

F&M BANK CORP
Form DEF 14A
April 11, 2014

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
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement

 Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

 Definitive Proxy Statement

 Definitive Additional Materials

 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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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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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 10, 2014, 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 2017.
2. Ratification of the appointment of Elliott Davis, L.L.C. as independent auditors for 2014.
3. An advisory vote to approve the compensation of the Corporation's named executive officers disclosed in the Proxy Statement.
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 3, 2014 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 11, 2014

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF
PROXY MATERIALS FOR THE SHAREHOLDER MEETING
TO BE HELD ON MAY 10, 2014.

The proxy statement and the Company's 2013 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 10, 2014 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 11, 2014.

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 record holder 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. If your shares are held by a brokerage house or nominee, please follow the instructions delivered with the notice from your broker or nominee or contact your broker or nominee for instructions on how to change or revoke your vote.

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, 2013, 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 3, 2014 will be entitled to vote at the Annual Meeting. As of March 3, 2014, the Company had outstanding 2,513,239 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 on behalf of beneficial owners (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 of the votes cast by shareholders at the Annual Meeting and the auditors will be ratified and the advisory vote to approve the compensation of the named executive officers will be approved 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 3, 2014, 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

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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.

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 ¹		Percent of Class ²	
Larry A. Caplinger	186,197	3	7.4	%
Thomas L. Cline	14,167	4	*	
Carrie A. Comer	2,192	5	*	
John N. Crist	22,256	6	*	
Ellen R. Fitzwater	6,002	7	*	
Daniel J. Harshman	733	8	*	
Neil W. Hayslett	177,560	9	7.1	%
Richard S. Myers	17,542	10	*	
Michael W. Pugh	4,687	11	*	
Christopher S. Runion	3,810	12	*	
Stephanie E. Shillingburg	3,464	13	*	
Ronald E. Wampler	20,553	14	*	
Dean W. Withers	16,596	15	*	
Directors and executive officers as a group (13 persons)	299,031	16	11.9	%

*Less than one percent (1%)

¹Numbers rounded to next whole share

²Based on 2,513,239 shares of common stock issued and outstanding on March 3, 2014.

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3Includes 2,256 shares owned directly, 5,630 shares owned jointly with his spouse, 469 shares indirectly held for Mr. Caplinger's children, 1,114 shares in Mr. Caplinger's Traditional IRA and 176,728 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.

4Includes 5,786 shares owned directly, 6,780 shares owned jointly with his spouse, 241 shares owned by his spouse, 275 shares owned by Mr. Cline's Roth IRA, 812 shares owned by Mr. Cline's traditional IRA and 273 shares owned by his spouse's Roth IRA.

5Represents shares allocated to Ms. Comer in the Company's Stock Bonus Plan.

6Includes 9,677 shares owned directly, 1,439 shares owned by Mr. Crist's IRA, 140 shares owned by Mr. Crist's Roth IRA, 11,000 shares owned by his personal 401(k) plan.

7Includes 3,204 shares owned directly, 1,572 shares owned jointly with her spouse, 609 shares owned by Mrs. Fitzwater's husband's traditional IRA and 617 shares owned by Mrs. Fitzwater's traditional IRA.

8Includes 600 shares owned directly and 133 shares owned jointly with his spouse.

9Includes 726 shares owned directly, 106 shares owned jointly with Mr. Hayslett's children and 176,728 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.

10Includes 4,800 shares owned directly and 12,742 shares owned by Mr. Myers' IRA.

11Includes 682 shares owned directly, 580 shares owned jointly with his spouse, 1,352 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.

12Includes 958 shares owned directly, 400 shares owned jointly with his spouse and 2,452 shares held in Mr. Runion's IRA.

13Includes 133 shares owned directly and 3,331 shares allocated to Ms. Shillingburg in the Company's Stock Bonus Plan.

14Includes 20,053 shares owned directly and 500 shares owned by his spouse.

15Includes 2,563 shares owned directly, 3,867 shares owned by Mr. Withers' Traditional IRA, 525 owned by Mr. Withers' Roth IRA, 7,861 shares allocated to Mr. Withers in the Company's Stock Bonus Plan and 1,780 shares owned by his spouse.

16Includes 176,728 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 3, 2014.

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 2013, all filing requirements applicable to its officers and directors were complied with.

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. 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 that you vote FOR the election of the Class C director nominees set forth in the Proxy Statement.

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 (57) President and CEO	2004	President and 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-four years of banking experience including nine 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. Mr. Withers served as Chairman of the Virginia Association of Community Banks from Oct. 2010 until Oct. 2011. 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.
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Directors Continuing in Office

CLASS A DIRECTORS

(to serve until the 2015 annual meeting of shareholders)

Ellen R. Fitzwater (67)	1999	Vice Chairman of the Board of the Bank and the Company. 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 14 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 over 30 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 (66)	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 (66)	1991	<p>Sales for Dick Myers Chrysler-Dodge-Jeep, Inc. from Jan. 2008 until Dec. 2011; 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 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.</p>
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CLASS B DIRECTORS

(to serve until the 2016 annual meeting of shareholders)

Larry A. Caplinger (61)	2012	<p>Executive Vice President and Chief Lending Officer of the Bank and the Company since November 2007. Prior to that time he served as Senior Vice President of the Bank from May 1990 until November 2007 and Senior Vice President of the Company from April 2002 until November 2007. Larry has held a number of positions with the bank over his 41-year career with the Company. He graduated from Blue Ridge Community College with an associate degree in accounting. Larry is also a graduate of Virginia Bankers Association School of Bank Management and the ABA Agricultural Lending School. He has completed various classes from American Institute of Banking. He serves as Secretary to the F&M Bank Corp. Board and as a director of VBS Mortgage. Mr. Caplinger is a Life Member of the Timberville Volunteer Fire Department. His education, skills and experience as Executive Vice President and Senior Loan Officer benefit the Company through his understanding of the agri-business industry, lending and bank operations.</p>
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Thomas L. Cline (67)	1991	<p>Chairman of the Board of the Bank and the Company. President of Truck & Equipment Corp. and Mac Lease, Inc. from May 1997 until Feb. 2012; 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 40 years in various areas. He is currently serving as Chairman of the Board of Truck & Equipment Corp. and Mac Lease, Inc. (franchise truck dealership and leasing company). In</p>
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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 as an accountant 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 (59)	1994	<p>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 36 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.</p>
Christopher S. Runion (55)	2010	<p>President of Eddie Edwards Signs, Inc. and managing member of Heifer Investments, L.L.C. Mr. Runion has served in these capacities for the past 23 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, Rockingham Mutual Insurance Companies, Rockingham Development Corporation and the Harrisonburg Rockingham Historical Society. Mr. Runion is a former 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.</p>

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 ten members, eight outside directors, the President/CEO and the Executive Vice President/Chief Lending Officer. 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 committees 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 Chief Administrative Officer. 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 ten 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 and sales), Christopher Runion (signage) and Richard Myers (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. Directors Withers and Caplinger are not considered independent due to their 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 14 meetings of the Board of Directors of the Company in 2013. 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 2013. The Board of the Bank, which met 14 times in 2013, 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. Other standing committees for the Company include the Investment Committee, Corporate Governance Committee and Building Committee.

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 auditors 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 auditors 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.

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 Securities and Exchange Commission and 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 seven times in 2013. For additional information regarding the Audit Committee, see “Audit Information-Audit Committee Report” on pages 17 and 18 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 executive officer’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 and the Executive Vice President, as management directors, abstain 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 2015 annual meeting, the notice must be received within the time frame set forth in "Shareholder Proposals" on pages 18 and 19 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. Nine of the directors attended the 2013 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 2013. Compensation included meeting fees and retainers.

DIRECTOR COMPENSATION		
Fiscal Year 2013		
Name	Fees Earned Or Paid in Cash (\$)	Total (\$)
Thomas L. Cline	30,050	30,050
John N. Crist	20,500	20,500
Ellen R. Fitzwater	22,500	22,500
Daniel J. Harshman	22,900	22,900
Richard S. Myers	20,050	20,050
Michael W. Pugh	20,800	20,800
Christopher S. Runion	22,350	22,350
Ronald E. Wampler	22,650	22,650

All directors of the Company, who are also directors of the Bank, received \$750 for each board meeting attended, \$250 for each Investment and Corporate Governance Committee meeting attended, and \$300 for each Compensation Committee and Audit Committee meeting attended. Since the Company and Bank board meetings are held on the same day, members are only paid one fee of \$750 for their attendance at the combined meeting. In addition to meeting fees, each director received a quarterly retainer of \$3,000 to compensate for time spent on bank-related activities outside normal meeting structure. Directors receive no other benefits. The Audit Committee is a Company committee. All other committees are Bank committees.

Executive Officers Who Are Not Directors

Neil W. Hayslett, 52, has served as Executive Vice President and Chief Administrative Officer of the Bank and the Company since June 2013 and Executive Vice President/Chief Financial Officer from November 2007 until June 2013. Prior to that time he served as Senior Vice President and Chief Financial Officer of the Bank and the Company

from January 2003 until November 2007 and served as Vice President and CFO from October 1996 to January 2003.

Stephanie E. Shillingburg, 52, has served as Executive Vice President and Branch Administrator since June 2013. Prior to that time she has been the Branch Administrator since March 2003 having held the titles of Senior Vice President and Vice President. She also served as Branch Manager of the Edinburg Branch from February 2001 until March 2003.

Carrie A. Comer, 43, has served as Senior Vice President and Chief Financial Officer of the Company and F&M Bank since June 24, 2013. Ms. Comer served as Vice President and Controller of F&M Bank from March 2009 to June 2013. From December 2005 to March 2009, Ms. Comer served as Assistant Vice President and Controller of F&M Bank.

EXECUTIVE COMPENSATION

Summary Compensation

The Summary Compensation Table below sets forth the compensation of the Company's named executive officers for all services rendered to the Company and the Bank for 2013. None of our executive officers are covered by employment agreements. See the Summary of Compensation Policies on pages 14 - 16 of this Proxy Statement for further information regarding how salaries and bonuses are established.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$) ¹	Change in Pension Value (\$) ²	All Other Compensation (\$) ³	Total (\$)
Dean W. Withers President & CEO	2013	275,000	17,500	0	61,608	354,108
	2012	260,000	35,000	100,207	52,769	447,976
Larry A. Caplinger Executive Vice President & Senior Loan Officer	2013	190,000	12,500	0	52,528	255,028
	2012	180,000	25,000	113,683	32,469	351,152
Neil W. Hayslett Executive Vice President & Chief Administrative Officer	2013	190,000	12,500	0	31,782	234,282
	2012	180,000	25,000	70,659	25,660	301,319

¹The amounts in this column represent bonuses approved for the year listed; however, the actual payments were not made until after the end of each year.

²Due to rising interest rates, the change in pension value was negative for 2013.

³The amounts in this column are detailed in the table titled "All Other Compensation" below.

ALL OTHER COMPENSATION TABLE

Name	Year	401(k) Company Match	Company ESOP Contribution ¹	Company Deferred Compensation ²	Life Insurance Premiums ³	Director Fees	Other	Total (\$)
Dean Withers	2013	8,925	12,288	19,484	1,161	19,750	-	61,608
	2012	8,750	2,934	21,741	1,094	18,250	-	52,769
Larry Caplinger	2013	7,126	10,637	13,461	804	20,500	-	52,528
	2012	6,058	2,433	15,052	759	8,167	-	32,469
Neil Hayslett	2013	7,024	10,493	13,461	804	-	-	31,782
	2012	7,417	2,432	15,052	759	-	-	25,660

¹The Company has established an Employee Stock Ownership Plan that covers all full time employees, including the executive officers. The plan serves as a long-term incentive for employees to promote the achievement of goals which create value for our shareholders. See Summary of Compensation Policies on pages 14 - 16 of the Proxy Statement for further details.

²The Company has established a nonqualified deferred compensation plan for the benefit of our directors and certain employees, including the executive officers, to defer receipt of salary or bonus payments. See Summary of Compensation Policies on pages 14 - 16 of the Proxy Statement for further details.

³The amounts in this column represent the annual premium of group term life insurance with a death benefit equal to three times annual compensation.

Other Compensation

The Company has not made any grants of stock options or stock awards to its named executive officers, and it does not have any equity or non-equity incentive plans. In addition, none of the named executive officers hold any unexercised stock options or unvested stock awards as of December 31, 2013.

Retirement Benefits

The Company has a noncontributory pension plan that conforms to the Employee Retirement Income Security Act of 1974, as amended (ERISA). The amount of benefits payable under the plan is determined by an employee's period of credited service. The amount of normal retirement benefit will be determined based on a participant's credited service, earnings and the benefit formula as described in the plan's adoption agreement. The plan provides for early retirement for participants with 10 years of vesting service and the attainment of age 55. Mr. Caplinger and Mr. Withers are currently

eligible for early retirement. A participant who terminates employment with five or more years of vesting service will be entitled to a benefit. The benefits are payable in single or joint/survivor annuities, as well as a lump sum payment option upon retirement or separation of service (subject to limitations as described in the plan's adoption agreement).

The following table sets forth information as of December 31, 2013 with respect to the pension plan in which the named executive officers participate:

PENSION BENEFITS TABLE
Fiscal Year 2013

Virginia Bankers Association Master Defined Benefit
Pension Plan for Farmers & Merchants Bank

Name	Number of Years Of Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)	&
Dean W. Withers	20	455,918	00	&