

F&M BANK CORP  
Form DEF 14A  
April 15, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A  
Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x  
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Check the appropriate box:

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 o Soliciting Material Pursuant to § 240.14a-12

F & M BANK CORP.

(Name of Registrant as Specified In Its Charter)

\_\_\_\_\_  
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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F & M BANK CORP.  
Timberville, Virginia

Notice of Annual Meeting of Shareholders  
To the Shareholders of F & M Bank Corp.

The annual meeting of shareholders of F & M Bank Corp. (the Company) will be held on Saturday, May 14, 2011, at 5:30 P.M. at Broadway High School, Broadway, Virginia, for the following purposes:

1. Election of three directors, John N. Crist, Daniel J. Harshman and Dean W. Withers, each for a three-year term expiring in 2014.
2. Election of one director, Christopher S. Runion, for a two-year term expiring in 2013.
3. Ratification of the appointment of Elliott Davis, L.L.C. as independent auditors for 2011.
4. Transaction of such other business as may properly come before the meeting. Management is not aware of any other business, other than procedural matters incident to the conduct of the Annual Meeting.

Only shareholders of record at the close of business on March 31 2011 are entitled to notice of and to vote at the annual meeting or any adjournments thereof.

To assure that your shares are represented at the annual meeting, please complete, date and sign the enclosed proxy, and return it as soon as possible in the enclosed postage prepaid envelope. You may amend your proxy at any time prior to the closing of the polls at the meeting.

By Order of the Board of Directors

/s/ Larry A. Caplinger

Larry A. Caplinger, Secretary

April 15, 2011

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF  
PROXY MATERIALS FOR THE SHAREHOLDER MEETING  
TO BE HELD ON MAY 14, 2011.

The proxy statement and the Company's 2010 annual report on Form 10-K are available at <http://www.sn1.com/irweblinkx/GenPage.aspx?IID=1017974&GKP=203204>

F & M BANK CORP.  
P. O. Box 1111  
Timberville, Virginia 22853

## PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies for use at the annual meeting of shareholders of F & M Bank Corp. (the Company) to be held Saturday, May 14, 2011 at 5:30 P.M. at Broadway High School, Broadway, Virginia, and at any adjournments thereof (the Annual Meeting). The principal executive offices of the Company are located at 205 South Main Street, P. O. Box 1111, Timberville, Virginia 22853. The approximate mailing date of this Proxy Statement and the accompanying proxy is April 15, 2011.

The accompanying proxy is solicited by the Board of Directors of the Company (the Board). The cost of the solicitation of proxies will be borne by the Company. Solicitations will be made only by the use of the mail, except that, if necessary, officers, directors and regular employees of the Company, or its affiliates, may make solicitations of proxies by telephone, telegraph or by personal calls. Brokerage houses and nominees may be requested to forward the proxy solicitation material to the beneficial owners of the stock held of record by such persons, and the Company may reimburse them for their charges and expenses in this regard.

All properly executed proxies delivered pursuant to this solicitation will be voted at the Annual Meeting in accordance with any instructions thereon. Any person signing and mailing the enclosed proxy may, nevertheless, revoke the proxy at any time prior to the actual voting thereof by (i) filing written notice thereof with the Secretary of the Company (Larry A. Caplinger, Secretary, F & M Bank Corp., P. O. Box 1111, Timberville, Virginia 22853); (ii) submitting a duly executed proxy bearing a later date; or (iii) appearing at the Annual Meeting or any adjournment thereof and giving the Secretary notice of his or her intention to vote in person.

An Annual Report to shareholders, including current financial statements, is being mailed to the Company's shareholders concurrently with this Proxy Statement, but is not part of the proxy solicitation materials.

Interested shareholders may obtain, without charge, a copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as filed with the Securities and Exchange Commission, upon written request to Larry A. Caplinger, Secretary, F & M Bank Corp., P. O. Box 1111, Timberville, Virginia 22853.

## OUTSTANDING SHARES AND VOTING RIGHTS

Only shareholders of record at the close of business on March 31, 2011 will be entitled to vote at the Annual Meeting. As of March 31, 2011, the Company had outstanding 2,487,197 shares of its common stock, \$5 par value (Common Stock), each of which is entitled to one vote at the Annual Meeting. A majority of votes entitled to be cast on matters considered at the Annual Meeting constitutes a quorum. If a share is represented for any purpose at the Annual Meeting, it is deemed to be present for purposes of establishing a quorum. Abstentions and shares held of record by a broker or its nominees (Broker Shares) that are voted on any matter are included in determining the number of votes present or represented at the Annual Meeting. Conversely, Broker Shares that are not voted on any matter will not be included in determining whether a quorum is present. If a quorum is established, directors will be elected by a plurality and the auditors will be ratified by a majority of the votes cast by shareholders at the Annual Meeting. Broker shares may not be cast in the election of directors without instruction from the beneficial owner of the shares. Votes that are withheld or abstentions and Broker Shares that are not voted in the election of directors or in the ratification of auditors will not be included in determining the number of votes cast.

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth the number and percentage of shares of Common Stock beneficially owned, as of March 31, 2011, by each of the Company's directors and nominees, each of the executive officers named in the "Summary Compensation Table" below and all of the Company's directors and executive officers as a group. For the purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 under the Securities Exchange Act of 1934, as amended, under which, in general, a person is deemed to be a beneficial owner of a security if he or she has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he or she has the right to acquire beneficial ownership of the security within 60 days.

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The address for each of the individuals listed in the table is in care of the Company, P. O. Box 1111, Timberville, Virginia 22853.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership <sup>1</sup>	Percent of Class <sup>2</sup>
Larry A. Caplinger	164,2743	6.6%
Thomas L. Cline	13,8164	*
John N. Crist	20,2565	*
Ellen R. Fitzwater	5,8636	*
Daniel J. Harshman	7337	*
Neil W. Hayslett	156,0038	6.3%
Richard S. Myers	16,8869	*
Michael W. Pugh	4,39110	*
Christopher S. Runion	2,64911	*
Ronald E. Wampler	20,55312	*
Dean W. Withers	14,73513	*
Directors and executive officers as a group (11 persons)	264,61414	10.6%

\*Less than one percent (1%)

<sup>1</sup>Numbers rounded to next whole share

<sup>2</sup>Based on 2,487,197 shares of common stock issued and outstanding on March 31, 2011.

<sup>3</sup>Includes 2,256 shares owned directly, 4,944 shares owned jointly with his spouse, 415 shares indirectly held for Mr. Caplinger's children, 1,114 shares in Mr. Caplinger's Traditional IRA and 155,545 shares owned by the Company's Stock Bonus Plan over which Mr. Caplinger and Neil W. Hayslett have voting power in their capacity as plan trustees.

<sup>4</sup>Includes 5,473 shares owned directly, 6,903 shares owned jointly with his spouse, 234 shares owned by his spouse, 244 shares owned by Mr. Cline's Roth IRA, 720 shares owned by Mr. Cline's traditional IRA and 242 shares owned by his spouse's Roth IRA.

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5Includes 8,677 shares owned directly, 1,439 shares owned by Mr. Crist's IRA, 140 shares owned by Mr. Crist's Roth IRA, 10,000 shares owned by his personal 401(k) plan.

6Includes 3,204 shares owned directly, 1,572 shares owned jointly with her spouse, 540 shares owned by Mrs. Fitzwater's husband's traditional IRA and 547 shares owned by Mrs. Fitzwater's traditional IRA.

7Includes 600 shares owned directly and 133 shares owned jointly with his spouse.

8Includes 458 shares owned directly and 155,545 shares owned by the Company's Stock Bonus Plan over which Mr. Hayslett and Larry A. Caplinger have voting power in their capacity as plan trustees.

9Includes 4,800 shares owned directly and 12,086 shares owned by Mr. Myers' IRA.

10Includes 1002 shares owned directly, 117 shares owned jointly with his spouse, 1,199 shares held by a simplified employee plan for Mr. Pugh's benefit and 2073 shares held in Mr. Pugh's mother's account over which he has trading authority.

11Includes 430 shares owned directly and 2,219 shares held in Mr. Runion's IRA.

12Includes 20,053 shares owned directly and 500 shares owned by his spouse.

13Includes 2,363 shares owned directly, 2,267 shares owned by Mr. Withers' Traditional IRA, 466 owned by Mr. Withers' Roth IRA, 8,065 shares allocated to Mr. Withers in the Company's Stock Bonus Plan and 1,574 shares owned by his spouse.

14Includes 155,545 shares owned by the Company's Stock Bonus Plan over which Neil Hayslett and Larry A. Caplinger have voting power in their capacity as plan trustees.

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Except for Larry A. Caplinger and Neil W. Hayslett as disclosed above under "Security Ownership of Management," management of the Company knows of no person who has beneficial ownership of 5% or more of the outstanding Common Stock as of March 31, 2011.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers, and any persons who own more than 10% of the Common Stock, to file with the Securities and Exchange Commission (the "SEC") reports of ownership and changes in ownership of Common Stock. Officers and directors are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. Based solely on review of the copies of such reports furnished to the Company or written representation that no other reports were required, the Company believes that, during 2010, all filing requirements applicable to its officers and directors were complied with except Christopher S. Runion, John N. Crist and Dean W. Withers. Mr. Withers made a gift in 2005 for 20 shares and inadvertently did not file a Form 4 until April 8, 2010. The filing for Mr. Runion was for 15.7895 shares purchased in the employee stock purchase plan on July 1, 2010 and not reported until July 7, 2010. The filing for Mr. Crist was for 500 shares purchased on March 18, 2010 and not reported until March 15, 2011.

#### PROPOSAL ONE

#### ELECTION OF DIRECTORS

The term of office for the current Class C directors expires at the Annual Meeting. The Board has nominated such directors, namely John N. Crist, Daniel J. Harshman and Dean W. Withers, for reelection, for a three-year term, by the shareholders at the Annual Meeting. Christopher S. Runion was appointed by the Board in May of 2010 and, therefore, as required by the Articles of Incorporation, must be elected by the shareholders at the next annual meeting following his appointment. Mr. Runion is a Class B director whose term runs for an additional two years. Mr. Runion was recommended for nomination by the independent directors. The persons named as proxies in the accompanying form of proxy, unless instructed otherwise, intend to vote for the election of each of these nominees for directors. If any nominee should become unavailable to serve, the proxy may be voted for the election of a substitute nominee designated by the Board. The Board has no reason to believe that any of the nominees will be unable to serve if elected.

The Board recommends election of the Class C director nominees and one Class B nominee set forth in this Proxy Statement.





INFORMATION CONCERNING DIRECTORS AND NOMINEES

The following information, including the principal occupation during the past five years, is given with respect to the nominees, all of whom are current directors, for election to the Board at the Annual Meeting, as well as all directors continuing in office.

Name, Age and Position with the Company	Director Since	Principal Occupation During the Last Five Years
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Director Nominees

CLASS C DIRECTORS

(to serve until the 2014 annual meeting of shareholders)

John N. Crist (61)	2001	Attorney, Partner in Hoover Penrod PLC. John is a graduate of Virginia Tech and Marshall-Wythe School of Law, College of William and Mary. He has been an attorney practicing in the Harrisonburg area since 1976 with heavy emphasis on real estate and estate matters. He has served as assistant commissioner of accounts for Rockingham County/Harrisonburg since 2000. He is a member of the Virginia State Bar and has served as President and Secretary/Treasurer of the local bar association, a member of Virginia/Valley Title Agency, Inc. since 1988, and director of First Citizens Bank & Trust Advisory Board from 1997 to 2000. He also serves as Chairman of the Board of VBS Mortgage. John Crist's skills and experience as a partner in Hoover Penrod PLC as well as his time on the advisory board of another financial institution make him uniquely qualified to serve the Company in areas including corporate governance and real estate law.
Daniel J. Harshman (59)	2001	Manager of the Town of Edinburg. Dan Harshman graduated from Virginia Commonwealth University. He has opened and operated a home accessory and gift shop, owned and operated the Spring House Restaurant in Woodstock, VA, purchased and renovated six older homes to preserve the historic properties in the town and has sold all but one. He has been involved in Town Government since 1985 serving in numerous capacities including Mayor and Town Manager being responsible for the preparation of Edinburg's annual budget and oversight of all functions of the Town including a Police Department, Public Works, Water Treatment Facility and Waste Water Treatment Facility. He also serves on the Shenandoah County Travel Council as Edinburg's Tourism Representative and is sole trustee of his church's preservation trust managing funds in the mid six figures. Dan Harshman's skills and experience as a small business owner, town manager and mayor benefit the Company in his understanding of business operations,

supervision and local ordinances.

Dean W. Withers (54)  
President and CEO

2004

CEO of the Bank since May 2004; Executive Vice President of the Bank from Jan. 2003 to May 2004; Vice President of the Bank from 1993 to 2003. Dean has thirty-one years of banking experience including six years as President/CEO of Farmers & Merchants Bank. He graduated from James Madison University and Graduate School of Banking at LSU. He also serves as a director of VBS Mortgage. In October 2010, Mr. Withers was elected Chairman of the Virginia Association of Community Banks. During the past five years, he has served as a director in the Virginia Association of Community Banks, Virginia Bankers Association Benefits Corporation and Rockingham Memorial Hospital Foundation. Dean Withers' education, experience and skills as President and CEO and former commercial lender benefit the Company through his understanding of bank operations, corporate governance and lending.

CLASS B DIRECTOR

(to serve until the 2013 annual meeting of shareholders)

Christopher S. Runion (52)	2010	President of Eddie Edwards Signs, Inc. and managing member of Heifer Investments, L.L.C. Runion has served in these capacities for the past 20 years. He holds a Bachelor of Science – Accounting from Virginia Polytechnic Institute and State University and a Masters – Business Administration from James Madison University. He is serving or has served as a director in the following entities during the past 5 years: Bridgewater Health Care Foundation, Inc., Rockingham County Fair Association, Shenandoah Valley Economic Education, Inc., Rotary Club of Harrisonburg, Lantz Construction Company and the Harrisonburg Rockingham Historical Society. Mr. Runion is a member of the Rockingham County Planning Commission. He has also been involved in farming his entire life. Mr. Runion’s education, skills and experience relating to commercial and institutional business activity benefit the Company in evaluating various business opportunities and scenarios.
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Directors Continuing in Office

CLASS A DIRECTORS

(to serve until the 2012 annual meeting of shareholders)

Ellen R. Fitzwater (64)	1999	Partner/Financial Manager of F & R Leasing, L.L.C since June 2000; Partner/Financial Manager of Fitzwater Trucking, L.L.C. and Blue Ridge Transportation Service, L.L.C. from June 2000 until Jan. 2006. Ellen Fitzwater has 33 total years of experience through employment at five corporate entities under the parent company of Rocco, Inc. She held the position of corporate controller and supervised the accounting staff at four corporations. She also has 11 years of self-employed experience in computer accounting system conversions and implementations for small business clients. Her skills include financial report preparation, accounting system setup for small businesses both manual and computerized, various internal auditing functions, education and training classes for clients and computer accounting software problem solving. She has also been a 50% owner and financial manager of her own business for 29 years. She has been serving as a director at VBS Mortgage since 2009. Ms. Fitzwater’s experience as both a small business owner and corporate accountant have helped her develop skills and expertise that benefit the Company through her understanding of internal control procedures, accounting processes and systems.
Richard S. Myers (63)	1988	President of Dick Myers Chrysler-Dodge-Jeep, Inc. Richard Myers has been in the automobile business for four decades.

The skills he learned over these four decades include relationships with the public and employees as well as dealing with big business (General Motors and Chrysler). He feels this has qualified him to know what to look for on the financial side, dealing with banks and lending institutions, the management of cash, accounts receivable and payable, expenses and how they impact the bottom line and all of the other day to day operations it takes to make a dealership operate. These skills benefit the Company based on his expertise in the areas of sales leadership, public relations and corporate finance.

Ronald E. Wampler (63)	1991	Sales for Dick Myers Chrysler-Dodge-Jeep, Inc. since Jan. 2008; partner in Dove Ohio Farms, L.L.C. and WWTD Ohio Farms L.L.C. since 1989; part-time salesman for Dayton Equipment from Nov. 2006 until Dec. 2007; salesman for Dick Myers Chevrolet-Pontiac from Apr. 2004 until May 2006; partner in Dove Farms, Inc. from July 1972 until
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April 2006. Mr. Wampler has operated and managed a farm for over 30 years. He has also been involved in numerous trade and civic organizations and has held leadership roles in many organizations involving business plans. Mr. Wampler's skills and experience in automotive and equipment sales as well as farming operations benefit the company through his understanding of customer service and the agri-business industry.

CLASS B DIRECTORS

(to serve until the 2013 annual meeting of shareholders)

Thomas L. Cline (64)	1991	President of Truck & Equipment Corp. and Mac Lease, Inc. since May 1997; Secretary/Treasurer of Transport Repairs, Inc. from 1974 until Dec. 2004. Tom Cline received an Associate Degree in accounting from National Business College. He has been involved in the trucking industry for the past 36 years in various areas. He is currently involved in a franchise truck dealership and leasing company serving as President. In the past, he was involved in a freight hauling company and also a franchise refrigeration unit and trailer company which was transportation related. He worked in a public accounting firm for over six years. He has also been involved in farming his entire life. Mr. Cline's skills and experience benefit the Company due to his accounting knowledge and experience in public accounting, the trucking industry and farm operations.
Michael W. Pugh (56)	1994	President of Old Dominion Realty, Inc. and Vice President of Colonial Appraisal Service, Inc. Mr. Pugh has been President of Old Dominion Realty, Inc. for 33 years. He was issued a Virginia Certified General Appraisal license in 1992, a Virginia real estate broker's license in 1976 and a West Virginia real estate broker's license in 1982. He has completed numerous classes and certifications related to the real estate field. He has served as a director in the following entities during the past 5 years. Bridgewater Health Care Inc., Bridgewater Retirement Community, Bridgewater Home, Inc., Harrisonburg-Rockingham Chamber of Commerce, Harrisonburg-Rockingham Association of Realtors, Bankers Title Shenandoah, VBS Mortgage, Old Dominion Realty, Inc. and Colonial Appraisal Service, Inc. Mr. Pugh's skills and experience relating to real estate sales, development and appraisals benefit the Company in evaluating real estate investments and collateral values for real estate loans.



## CORPORATE GOVERNANCE AND THE BOARD OF DIRECTORS

### General

The business and affairs of the Company are managed under the direction of the Board of Directors in accordance with the Virginia Stock Corporation Act and the Company's Articles of Incorporation and Bylaws. Members of the Board are kept informed of the Company's business through discussions with the Chairman of the Board, the President and Chief Executive Officer and other officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees.

### Board Leadership

The Board of Directors is made up of nine members, eight outside directors and the President/CEO. The Board leadership structure includes the Chairman of the Board and Vice Chairman of the Board neither of which serve as the principal executive officer of the Company. The Board does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board as the Board believes it is in the best interests of the Company to make that determination based on the position and direction of the Company and the membership of the Board. The Board has determined that having an independent director serve as Chairman is in the best interest of the Company's shareholders at this time. This structure ensures a greater role for the independent Directors in the oversight of the Company and active participation of the independent Directors in setting agendas and establishing Board priorities and procedures. Further, this structure permits the Chief Executive Officer to focus on the management of the company's day-to-day operations.

### Risk Oversight

The Board has appointed several subcommittees including Audit, Investment and Corporate Governance. In addition to the Board's overall policy making authority and risk management responsibilities, these committees are delegated authority with respect to their various areas of operation. One area of significant risk to financial institutions revolves around the risks associated with the monitoring of existing and proposed loan relationships. The board receives a number of monthly and quarterly reports that assist in tracking and mitigating lending risk. The Board has also established an Executive Loan Committee which convenes periodically, either in person or telephonically to consider new loan requests.

### Code of Ethics

The Board of Directors has approved a Code of Ethics for Senior Financial Officers of the Company and the Bank. This document covers the Company's Chief Executive Officer, Chief Financial Officer and the Controller. The Code of Ethics states that the Senior Financial Officers are expected to conduct business and act in an honest and ethical manner; provide full, fair, accurate, timely and understandable financial reports; report any significant deficiencies in the Company's internal controls over financial reporting; may not use corporate property, information, or position for improper personal gain or compete with the Company; endeavor to protect the Company's assets and ensure their efficient use; and respect the rights of and deal fairly with the Company's customers, suppliers, competitors and employees. It is available upon request to the Secretary of the Company at P. O. Box 1111, Timberville, VA 22853.

### Independence of Directors

The Board of Directors in its business judgment has determined that the following eight of its nine members are independent as defined by the listing standards of the Nasdaq Stock Market ("Nasdaq"): Thomas L. Cline, John N. Crist,



Ellen R. Fitzwater, Daniel J. Harshman, Richard S. Myers, Michael W. Pugh, Christopher S. Runion and Ronald E. Wampler. In reaching this conclusion, the Board considered that we and our subsidiary entities provide services to, and otherwise conduct business with, companies of which certain members of the Board or members of their immediate families are or were directors or officers.

Our Board of Directors has established standards under which we view the following as impairing a director's independence:

- a director who is or at any time during the past three years was our employee, or whose immediate family member is or at any time during the past three years was an executive officer;

- a director who received, or whose immediate family member received, more than \$120,000 per year in direct compensation from us during any period of twelve consecutive months within the past three years, other than director and committee fees and pension or other forms of deferred compensation for prior service;
- a director who is or at any time during the past three years was affiliated with or employed by, or whose immediate family member is or at any time during the past three years was affiliated with or employed in a professional capacity by, our present or former internal or external auditor;
- a director who is employed, or whose immediate family member is employed, as an executive officer of another company where at any time during the past three years any of our executives served on that company's compensation committee; and
- a director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, us for property or services in an amount which, in any single fiscal year, exceeds the greater of \$200,000 or 5% of such other company's consolidated gross revenues.

While we conduct business with several of our directors, including John Crist (legal services), Michael Pugh (real estate appraisal services), Christopher Runion (signage) and Richard Myers and Ronald Wampler (automobile purchases and servicing), the total amounts paid to the entities with which our directors are affiliated are significantly less than the thresholds outlined above. Director Withers is not considered independent due to his current employment by the Company. Other than those described above and under "Certain Relationships and Related Transactions," the Board of Directors did not consider any transactions, relationships or arrangements in determining director independence.

#### Board and Committee Meeting Attendance

There were 12 meetings of the Board of Directors of the Company in 2010. Each director attended greater than 75% of the aggregate number of meetings of the Board of Directors and meetings of committees of which the director was a member in 2010. The Board of the Bank, which met 12 times in 2010, primarily manages all matters for the Bank. All the directors of the Company are also directors of the Bank.

#### Committees of the Board

The Company has an Audit Committee. The Company does not have a standing Nominating Committee. The Company does not have a Compensation Committee; however, the Bank has a Compensation Committee. Since compensation is paid through the Bank, the Bank's Compensation Committee evaluates compensation policies and makes recommendations to the Company's Board. These recommendations are considered for approval by the independent directors of the Company.

#### Audit Committee

The Audit Committee assists the Board of Directors in fulfilling the Board's oversight responsibility to the shareholders relating to the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company's independent auditor and the performance of the internal audit function. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Company. The Board of

Directors has adopted a written charter for the Audit Committee which was filed as Appendix A to the Company's 2010 Proxy Statement.

The members of the Audit Committee are Thomas L. Cline, Ellen R. Fitzwater, Daniel J. Harshman, Christopher S. Runion and Ronald E. Wampler, all of whom the Board in its business judgment has determined are independent as defined by the listing standards of Nasdaq. The Board of Directors also has determined that all of the members of the Audit Committee have sufficient knowledge in financial and auditing matters to serve on the Audit Committee and that Ms. Fitzwater qualifies as an audit committee financial expert as defined by SEC regulations.

The Audit Committee met six times in 2010. For additional information regarding the Audit Committee, see "Audit Information-Audit Committee Report" on pages 16 and 17 of this Proxy Statement.

### Compensation Committee

The independent directors of the Company's Board of Directors act as the Company's Compensation Committee. The Board receives compensation recommendations from the Bank's Compensation Committee, which reviews senior management's performance and compensation and reviews and sets guidelines for compensation of all employees. All recommendations of the Bank's Compensation Committee relating to the compensation of our executive officers are reported to the Company's Board of Directors for approval by the independent directors. There is no Compensation Committee Charter.

### Director Nomination Process

The Company currently does not have a standing nominating committee. The entire Board performs the functions of a nominating committee. The Board does not believe it needs a separate nominating committee because the full Board is comprised predominantly of independent directors (as that term is defined by Nasdaq's listing standards) and has the time and resources to perform the function of selecting board nominees. The President & CEO, the sole management director, abstains from discussions and voting for nominees. When the Board performs its nominating function, the Board acts in accordance with the Company's Articles of Incorporation and Bylaws, but does not have a separate charter related to the nomination process.

Should a vacancy occur on the Board of Directors of the Company, the Board would look to the Corporate Governance Committee's list of director qualifications (listed below) and consider these qualifications in developing a pool of potential nominees from the communities served by the Company. The Board would then appoint the candidate who was best qualified following discussions among the independent directors. The Board also considers potential nominees submitted by shareholders.

The Company's independent directors consider, at a minimum, the following factors in recommending to the Board potential new directors, or the continued service of existing directors:

- The ability of the prospective nominee to represent the interests of the shareholders of the Company;
- The prospective nominee's standards of integrity, commitment and independence of thought and judgment;
- The prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards; and
- The extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the Board of Directors.

Shareholders entitled to vote for the election of directors may submit candidates for formal consideration by the Company in connection with an annual meeting of shareholders by providing the Company with timely written notice, in proper form, for each such recommended director nominee. If the notice is not timely and in proper form, the nominee will not be considered by the Company. To be timely for the 2012 annual meeting, the notice must be received within the time frame set forth in "Shareholder Proposals" on page 17 of this Proxy Statement. To be in proper form, the notice must include each nominee's written consent to be named as a nominee and to serve, if elected, and information about the shareholder making the nomination and the person nominated for election. These requirements are more fully described in Section 2.5 of the Company's Bylaws, a copy of which will be provided, without charge, to any shareholder upon written request to the Secretary of the Company, whose address is P. O. Box 1111, Timberville, VA 22853.

While the Company does not have a diversity policy, we consider diversity of the Board based on a number of factors including the geographic locations of potential directors within our branch network, educational background and work experience.

#### Annual Meeting Attendance

The Company encourages members of the Board of Directors to attend the annual meeting of shareholders. Eight of the directors attended the 2010 annual meeting.

#### Communications with Directors

Any director may be contacted by writing to him or her c/o P. O. Box 1111, Timberville, VA 22853. Communications to the non-management directors as a group may be sent to the same address, c/o the Secretary of the Company. The Company promptly forwards, without screening, all such correspondence to the indicated directors.

Director Compensation

The following table shows the compensation earned by each of the directors during 2010. Compensation included meeting fees and retainers.

**DIRECTOR COMPENSATION**  
Fiscal Year 2010