F&M BANK CORP
Form 10-Q
August 14, 2006

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

FORM 10-Q

[X] Quarterly report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2006.

[ ] 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 X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ____ Accelerated filer ____ Non-accelerated filer X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ____ No X

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 4, 2006
Common Stock, par value - $5	2,380,150 shares

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Item 1 Financial Statements

F & M BANK CORP.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands of Dollars Except per Share Amounts)
(Unaudited)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
Interest Income		
Interest and fees on loans held for investment	$ 5,161	$ 4,287
Interest and fees on loans held for sale		216
Interest on federal funds sold	8	8
Interest on interest bearing deposits	35	18
Dividends on equity securities	103	117
Interest on debt securities	212	177
Total Interest Income	5,519	4,823
Interest Expense		
Interest on demand deposits	126	55
Interest on savings accounts	118	131
Interest on time deposits over $100,000	383	222
Interest on time deposits	1,036	764
Total interest on deposits	1,663	1,172
Interest on short-term debt	229	217
Interest on long-term debt	274	304
Total Interest Expense	2,166	1,693
Net Interest Income	3,353	3,130
Provision for Loan Losses	60	90
Net Interest Income after Provision for Loan Losses	3,293	3,040
Noninterest Income		
Service charges	313	291
Insurance and other commissions	94	75
Other	244	243
Income on bank owned life insurance	67	68
Security gains (losses)	(5)	23
Total Noninterest Income	713	700
Noninterest Expense		
Salaries	1,054	870
Employee benefits	364	316
Occupancy expense	121	107
Equipment expense	138	116
Intangible amortization	69	69
Other	641	620
Total Noninterest Expense	2,387	2,098
Income before Income Taxes	1,619	1,642
Income Taxes	484	495
Net Income	$ 1,135	$ 1,147

Per Share Data		
Net Income	$ .47	$ .48
Cash Dividends	$ .20	$ .19
Weighted Average Shares Outstanding	2,397,279	2,410,053

The accompanying notes are an integral part of these statements.

Part I Financial Information
Item 1 Financial Statements

F & M BANK CORP.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands of Dollars Except per Share Amounts)
(Unaudited)

	Six Months Ended June 30, 2006	2005
Interest Income		
Interest and fees on loans held for investment	$ 9,970	$ 8,354
Interest and fees on loans held for sale		348
Interest on federal funds sold	20	24
Interest on interest bearing deposits	61	45
Dividends on equity securities	207	218
Interest on debt securities	396	360
Total Interest Income	10,654	9,349
Interest Expense		
Interest on demand deposits	201	99
Interest on savings accounts	249	241
Interest on time deposits over $100,000	753	430
Interest on time deposits	1,915	1,445
Total interest on deposits	3,118	2,215
Interest on short-term debt	389	347
Interest on long-term debt	524	618
Total Interest Expense	4,031	3,180
Net Interest Income	6,623	6,169
Provision for Loan Losses	120	180
Net Interest Income after Provision for Loan Losses	6,503	5,989
Noninterest Income		
Service charges	585	496

Insurance and other commissions	148	130
Other	428	563
Income on bank owned life insurance	133	130
Security gains (losses)	(5)	23
Total Noninterest Income	1,289	1,342
Noninterest Expense		
Salaries	2,051	1,700
Employee benefits	710	620
Occupancy expense	225	209
Equipment expense	260	222
Intangible amortization	138	138
Other	1,237	1,250
Total Noninterest Expense	4,621	4,139
Income before Income Taxes	3,171	3,192
Income Taxes	951	878
Net Income	$ 2,220	$ 2,314
Per Share Data		
Net Income	$ .93	$ .96
Cash Dividends	$ .40	$ .38
Weighted Average Shares Outstanding	2,399,449	2,410,388

The accompanying notes are an integral part of these statements.

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

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
ASSETS		
Cash and due from banks	$ 7,609	$ 7,904
Interest bearing deposits in banks	2,289	2,228
Fed funds sold	3,034	2,487
Securities held to maturity (note 2)	110	110
Securities available for sale (note 2)	27,746	28,507
Other investments	6,369	6,304
Loans held for sale		3,528
Loans held for investment (note 3)	295,772	277,398
Less allowance for loan losses (note 4)	(1,775)	(1,673)
Net Loans Held for Investment	293,997	275,725

Bank premises and equipment	6,845	5,757
Interest receivable	1,499	1,367
Deposit intangible	1,288	1,426
Goodwill	2,639	2,639
Bank owned life insurance (note 5)	5,817	5,333
Other assets	2,898	3,013
Total Assets	$ 362,140	$ 346,328
LIABILITIES		
Deposits		
Noninterest bearing demand	$ 46,705	$ 46,325
Interest bearing		
Demand	37,446	38,970
Savings deposits	37,456	43,855
Time deposits over $100,000	44,831	35,462
Time deposits	110,419	102,697
Total Deposits	276,857	267,309
Short-term debt	18,895	14,345
Long-term debt	22,787	22,808
Accrued expenses	5,964	5,299
Total Liabilities	324,503	309,761
STOCKHOLDERS' EQUITY		
Common stock, $5 par value, 2,394,087 and 2,402,037 issued and outstanding, in 2006 and 2005, respectively	11,970	12,010
Retained earnings	26,214	25,136
Accumulated other comprehensive income (loss)	(547)	(579)
Total Stockholders' Equity	37,637	36,567
Total Liabilities and Stockholders' Equity	$ 362,140	$ 346,328

The accompanying notes are an integral part of these statements.

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

	Six Months Ended June 30, 2006	2005
Cash Flows from Operating Activities:		
Net income	$ 2,220	$ 2,314
Adjustments to reconcile net income to net		

cash provided by operating activities:		
Depreciation	279	242
Amortization of security premiums	35	70
Net (increase) decrease in loans held for sale	3,528	5,431
Provision for loan losses	120	180
Intangible amortization	138	138
(Increase) decrease in interest receivable	(132)	(22)
(Increase) decrease in other assets	(30)	211
Increase in accrued expenses	810	767
(Gain) loss on security transactions	5	(23)
Amortization of limited partnership investments	185	137
Income from life insurance investment	(133)	(130)
Net Adjustments	4,805	7,001
Net Cash Provided by Operating Activities	7,025	9,315
Cash Flows from Investing Activities:		
Purchase of investments available for sale	(4,657)	(12,817)
Proceeds from sales of investments available for sale	605	807
Proceeds from maturity of investments available for sale	4,557	12,138
Net increase in loans held for investment	(18,391)	(21,464)
Purchase of property and equipment	(1,368)	(278)
Change in federal funds sold	(547)	1,017
Purchase of investment in life insurance	(350)	-
Net (increase) decrease in interest bearing bank deposits	(60)	5,974
Net Cash Used in Investing Activities	(20,211)	(14,623)
Cash Flows from Financing Activities:		
Net change in demand and savings deposits	(7,544)	(847)
Net change in time deposits	17,091	11,563
Net change in short-term debt	4,550	(7,975)
Cash dividends paid	(963)	(915)
Repurchase of common stock	(222)	(120)
Change in federal funds purchased		1,557
Proceeds of long-term debt	5,000	5,000
Proceeds from issuance of common stock		73
Repayment of long-term debt	(5,021)	(4,237)
Net Cash Provided (Used) by Financing Activities	12,891	4,099
Net Decrease (Increase) in Cash and Cash Equivalents	(295)	(1,209)
Cash and Cash Equivalents, Beginning of Period	7,904	7,938
Cash and Cash Equivalents, End of Period	$ 7,609	$ 6,729
Supplemental Disclosure		
Cash paid for:		
Interest expense	$ 3,887	$ 3,095
Income taxes	450	595

The accompanying notes are an integral part of these statements.

F & M BANK CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands of Dollars)
(Unaudited)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Balance, beginning of period	$ 36,567	$ 34,260
Comprehensive Income		
Net income	2,220	2,314
Net change in unrealized appreciation on securities available for sale, net of taxes	32	(220)
Total comprehensive income	2,252	2,094
Repurchase of common stock	(222)	(120)
Common stock sold to ESOP		73
Dividends declared	(960)	(915)
Balance, end of period	$ 37,637	$ 35,392

The accompanying notes are an integral part of these statements.

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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, 2006 and the results of operations for the three month periods ended June 30, 2006 and June 30, 2005. The notes included herein should be read in conjunction with the notes to financial statements included in the 2005 annual report to stockholders of the F & M Bank Corp.

The Company does not expect the anticipated adoption of any newly issued accounting standards to have a material impact on future operations or financial position.

NOTE 2 INVESTMENT SECURITIES:

The amounts at which investment securities are carried in the consolidated balance sheets and their approximate market values at June 30, 2006 and December 31, 2005 are as follows:

	2006 Cost	2006 Market Value	2005 Cost	2005 Market Value
Securities Held to Maturity				
U. S. Treasury and Agency obligations	$ 110	$ 110	$ 110	$ 110
Total	$ 110	$ 110	$ 110	$ 110

	2006 Cost	2006 Market Value	2005 Cost	2005 Market Value
Securities Available for Sale				
U. S. Treasury and Agency obligations	$ 15,984	$ 15,786	$ 16,007	$ 15,820
Equity securities	6,675	6,320	6,875	6,458
Mortgage-backed securities	3,031	2,894	3,604	3,510
Corporate Bonds	2,500	2,382	2,500	2,354
Municipals	375	364	375	365
Total	$ 28,565	$ 27,746	$ 29,361	$ 28,507

NOTE 3 LOANS HELD FOR INVESTMENT:

Loans outstanding at June 30, 2006 and December 31, 2005 are summarized as follows:

	2006	2005
Real Estate		
Construction	$ 38,908	$ 33,540
Residential	139,041	137,087
Commercial and agricultural	98,662	88,656
Installment loans to individuals	17,275	16,434
Credit cards	1,528	1,616
Other	358	65

Total	$ 295,772	$ 277,398

NOTE 4 ALLOWANCE FOR LOAN LOSSES:

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

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
Balance, beginning of period	$ 1,673	$ 1,511	$ 1,718	$ 1,566
Provisions charged to operating expenses	120	180	60	90
Net (charge-offs) recoveries:				
Loan recoveries	18	36	7	19
Loan charge-offs	(36)	(68)	(10)	(16)
Total Net Charge-Offs *	(18)	(32)	(3)	3
Balance, End of Period	$ 1,775	$ 1,659	$ 1,775	$ 1,659
* Components of Net Charge-Offs				
Real Estate				
Commercial	1	5	1	5
Installment	(19)	(37)	(4)	(2)
Total	$ (18)	$ (32)	$ (3)	$ 3

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F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 BANK OWNED LIFE INSURANCE (BOLI)

The Bank currently offers a variety of benefit plans to all full time employees. While the costs of these plans are generally tax deductible to the Bank, the cost has been escalating greatly in recent years. The Bank has determined that the benefits offered are necessary in order to attract and retain good employees.

To help offset the growth in these costs, the Bank decided to enter into BOLI contracts. Dividends received on these policies are tax-deferred and are anticipated to be tax exempt as the death benefits under the policies are exempt from income taxation. Rates of return on a tax-equivalent basis are very favorable when compared to other long-term assets which the Bank could obtain.

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

F & M Bank Corp. (Company) is a one-bank holding company organized under

Virginia law which provides financial services through its wholly-owned subsidiaries Farmers & Merchants Bank (Bank) and TEB Life Insurance Company (TEB). Farmers & Merchants Financial Services (FMFS) is a wholly-owned subsidiary of the Bank.

The Bank is a full service commercial bank offering a wide range of banking and financial services through its nine branch offices. In April, the Bank opened its first office within the Harrisonburg, Virginia city limits on Port Republic Road. In early July, the Bank opened an office at 700 East Main Street, Luray, Virginia, its first office in Page County, Virginia. In late August the Bank plans to open an office approximately 2 miles east of the Harrisonburg city limits at the intersection of Route 33 and Route 276. Upon opening this office the Bank will simultaneously close and consolidate the operations of its loan/investment production office located at 207 University Boulevard in Harrisonburg and its branch located at the Elkton Plaza Center, Elkton, VA. The Bank also operates a courier service which picks up commercial deposits on a daily basis in the Harrisonburg area. TEB reinsures credit life and accident and health insurance sold by the Bank in connection with its lending activities. FMFS provides title insurance, brokerage services and property/casualty insurance to customers of the Bank.

The Company's primary trade area services customers in Rockingham County, Shenandoah County, Page County and the northern part of Augusta County. The addition of the Luray branch recently increased the Company's service area to include eastern and northern Page County.

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

Forward-Looking Statements

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

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

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

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

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) Statement of Financial Accounting Standard ("SFAS") No. 5, Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and estimable and (ii) SFAS No. 114, Accounting by Creditors for Impairment of a Loan, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

Goodwill and Intangibles

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

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

Securities Impairment

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

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

Overview

Net income for the second quarter of 2006 was $1,135,000 or $.47 per share, compared to $1,147,000 or $.48 per share in the second quarter of 2005, a decrease of 1.05%. Core operating earnings, (exclusive of non-recurring items) totaled $1,138,000 in 2006 and $1,132,000 in 2005, an increase of .53%. During the second quarter, noninterest income, exclusive of securities transactions, increased 6.06% and noninterest expense increased 13.78% during the same period.

Results of Operations

Year to Date

The 2006 year to date tax equivalent net interest margin increased $441,000 or 7.04% compared to the same period 2005. The yield on earning assets increased .78%, while the cost of funds increased .72% compared to the same period in 2005. These increases are consistent with market rates within the local and national economies and resulted as both maturing assets and liabilities repriced at higher rates.

Beginning in June 2004, the Federal Reserve's Federal Open Market Committee (FOMC) reversed its accommodative monetary policy and has since raised short term interest rates, in .25% increments by a total of 4.25% through June 2006. Although the Interest Sensitivity Analysis on page 20 indicates the Company is in a liability sensitive position in the one year time horizon, the recent increase in rates has proven beneficial to the net interest margin. This has resulted due to the fact that a large portion of rate sensitive liabilities (checking and savings) do not reprice immediately with changes in market rates, but are adjusted at the discretion of management based on funding needs and competitive factors. While the net interest margin for both the six month (4.20%) and three month periods (4.18%) compare favorably to the prior year, it is notable that the net interest margin fell from 4.25% in the first quarter 2006 to its current level. This is indicative of strong competition locally for deposits (principally certificates of deposit) and the Banks current liability sensitive position. Based on the current rate environment, and baring a reversal by the FOMC in the direction of rates, it is anticipated that the net interest margin will continue to drift downward slightly through the one year time horizon. Changes in the distribution in assets and liabilities (balance sheet leverage) could affect these anticipated results.

A schedule of the net interest margin for 2006 and 2005 can be found in Table I on page 19.

Noninterest income, exclusive of securities transactions, decreased $25,000 or 1.90% through June 30, 2006. Items contributing to the decrease include a $130,000 decrease in returns on low income housing partnerships. The returns on these investments are principally in the form of tax credits and in 2005 included $93,000 related to the recognition of non-recurring deferred state tax credits. These credits have been classified as a return on investment rather than as a reduction of income tax expense. This has been done to reflect the fact that the Company entered into these investments with the expectation that tax credits would be the primary source of investment return and to avoid a distortion of income tax expense for the period. Secondary market loan origination fees also decreased $27,000. Service charges on deposit accounts increased $89,000 primarily as a result of increased overdraft fee income. Income from insurance sales and other commissions increased $18,000.

Noninterest expense increased $482,000 in 2006. The increase is the result of a $441,000 increase in salaries and benefits expense (19.01%). The increase in salaries and benefits includes normal salary increases for existing staff, an increase in full time equivalent (FTE) employees from 93 in 2005 to 114 in 2006, and an increase in the cost of group insurance of 20.89% The increase in FTEs included hiring of staff related to two new branch offices, drivers for the courier service, staffing related to the creation of a centralized loan operations department and the addition of a facilities manager. Exclusive of personnel expenses, other noninterest expenses increased at an annualized rate of 2.25% in 2006 compared to 2005. All of this increase is related to occupancy and equipment expense attributable to the two new branches. Noninterest expense as an annualized percentage of average assets equals 2.59% which compares to 2.33% in the prior year. Operating costs continue to compare very favorably to the peer group. As stated in the most recently available Bank Holding Company Performance Report, peer group noninterest expenses averaged 3.16% of average assets. 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.

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

Quarter Ending June 30

The Company's net income decreased $12,000 to $1.135 million in 2006 as compared to the second quarter of 2005. After adjusting to exclude securities transactions, core earnings increased $6,000. Net interest income increased $223,000, while the tax equivalent net interest margin increased 25 bps to 4.18%. For the quarter, noninterest income, exclusive of securities transactions, increased to $718,000 compared to $677,000 in 2005. The increase was primarily the result of an increase in service charges on deposits and insurance commissions. Noninterest expense increased 13.78%, or $289,000 in 2006. Of this amount, $232,000 related to increases in salaries and benefits expenses. Total salaries and benefits increased 19.56%, and include normal increases in base salaries, an increase in staffing, and increases in the associated benefit accruals.

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 5.25% 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 increased slightly year to date.

Securities

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

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

As of June 30, 2006, the cost of all securities available for sale exceeded their market value by $854,000. This includes declines in value in both the equity securities held by the Company and in the value of government obligations held by the Bank. Declines in the value of the bond portfolio are the result of recent changes in short term rates within the market for fixed income securities. Management has traditionally held debt securities (regardless of classification) until maturity and thus it does not expect the fluctuations in value of these securities to have a direct impact on earnings.

Investments in debt securities decreased $2,292,000 in the second quarter of 2006. The portfolio is made up of primarily agency and mortgage-backed securities with an average portfolio life of approximately one and a half years. This short average life results in less portfolio volatility and positions the Bank to redeploy assets in response to rising rates. Scheduled maturities in the remainder of 2006 total $8,000,000 and these bonds have an average yield of approximately 3.50%. Based on current market rates, as these bonds mature, the funds will be reinvested at rates that are approximately 175 BP higher.

The Company's equity securities portfolio was $355,000 below cost at June 30, 2006, compared to $417,000 below cost at year end 2005. The decline in the value of the equities portfolio is spread over a number of asset sectors including dividend producing mutual funds that hold primarily preferred stocks. These funds have declined in value as their yields have become less favorable relative to alternative investment categories. To minimize risk the Company holds a diversified portfolio of equity investments in a number of large, regional financial institutions, a diversified portfolio of REITs and a variety of other predominantly blue-chip securities. Management continues to believe that these investments offer adequate current returns (dividends) and have the potential for future increases in value.

A review of these investments as of June 30, 2006, revealed no securities that were impaired as of quarter end and 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, hotels, churches, assisted living facilities and the aforementioned mortgage participations. Management and the Board of Directors review these concentrations quarterly.

The second quarter of 2006 resulted in an increase of $3,262,000 in the Bank's portfolio of loans held for investment. The rate of increase in the loan portfolio slowed significantly compared to the first quarter of 2006 when the portfolio grew $15,112,000. This appears to be reflective of a slowdown in the real estate sector of the local economy brought on by rising interest rates. Year to date the growth in the loan portfolio has been concentrated within the real estate portfolio, both residential and commercial properties. Within the last two years, the bank hired two commercial lenders that brought experience from larger regional banks. Both these lenders have been successful in bringing loan customers from their former banks which has added to the recent growth in the portfolio.

In 2003, management entered into an agreement with Gateway Bank (of California) to purchase short-term real estate loan participations. These loans have been purchased by Gateway from mortgage brokers and will be held until sold to the ultimate holder in the secondary market. All loans have firm take-out commitments and are held for periods ranging from two to sixty days, but averaging approximately fifteen days. These loans originate in several states throughout the country, however, a significant portion are from the state of California. These loans are designated on the balance sheet as "Loans Held for Sale".

While a purchase commitment of $45,000,000 remains in place, due to a slowing of the real estate market, the bank has not held any of these loans during the second quarter of 2006.

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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 $1,295,000 at June 30, 2006 compared to $695,000 at December 31, 2005. Approximately 90% of these past due loans are secured by real estate. Although the potential exists for some loan losses, management believes the bank is generally well secured and continues to actively work with its customers to effect payment. As of June 30, 2006, the Company does not hold any real estate which was acquired through foreclosure.

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

	June 30, 2006	December 31, 2005
Nonaccrual loans	$ 7,000	$ 63,000
Loans past due 90 days or more and still accruing interest	1,288,000	632,000
Restructured loans	0	0
	$1,295,000	$ 695,000
Percent of loans held for investment	.43%	.25%

Allowance for Loan Losses

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

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

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

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

The allowance for loan losses of $1,775,000 at June 30, 2006 is equal to ..60% of loans held for investment. This compares to an allowance of $1,673,000 (.60%) at December 31, 2005. Management has funded the allowance at a rate of $20,000 per month throughout the year of 2006, for a total of $120,000. Total charge-offs, net of recoveries, equal $18,000 year to date. This is equivalent to an annualized loss rate of .01% of total loans. In recent years, the company has had an average loss rate of .08% which is approximately one half the loss rate of its peer group.

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

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 $9,548,000 since December 31, 2005. Time deposits increased $17,091,000 during this period while demand deposits and savings deposits decreased $7,543,000. Due to the growth in its loan portfolio and competition for deposits within its market, the Bank has advertised various short term certificate of deposit rate specials to attract new funds. The Bank also continues to advertise a free checking account product. The growth in deposits appears to be a result of advertising of these accounts.

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 $4,329,000 through June 30, 2006. Additional borrowings of $5,000,000 were obtained to assist in funding the growth in the loans held for investment

In September 2002, the Company borrowed $3 million from SunTrust Bank. This loan carries an interest rate of LIBOR + 1.10% and is variable. Payments of $230,769 plus interest began in the second quarter of 2004 and will continue for a period of thirteen quarters. Proceeds of this loan were used primarily to provide a capital contribution to the Bank.

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, 2006, the Company's total risk based capital and total capital to total assets ratios were 13.75% and 10.39%, respectively. Both ratios are in excess of regulatory minimums and exceed the ratios of the Company's peers. Earnings have been satisfactory to allow an increase in the second quarter dividend in 2006 of 5.26%.

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, 2006, the Company had a cumulative Gap Rate Sensitivity Ratio of (9.76%) for the one year repricing period. This generally indicates that earnings would decrease in an increasing interest rate environment as liabilities reprice more quickly than assets. However, in actual practice, this may not be the case as loans tied to the prime rate of interest will reprice immediately with an increase in short term market rates, while deposit rates will remain stable until competitive market conditions dictate the necessity for an increase in rates. Management constantly monitors the Company's interest rate risk and has decided the current position is acceptable for a well-capitalized community bank.

A summary of asset and liability repricing opportunities is shown in Table II.

Stock Repurchase

On June 12, 2003, the Board authorized the repurchase of 50,000 shares of the Company's outstanding common stock. Management has been authorized to repurchase shares from time to time in the open market or through privately negotiated transactions when market conditions warrant. The repurchased shares are accounted for as retired stock. During the second quarter of 2006 5,915 shares were repurchased, at an average cost of $28.03 per share.

On July 26, 2006, the Board of Directors approved an amendment to the share repurchase program. The amendment increases the number of shares of common stock that the Registrant can repurchase under the program from 50,000 to 100,000 shares. As of July 26, 2006, the Company had repurchased 44,064 shares of its common stock under the program.

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

Effect of Newly Issued Accounting Standards

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

Existence of Securities and Exchange Commission Web Site

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

TABLE 1

F & M BANK CORP.
NET INTEREST MARGIN ANALYSIS

(Dollar Amounts in Thousands)

	Six Months Ended June 30, 2006			Six Months Ended June 30, 2005			Three Months End June 30, 2006	
	Average Balance	Income/ Expense	Rates	Average Balance	Income/ Expense	Rates	Average Balance	Income/ Expense
Rate related income								
Loans held for investment(1)	$287,464	$10,014	6.97%	$263,900	$8,389	6.36%	$293,039	$5,184
Loans held for sale	283			16,810	348	4.14%		
Federal funds sold	886	20	4.51%	1,801	24	2.67%	619	8
Bank deposits	2,034	47	4.62%	4,703	45	1.91%	1,974	21
Investments								
Taxable (3)	21,367	428	4.01%	23,433	395	3.37%	21,259	228
Partially taxable (2,3)	6,897	215	6.23%	7,111	231	6.50%	6,730	102
Tax exempt (2,3)	375	9	4.80%	375	9	4.80%	375	5
Total earning assets	319,306	10,733	6.72%	318,133	9,441	5.94%	323,996	5,548
Interest Expense								
Demand deposits	38,536	200	1.04%	38,860	99	.51%	39,176	125
Savings	41,369	249	1.20%	48,575	241	.99%	39,758	118
Time deposits	142,874	2,668	3.73%	126,349	1,875	2.97%	145,771	1,419
Short-term debt	16,367	390	4.77%	24,971	347	2.78%	18,528	230
Long-term debt	23,612	524	4.44%	31,422	618	3.93%	24,259	274
Total interest bearing liabilities	262,758	4,031	3.07%	270,177	3,180	2.35%	267,492	2,166
Net interest income (1)		$ 6,702			$6,261			$3,382
Net yield on interest earning assets (1)			4.20%			3.94%		

(1) Interest income on loans includes loan fees.
(2) An incremental tax rate of 34% was used to calculate the tax equivalent income on nontaxable and partially taxable investments.
(3) Average balance information is reflective of historical cost and has not been adjusted for changes in market value.
(4) Average balances include non-accrual loans.

TABLE II

F & M BANK CORP.
INTEREST SENSITIVITY ANALYSIS
June 30, 2006
(In Thousands of Dollars)

The following table presents the Company's interest sensitivity.

	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Not Classified	Total
Uses of Funds						
Loans						
Commercial	$ 46,243	$ 8,014	$ 78,074	$ 5,239	$	$ 137,570
Installment	5,188	987	10,271	1,187		17,633
Real estate for investments	22,397	6,036	93,651	16,957		139,041
Credit cards	1,528					1,528
Federal funs sold	3,034					3,034
Interest bearing bank deposits	1,101	792	396			2,289
Investment securities	4,996	9,026	7,112		6,722	27,856
Total	84,487	24,855	189,504	23,383	6,722	328,951
Sources of Funds						
Interest bearing demand deposits		11,709	21,061	4,676		37,446
Savings deposits		7,491	22,474	7,491		37,456
Certificates of deposit $100,000 and over	1,267	25,699	17,865			44,831
Other certificates of deposit	12,443	52,119	45,859			110,421
Short-term borrowings	18,895					18,895
Long-term borrowings	3,088	8,742	8,920	2,037		22,787
Total	35,693	105,760	116,179	14,204		271,836
Discrete Gap	48,794	(80,905)	73,325	9,179	6,722	57,115
Cumulative Gap	48,794	(32,111)	41,214	50,393	57,115	
Ratio of Cumulative Gap to Total Earning Assets	14.83%	(9.76)%	12.53%	15.32%	17.36%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of June 30, 2006. 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.

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

During the period reported upon, the only significant change in F & M Bank Corp.'s internal controls was an increase in the lending limit of the management loan committee from $800,000 to $1,500,000. No other changes were made pertaining to its financial reporting and control of its assets or in other factors that could significantly affect these controls since the date of their evaluation.

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 S. B. Hoover, LLP, a public accounting firm, to complete regular internal 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 S. B. Hoover are presented to management of the Bank and to the Audit Committee of the Company.

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Part II Other Information

Item 1. Legal Proceedings - Not Applicable

Item 1a. Risk Factors - There have been no material changes from the risk factors previously disclosed in Item 1a of the Corporation's Form 10k filed on March 24, 2006.

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

Item 3. Defaults Upon Senior Securities - Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders - On May 13, 2006, the shareholders held their annual meeting. The following items were approved by the shareholders by the required majority:

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

	Votes "For" by Proxy	Votes "Withheld" by Proxy
Ellen R. Fitzwater	1,636,276	8,383
Richard S. Myers	1,634,015	10,644
Ronald E. Wampler	1,631,978	12,681

2) Appointment of Larrowe & Company, P.L.C as independent auditors as proposed in the proxy materials; 1,636,162 votes "for", 61 votes "against", and 8,436 abstained.

Item 5. Other Information - Not Applicable

Item 6. Exhibits

(a) Exhibits

3 i 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.

3 ii 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).

(b) Reports Filed on Form 8-K

A Form 8-K was filed as of August 2, 2006 under Item 8.01 - Other Matters. This Form 8-K disclosed an amendment in an existing share repurchase plan to increase in the number of shares of common stock that the Registrant can repurchase under the plan from 50,000 to 100,000 shares.

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Signature

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

F & M BANK CORP.

/s/ DEAN W. WITHERS

Dean W. Withers
President and Chief Executive Officer

/s/ NEIL W. HAYSLETT

Neil W. Hayslett
Senior Vice President and Chief Financial Officer

August 11, 2006