
<b>Interest income</b>												
Loans held for investment <sup>1,2</sup>	\$ 441,329	\$ 12,947	5.87%	\$ 409,421	\$ 12,670	6.19%	\$ 444,346	6,447	5.80%	\$ 418,967	\$ 6,451	6.16%
Loans held for sale	23,207	464	3.99%	28,003	551	3.94%	30,460	308	4.04%	32,750	324	3.96%
Federal funds sold	15,266	17	.22%	2,316	2	.17%	7,443	4	.21%	2,541	1	.16%
Interest bearing deposits	2,950	12	.88%	1,181	26	4.40%	2,685	9	1.34%	1,076	13	4.83%
Investments Taxable <sup>3</sup>	12,687	230	3.63%	17,888	436	4.87%	12,448	120	3.86%	17,113	211	4.93%
Partially taxable	4,048	120	5.93%	3,406	119	6.99%	3,949	55	5.57%	5,162	60	4.65%
Tax exempt <sup>2,3</sup>			%	77		7.87%				30		.40%
Total earning assets	\$ 499,487	\$ 13,790	5.52%	\$ 462,292	13,807	5.97%	501,331	6,943	5.54%	477,639	7,060	5.91%
<b>Interest Expense</b>												
Demand deposits	105,344	963	1.83%	68,698	515	1.50%	107,312	505	1.88%	73,223	281	1.54%
Savings	34,629	96	.55%	31,532	108	.69%	35,737	49	.55%	32,882	45	.55%
Time deposits	227,775	2,403	2.11%	213,872	3,416	3.19%	225,272	1,140	2.02%	218,360	1,644	3.01%
Short-term debt	5,604	13	.46%	21,816	56	.51%	5,561	6	.43%	23,616	28	.47%
Long-term debt	63,242	1,181	3.73%	68,395	1,155	3.38%	63,245	552	3.49%	66,032	551	3.34%
Total interest bearing liabilities	\$ 436,594	\$ 4,656	2.13%	\$ 404,313	\$ 5,250	2.60%	437,127	2,252	2.06%	414,113	2,549	2.46%
Tax equivalent net interest income <sup>1</sup>		\$ 9,134			\$ 8,557			\$ 4,691			\$ 4,511	

Net interest margin	3.66%	3.70%	3.74%	3.78%
---------------------	-------	-------	-------	-------

<sup>1</sup> Interest income on loans includes loan fees.

<sup>2</sup> An incremental income tax rate of 34% was used to calculate the tax equivalent income on nontaxable and partially taxable investments and loans.

<sup>3</sup> Average balance information is reflective of historical cost and has not been adjusted for changes in market value.

**Table of Contents****TABLE II**

**F & M BANK CORP.**  
**Interest Sensitivity Analysis**  
**June 30, 2010**  
**(In Thousands of Dollars)**

The following table presents the Company's interest sensitivity.

	<b>0 3</b> <b>Months</b>	<b>4 12</b> <b>Months</b>	<b>1 5</b> <b>Years</b>	<b>Over 5</b> <b>Years</b>	<b>Not</b> <b>Classified</b>	<b>Total</b>
<i>Uses of funds</i>						
Loans						
Commercial	\$ 104,601	\$ 25,003	\$ 89,110	\$ 6,680	\$	\$ 225,394
Installment	10,644	1,142	6,882	651		19,319
Real estate for investments	42,730	16,728	120,942	17,828		198,228
Real estate held for sale	32,448					32,448
Credit cards	2,475					2,475
Federal funds sold	8,960					8,960
Interest bearing bank deposits	1,294	1,692				2,986
Investment securities	112	1,163	6,115	4,790	3,786	15,966
<b>Total</b>	<b>203,264</b>	<b>45,728</b>	<b>223,049</b>	<b>29,949</b>	<b>3,786</b>	<b>505,776</b>
<i>Sources of funds</i>						
Interest bearing demand deposits		28,420	63,025	17,302		108,747
Savings deposits		7,020	21,058	7,019		35,097
Certificates of deposit \$100,000 and over	27,935	26,705	38,957			93,597
Other certificates of deposit	30,379	42,205	61,209			133,793
Short-term borrowings	5,397					5,397
Long-term borrowings	7,023	9,096	41,964	5,229		63,312
<b>Total</b>	<b>\$ 70,734</b>	<b>\$ 113,446</b>	<b>\$ 226,213</b>	<b>\$ 29,550</b>	<b>\$</b>	<b>\$ 439,943</b>
Discrete Gap	132,530	(67,718)	(3,164)	399	3,786	65,833
Cumulative Gap	132,530	64,812	61,648	62,047	65,833	
Ratio of Cumulative Gap to Total Earning Assets	26.20%	12.81%	12.19%	12.27%	13.02%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of June 30, 2010. 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. 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**

Due to the nature of the Company's business as stewards of assets of customers; internal controls are of the utmost importance. The Company has established procedures during the normal course of business to reasonably ensure that fraudulent activity of either a material amount to these results or in any amount is not occurring. In addition to these controls and review by executive officers, the Company retains the services of an internal auditor to complete regular audits, which examine the processes and procedures of the Company and the Bank to ensure that these processes are reasonably effective to prevent internal or external fraud and that the processes comply with relevant regulatory guidelines of all relevant banking authorities. The findings of the internal auditor are presented to management of the Bank and to the Audit Committee of the Company.

**Table of Contents**

<b>Part II Other Information</b>				
Item 1. Legal Proceedings				Not Applicable
Item 1a. Risk Factors				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. Removed and reserved-				
Item 5. Other Information				Not Applicable
Item 6. Exhibits				

(a) **Exhibits**

- 3i Restated Articles of Incorporation of F & M Bank Corp. are incorporated by reference to Exhibits to F & M Bank Corp. s 2001 Form 10K filed March 1, 2002.
- 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**

**Signatures**

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 12, 2010

27