AMERICAN NATIONAL BANKSHARES INC
Form DEF 14A
March 14, 2008

American National Bankshares Inc.
628 Main Street, Danville, Virginia

Notice of Annual Meeting

and

Proxy Statement

Annual Meeting of Shareholders
To Be Held
April 22, 2008

American National Bankshares Inc.
628 Main Street
Danville, Virginia 24541

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held April 22, 2008

Notice is hereby given that the Annual Meeting of Shareholders of American National Bankshares Inc. (the "Corporation") will be held as follows:

Place: The Wednesday Club
1002 Main Street
Danville, Virginia 24541

Date: April 22, 2008

Time: 11:30 a.m.

The Annual Meeting is being held for the following purposes:

1. To elect three (3) directors of the Corporation to serve a three-year term as Class III directors and one (1) director of the Corporation to serve a one-year term as a Class I director;

2. To approve the American National Bankshares Inc. 2008 Stock Incentive Plan; and

3. To transact any other business that may properly come before the meeting or any adjournment thereof.

Only shareholders at the close of business on March 7, 2008, are entitled to notice of and to vote at the Annual Meeting.

It is important that your shares are represented at the meeting. Accordingly, please sign, date, and mail the enclosed proxy in the enclosed postage-paid envelope, whether or not you plan to attend the meeting. If you do attend the Annual Meeting, you may revoke your proxy and vote your shares in person.

By order of the board of directors,

Neal A. Petrovich
Secretary

Danville, Virginia
March 24, 2008

American National Bankshares Inc.

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
APRIL 22, 2008

INTRODUCTION

This proxy statement is furnished in conjunction with the solicitation by the board of directors of American National Bankshares Inc. (the "Corporation") of the accompanying proxy to be used at the Annual Meeting of Shareholders of the Corporation (the "Annual Meeting") and at any adjournments thereof. The meeting will be held on Tuesday, April 22, 2008, 11:30 a.m., at The Wednesday Club, 1002 Main Street, Danville, Virginia, 24541, for the purposes set forth below and in the Notice of Annual Meeting of Shareholders. The approximate mailing date of this proxy statement and the enclosed proxy is March 24, 2008.

Voting Rights of Shareholders

Only shareholders of record at the close of business on March 7, 2008, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof. As of the close of business on March 7, 2008, there were 6,103,085 shares of the Corporation's common stock outstanding and entitled to vote at the Annual Meeting. The Corporation has no other class of stock outstanding. Each share of common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting.

A majority of the votes entitled to be cast, represented in person or by proxy, will constitute a quorum for the transaction of business. Shares for which the holder has elected to abstain or to withhold the proxies' authority to vote on a matter, and broker non-votes, will count toward a quorum, but will not be included in determining the number of votes cast with respect to such matter.

Revocation and Voting of Proxies

Execution of a proxy will not affect a shareholder's right to attend the Annual Meeting and to vote in person. Any shareholder who has executed and returned a proxy may revoke it by attending the Annual Meeting and requesting to vote in person. A shareholder may also revoke his or her proxy at any time before it is exercised by filing a written notice with the Corporation or by submitting a proxy bearing a later date. Proxies will extend to, and will be voted at, any adjourned session of the Annual Meeting.

Solicitation of Proxies

The cost of solicitation of proxies will be borne by the Corporation. Solicitation is being made by mail, and if necessary, may be made in person or by telephone, or special letter by officers and employees of the Corporation or its banking subsidiary, American National Bank and Trust Company (the "Bank"), acting on a part-time basis and for no additional compensation.

PROPOSAL ONE - ELECTION OF DIRECTORS

The Corporation's board of directors currently consists of eleven persons. The board is divided into three classes (I, II and III), each class as nearly equal in number as possible. The term of office for the Class III directors will expire at the Annual Meeting and the nominees to serve as Class III directors are set forth below. Each of the Class III nominees currently serves as a director of the Corporation. If elected, the Class III nominees will serve until the 2011 Annual Meeting of Shareholders, and until their respective successors are duly elected and qualified. The board has also nominated E. Budge Kent, Jr., currently a Class III director, to serve as a Class I director for a one-year term expiring at the 2009 Annual Meeting.

The persons named in the accompanying proxy will vote for the election of the nominees named below unless authority is withheld. If for any reason the persons named as nominees below should become unavailable to serve, an event that management does not anticipate, proxies will be voted for such other persons as the board of directors may designate.

The board of directors recommends the nominees, as set forth below, for election. The board of directors recommends that shareholders vote FOR these nominees. The election of each nominee requires the affirmative vote of a plurality of the shares of the Corporation's common stock cast in the election of directors.

The names of the nominees for election and the other continuing members of the board of directors, their principal occupations, their ages as of December 31, 2007, and certain other information with respect to such persons are as follows:

Name	Principal Occupation	Age	Director Since
Nominees for election as Class III directors to continue in office until 2011			
H. Dan Davis	Retired Executive Vice President of the Corporation and Senior Vice President of the Bank. Retired as Consultant to the Corporation and the Bank in March 2003.	70	1996
Lester A. Hudson, Jr., Ph.D.	Professor and Wayland H. Cato Chair of Leadership, McColl School of Business, Queens University of Charlotte, Charlotte, NC, since August 2003. Prior thereto, Professor of Strategy, Clemson University, Clemson, SC.	68	1984
Charles H. Majors *	Chief Executive Officer and President of the Corporation and the Bank.	62	1981

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Name	Principal Occupation	Age	Director Since
Nominee for election as a Class I director to continue in office until 2009			
E. Budge Kent, Jr. *	Senior Adviser to the Bank since January 2006. Prior thereto, Executive Vice President of the Corporation and Executive Vice President and Chief Trust and Investment Officer of the Bank.	68	1979
Directors of Class II to continue in office until 2010			
Fred A. Blair	President of Blair Construction, Inc. (general contractor), Gretna, VA.	61	1992
Frank C. Crist, Jr., D.D.S.	President of Brady & Crist Dentists, Inc., Lynchburg, VA.	62	2006
Fred B. Leggett, Jr.	Retired Chairman and Chief Executive Officer of Leggett Stores (retail), Danville, VA.	70	1994
Claude B. Owen, Jr.	Retired Chairman and Chief Executive Officer of DIMON Incorporated (leaf tobacco dealer), Danville, VA.	62	1984
Directors of Class I to continue in office until 2009			
Ben J. Davenport, Jr.	Chairman, First Piedmont Corporation (waste management), Chatham, VA. Chairman, Davenport Energy Inc. (petroleum distribution), Chatham, VA.	65	1992
Michael P. Haley	Adviser to Fenway Partners, Inc. (private equity investments), New York, NY, since April 2006. Prior thereto, Retired Chairman, MW Manufacturers, Inc. (window manufacturer), Rocky Mount, VA, since June 2005; Chairman from January 2005 to June 2005; President and Chief Executive Officer from June 2001 to January 2005.	57	2002

Franklin W. Maddux, M.D.	Chief Medical Officer, Specialty Care Services Group (healthcare services), Nashville, TN, since July 2006. President and Chairman, Maddux Consulting, Inc. (medical consulting), since September 2005. Chairman and Chief Executive Officer, Gamewood, Inc. (information technology service), Danville, VA. Prior thereto, President and Chairman, Danville Urologic Clinic.	50	2002

* Indicates those directors not considered to be independent.

Board Independence

The Corporation's board of directors has determined that, except for Messrs. Kent and Majors, each director is independent within the director independence standard of the NASDAQ Stock Market LLC ("NASDAQ"), as currently in effect, and within the Corporation's director independence standards, as established and monitored by the Corporation's Corporate Governance and Nominating Committee.

Board Members Serving on Other Publicly Traded Company Boards of Directors

Certain of the Corporation's directors are also directors of other publicly traded companies. Mr. Hudson has been a director of American Electric Power Company Inc. since 1987. Mr. Michael P. Haley has been a director of Stanley Furniture Company Inc. since 2003, and LifePoint Hospitals Inc. since 2005.

Board of Directors and Committees

Directors are expected to devote sufficient time, energy, and attention to ensure diligent performance of their duties, including attendance at board, committee, and shareholder meetings. The board of directors of the Corporation met seven times during 2007. In accordance with the Corporation's Corporate Governance Guidelines, the independent directors held four executive sessions during 2007. The Chairman of the Corporate Governance and Nominating Committee presides at such sessions. The board of directors of the Bank, which consists of all members of the Corporation's board, met thirteen times during 2007.

All incumbent directors and director nominees attended more than 75% of the aggregate total number of meetings of the boards of directors and committees on which they served in 2007. Eight directors attended the 2007 Annual Meeting of Shareholders. The boards of directors of the Corporation and the Bank have established various committees, including the Audit and Compliance Committee, the Corporate Governance and Nominating Committee, and the Human Resources and Compensation Committee. Membership and other information on these committees is detailed below.

The Audit and Compliance Committee met four times in 2007. This Committee currently consists of Messrs. Blair, Maddux, and Michael P. Haley. Mr. Blair serves as the Chairman. The Committee reviews significant audit, accounting and compliance principles, policies and practices, is directly responsible for engaging and monitoring the independent auditors of the Corporation, and provides oversight of the internal auditing and compliance functions. A more detailed description of the functions of this Committee is contained under the heading "Report of the Audit and Compliance Committee." All of the members of this Committee are considered independent within the meaning of Securities and Exchange Commission ("SEC") regulations, the listing standards of NASDAQ, and the Corporation's Corporate Governance Guidelines. Mr. Michael P. Haley, a member of the Committee, is qualified as an audit committee financial expert within the meaning of SEC regulations and the board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of NASDAQ.

The Corporate Governance and Nominating Committee met two times in 2007. Current members of the Committee are Messrs. Crist, Maddux, and Owen. Mr. Owen serves as the Chairman. The Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of the Corporation's Corporate Governance Guidelines. In addition, the Committee develops and reviews background information on candidates for the board and makes recommendations to the board regarding such candidates. The Committee also supervises the board's annual review of director independence and oversees the board's performance self-evaluation. All the members of this Committee are considered independent within the meaning of SEC regulations, the listing standards of NASDAQ, and the Corporation's Corporate Governance Guidelines.

The Human Resources and Compensation Committee met two times in 2007. The Committee currently consists of Messrs. Davenport, Davis, and Hudson. Mr. Hudson serves as the Chairman. This Committee is responsible for establishing and approving the compensation of executive officers of the Corporation, except for the compensation of the Chief Executive Officer. The compensation of the Chief Executive Officer is reviewed, discussed, and approved by the independent members of the board of directors, upon recommendation of the Committee. The Committee also makes recommendations to the board of directors regarding promotions, director compensation, and related personnel matters. Refer to the "Compensation Discussion and Analysis" section of this proxy statement for further information on the duties and responsibilities of this Committee. No member of the Human Resources and Compensation Committee of the board of directors is a current officer or employee of the Corporation. All members of this Committee are considered independent within the meaning of SEC regulations, the standards of NASDAQ, and the Corporation's Corporate Governance Guidelines.

The charters of the Audit and Compliance Committee, the Corporate Governance and Nominating Committee, and the Human Resources and Compensation Committee are available on the Corporation's website, www.amnb.com. For access to the charters, select the "American National Bankshares Inc." icon, then select "Governance Documents."

Compensation Committee Interlocks and Insider Participation

No member of the Human Resources and Compensation Committee or executive officer of the Corporation has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

Director Nominations Process

The Corporation's board of directors has adopted, as a component of its Corporate Governance Guidelines, a process related to director nominations (the "Nominations Process"). The purpose of the Nominations Process is to describe the manner by which candidates for possible inclusion in the Corporation's recommended slate of director nominees are selected. The Nominations Process is administered by the Corporate Governance and Nominating Committee of the board.

The Committee considers candidates for board membership suggested by its members, other board members, management, and shareholders. A shareholder who wishes to recommend a prospective nominee for the board may, at any time, notify the Corporation's President and Chief Executive Officer or any member of the Committee in writing with supporting material the shareholder considers appropriate. The Committee will decide whether to recommend to the board the nomination of any person recommended by a shareholder pursuant to the provisions of the Corporation's bylaws relating to shareholder proposals, as described in the "Shareholder Communications and Proposals" section of this proxy statement.

Once the Committee has identified a candidate, it makes an initial determination as to whether to conduct a full evaluation of the candidate. The initial determination is based on information accompanying the recommendation, as well as the Committee members' knowledge of the candidate, which may be supplemented by inquiries to the person making such recommendation or to others. The preliminary determination is based primarily on the need for additional board members to fill vacancies or expand the size of the board and the likelihood that the candidate can satisfy the evaluation factors established in the Corporate Governance Guidelines. The Committee may seek additional information about the candidate's background and experience. The Committee then evaluates the candidate against the criteria in the Corporation's Corporate Governance Guidelines, including independence, age, diversity, availability for time commitment, skills such as an understanding of the financial services industry, general business knowledge, and experience, all in the context of an assessment of the perceived needs of the board at that point in time. In connection with this evaluation, the Committee determines whether to interview the candidate, and if warranted, one or more members of the Committee will conduct such interview. After completing the evaluation, the Committee makes a recommendation to the board of directors as to the persons who should be nominated by the board, and the board determines the nominees after considering the recommendation of the Committee.

SECURITY OWNERSHIP

As of March 7, 2008, no shareholder beneficially owned 5% or more of the Corporation's common stock other than Ambro and Company, the nominee name that American National Bank and Trust Company uses to register the securities it holds in a fiduciary capacity for customers. Ambro and Company beneficially owned 636,255 shares of the Corporation's common stock, or 10.43% of the outstanding shares, as of March 7, 2008. Of this amount, 197,078 shares may be voted by existing co-fiduciaries. The Bank may not vote the remaining shares, but co-fiduciaries may be qualified for the sole purpose of voting all or a portion of these remaining shares at the Annual Meeting. The address of Ambro and Company is P.O. Box 191, Danville, Virginia, 24543.

The following table sets forth, as of March 7, 2008, the beneficial ownership of the Corporation's common stock by all directors and nominees for director, all executive officers of the Corporation named in the Summary Compensation Table, and all directors and executive officers of the Corporation as a group.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned (1) (#)			Percent of Class (%)
Fred A. Blair	5,436	(2)		*
Frank C. Crist, Jr., D.D.S.	77,372	(2)		1.27
Ben J. Davenport, Jr.	28,567			*
H. Dan Davis	129,514	(2)		2.12
R. Helm Dobbins	15,700	(3)		*
Jeffrey V. Haley	28,437	(2)	(3)	*
Michael P. Haley	5,518			*
Lester A. Hudson, Jr., Ph.D.	9,804			*
E. Budge Kent, Jr.	52,792	(2)	(3)	*
Fred B. Leggett, Jr.	10,152	(2)		*
Franklin W. Maddux, M.D.	2,400	(2)		*
Charles H. Majors	106,424	(2)	(3)	1.73
Claude B. Owen, Jr.	15,632	(2)		*
Neal A. Petrovich	12,000	(3)		*
All directors and executive officers as a group (14)	499,747			8.03

* Represents less than 1% ownership.

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934 under which, in general, a person is deemed to be the beneficial owner of a security if he 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 has the right to acquire beneficial ownership of the security within 60 days.

(2) Includes shares held by affiliated corporations, close relatives, minor children, and shares held jointly with spouses or as custodians or trustees, as follows: Mr. Blair, 300 shares; Dr. Crist, 545 shares; Mr. Davis, 40,704 shares; Mr. Jeffrey V. Haley, 421 shares; Mr. Kent, 1,605 shares; Mr. Leggett, 9,268 shares; Dr. Maddux, 1,100 shares; Mr. Majors, 3,744 shares; and Mr. Owen, 4,200 shares.

(3) Includes shares that may be acquired pursuant to currently exercisable stock options: Mr. Dobbins, 14,000 shares; Mr. Jeffrey V. Haley, 20,270 shares; Mr. Kent, 12,000; Mr. Majors, 64,000 shares; Mr. Petrovich, 10,000 shares; all directors and executive officers as a group, 120,270 shares.

COMPENSATION COMMITTEE REPORT

The Human Resources and Compensation Committee of the board of directors has reviewed and discussed with management the Corporation's Compensation Discussion and Analysis. Based upon this review and discussion, the Committee recommended to the board of directors that the Compensation Discussion and Analysis be included in the Corporation's definitive Proxy Statement on Schedule 14A for its 2008 Annual Meeting, which is incorporated by reference in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission.

Respectfully submitted,

Lester A. Hudson, Jr., Ph.D., Chairman
Ben J. Davenport, Jr.
H. Dan Davis

COMPENSATION DISCUSSION AND ANALYSIS

The Corporation's Executive Compensation Philosophy

The Human Resources and Compensation Committee of the board of directors is responsible for establishing and approving the compensation of the executive officers of the Corporation, except for the compensation of the Chief Executive Officer, which is approved by the independent members of the board of directors. The Committee considers a variety of factors and criteria in arriving at its decisions and recommendations for compensation. The Committee's objective is to attract and retain qualified executive officers and to align their interests with those of the Corporation and its shareholders. Accordingly, a portion of the executive compensation program is designed to motivate and reward achievements that make a positive impact on the Corporation's profitability and total shareholder return.

The Committee's policy on the tax deductibility of compensation for the executive officers is to maximize deductibility to the extent possible, while preserving the Corporation's flexibility to maintain a competitive compensation program. The Corporation expects all executive compensation paid or awarded during 2007 to be fully deductible for tax purposes.

Each director who served on the Committee during 2007 qualifies as a "non-employee director" as such term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, and is an "independent director" as such term is defined in NASDAQ Marketplace Rule 4200(a)(15).

Salary

The base salary of each executive officer named in the Summary Compensation Table (the "named executive officers") is designed to be competitive with that of the Corporation's peer banks and bank holding companies. In establishing the base salaries for the named executive officers, the Committee relies upon an evaluation of each officer's level of responsibility and performance and on comparative information, including the Virginia Bankers Association's Salary Survey of Virginia Banks and the SNL Bank Compensation Review. In establishing base salaries for named executive officers other than the Chief Executive Officer, the Committee also receives and takes into account the individual compensation recommendations of the Chief Executive Officer. The independent directors collectively evaluate the performance of the Chief Executive Officer in executive session. Subsequently, the Chairman of the Committee meets individually with the Chief Executive Officer to review the results of the evaluation. The salary of the Chief Executive Officer is reviewed, discussed, and approved by the independent members of the board of directors, upon recommendation of the Committee.

Profit Sharing

The Corporation's profit sharing program is designed to recognize and reward the efforts of all eligible full-time employees for their contribution toward the attainment of the Corporation's financial goals. For 2007, awards under the profit sharing program were based on the achievement of stated values of adjusted earnings per share and calculated on a range of 1 to 4% of base salary. Awards for the named executive officers were based on the same criteria as that of all other eligible employees. For 2007, adjusted earnings per share equaled basic earnings per share adjusted for the following nonrecurring items approved by the board of directors: (a) the net expenses of new branch offices opened in 2007; and (b) the securities impairment charge recorded in 2007. The awards earned in 2007 were disbursed in the first quarter of 2008.

Incentive Compensation

The incentive compensation program is designed to recognize and reward Corporation officers, including the named executive officers, whose achievements resulted in a positive impact to the Corporation. The 2007 incentive compensation program was available to full-time exempt employees (elected and appointed officers who are not eligible for overtime and who are not paid on a commission basis or otherwise specifically excluded from the program) who were employed as of December 31, 2007, and who were qualified by their performance evaluation. For 2007, awards under the incentive compensation program were based on the achievement of stated values of adjusted earnings per share, as described above, and calculated as a percentage of base salary. The awards earned in 2007 were disbursed in the first quarter of 2008.

For 2008, incentive compensation awards for the named executive officers will be based on total shareholder return, as defined in the program. The amount of incentive compensation will be calculated on a range of 6 to 20% of base salary for the Chief Executive Officer and 4 to 12% of base salaries for the other named executive officers. Amounts will correspond to the level of shareholder return achieved, with a higher level of performance resulting in a higher amount of incentive compensation earned, within the percentage ranges set forth above.

If the 2008 Stock Incentive Plan is approved by shareholders at the Annual Meeting, 60% of any incentive compensation earned by the Chief Executive Officer in 2008 will be paid in the form of stock that is restricted from sale while he is employed by the Corporation.

Stock Option Plan

There were no stock options awarded to any employees or directors during 2007. The Corporation's existing stock option plan provides that no stock options may be granted under the plan after December 31, 2006. From 1997 through 2006, however, the plan served to attract and retain qualified personnel in key positions, provide employees with a proprietary interest in the Corporation as an incentive to contribute to its success, and reward employees for outstanding performance and the attainment of targeted goals. The board of directors and management continue to believe that equity compensation is an important component of the Corporation's overall compensation philosophy and program. Therefore, the board of directors has approved and is recommending that shareholders approve the 2008 Stock Incentive Plan (see Proposal Two).

Deferred Compensation

The Corporation entered into a deferred compensation agreement with Charles H. Majors, Chief Executive Officer, initially as of February 22, 1993, and most recently amended and restated as of January 1, 2002. The agreement requires an annual payment of $50,000 for a period of ten years to Mr. Majors or his designated beneficiary, commencing within three months of his termination of employment or death, whichever occurs first. The amount of this payment is fixed and the funds for this payment are not established in an account that allows for additional contributions or earnings growth. Payments under this agreement are independent of, and in addition to, those under any other plan, program, or agreement between Mr. Majors and the Corporation. There are no deferred compensation arrangements with any of the other named executive officers.

Retirement Plan

The Corporation's retirement plan is a non-contributory defined benefit pension plan that covers all full-time employees of the Corporation who are 21 years of age or older and who have had at least one year of service. Advanced funding is accomplished by using the actuarial cost method known as the collective aggregate cost method.

As of December 31, 2007, the normal retirement benefit formula was 1.3% per year of service multiplied by average compensation, plus .65% per year of service multiplied by average compensation in excess of social security covered compensation, with years of service limited to 35. At normal retirement, the monthly benefit is calculated based on any consecutive five-year period that will produce the highest average rate of basic monthly compensation. Basic monthly compensation includes salary but excludes profit sharing and incentive compensation. This benefit is based on a straight life annuity assuming retirement at age 65. Annual compensation for 2007 is limited to $225,000 by Internal Revenue Service regulations. Cash benefits under the plan generally commence on retirement at age 65, death, or termination of employment, although reduced benefits may commence as early as age 55 with the completion of 10 years of service. Partial vesting of the retirement benefits under the plan occurs after three years of service and full vesting occurs after seven years of service. As of December 31, 2007, the named executive officers have completed the following years of credited service under the retirement plan: Mr. Majors, 15; Mr. Jeffrey V. Haley, 11; Mr. Petrovich, 4; and Mr. Dobbins, 5.

401(k) Employee Savings Plan

The Corporation sponsors a 401(k) Employee Savings Plan in which all full-time employees (age 21 and older) are eligible to participate. The Corporation matches 50% of employee contributions on the first 6% of earned compensation. Perquisites received by executive officers, such as use of an automobile, are not included as earned compensation under this plan. While employee contributions are immediately vested, the Corporation's contributions are subject to a stated vesting schedule.

Perquisites

The Corporation provides the Chief Executive Officer with an automobile and reimburses him for the cost of fuel and maintenance for the vehicle. Additionally, the Corporation reimburses him for the estimated amount of personal income tax on his personal use of the vehicle. The value of this perquisite is included in the Summary Compensation Table.

Other Benefit Plans

Executive officers participate in the Corporation's benefit plans on the same terms as other employees. These plans include medical, dental, life, and disability insurance. The Corporation provides life insurance coverage equal to four times the employee's salary for all eligible employees. A limit on this coverage of $530,000 is dictated by the plan. Coverage in excess of $50,000 is subject to taxation based on Internal Revenue Service guidelines.

Executive Severance Agreements

The Corporation recognizes that, as a publicly held corporation in the financial services industry, there exists the possibility of a change in the control of the Corporation. In order to minimize such uncertainty among executive management and to promote continuity in the event of a change in control, the Corporation has entered into change in control agreements with each of the named executive officers.

In general, "change in control" is defined in the agreements as a change in the majority composition of the board of directors over a 24-month period, a change in the ownership of a majority of the Corporation's voting stock, or a sale of a majority of the Corporation's assets. The terms of each agreement generally reflect provisions used in current industry practice for executive officers of financial institutions. The terms of the agreements are effective upon a change in control and for three years thereafter. The agreements provide that each executive officer's base salary and profit sharing and incentive compensation cannot be reduced during such three-year period.

Each agreement also provides for the executive officer to receive continued salary and benefits if his employment is terminated "without cause" (as such term is defined in the agreement) during the term of the agreement. If employment is terminated during the first year after a control change, the Chief Executive Officer will receive continued salary and benefits for 24 months after such termination and the other executive officers will receive continued salary and benefits until the second anniversary of the change in control. If the termination of employment occurs more than 12 months after the control change, the Chief Executive Officer will receive continued salary and benefits until the third anniversary of the control change and the other executive officers will receive continued salary and benefits until the earlier of the first anniversary of termination of employment or the third anniversary of the control change.

The agreements also provide for continued salary and benefits if the executive officer resigns under certain circumstances. Beginning in the fourth month after a control change, and through the twelfth month after the transaction, each executive officer may resign for any reason and receive continued salary and benefits for 24 months (in the case of the Chief Executive Officer) or 12 months (in the case of the other executives). After the first anniversary of the control change, an executive officer may resign and receive continued salary and benefits for the same period (but not beyond the third anniversary of the control change) if his resignation is on account of a reduction in the executive's compensation, a required relocation of his office more than thirty miles from Danville, Virginia, or a reduction in the duties or title assigned to him as of the first anniversary of the control change.

In all events, the amounts payable under the agreements are governed by two limitations. First, no amounts will be paid under an agreement for any period after the executive attains age 65. Second, no amounts will be paid under an agreement to the extent that the benefits would exceed Internal Revenue Code limits.

Potential Payments Upon Termination or Change in Control

Of the named executive officers, only the Chief Executive Officer would receive payments in the event of retirement or termination unrelated to a change in control. If Mr. Majors' employment had terminated on December 31, 2007, due to a change in control or otherwise, he would receive annual payments of $50,000 for ten years under the terms of the deferred compensation agreement discussed in the Deferred Compensation section of this proxy.

If a change in control had occurred on December 31, 2007, and the named executive officers were terminated on that same date, the benefits that would be payable to each of the named executive officers under the terms of their executive severance agreements are identified in the following table. This hypothetical scenario would require payment of salary and bonus, and coverage under the Corporation's healthcare, other insurance benefits, and pension plans through December 31, 2009. The benefits payable under any other change in control termination scenario would be less than or equal to the amounts shown.

Name	Salary (24 months) $	Non-Equity Incentive Plan Compensation (24 months) $	Healthcare and Other Insurance Benefits (24 months) $	Change in Pension Value (Lump sum) $
Charles H. Majors (1)	700,000	46,390	18,087	122,448
Neal A. Petrovich	280,800	18,609	11,343	13,276
Jeffrey V. Haley	302,400	20,040	11,612	28,762
R. Helm Dobbins	270,002	17,893	14,340	26,198

(1) Excludes annual payments of $50,000 for ten years, which are payable under the terms of a deferred compensation agreement and are not exclusive to a change in control.

The salary and non-equity incentive compensation calculations are based on annualized salary amounts in effect as of December 31, 2007. The non-equity incentive plan compensation is estimated as twice the amount earned by the executive officer in 2007. The value of healthcare and other insurance benefits is estimated as twice the amount provided to the executive officer in 2007. The change in pension value is estimated as twice the 2007 amount reflected in the Summary Compensation Table.

COMPENSATION TABLES

Summary Compensation Table

The following table reflects total compensation paid or earned during 2007 and 2006 for the named executive officers. The Corporation has no executive officers other than those named in the table.

Name and Principal Position	Year	Salary ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Charles H. Majors	2007	347,308	23,016	61,224	19,129	450,677
President and Chief Executive Officer	2006	313,846	47,313	49,862	24,416	435,437
of the Corporation and the Bank						
(Principal Executive Officer)						
Neal A. Petrovich	2007	139,200	9,225	6,638	10,432	165,495
Senior Vice President, Chief Financial						
Officer,	2006	129,462	19,492	6,392	10,603	165,949
Treasurer, and Secretary of the						
Corporation; Executive Vice President and						
Chief Financial Officer of the Bank						
(Principal Financial Officer)						
Jeffrey V. Haley	2007	149,908	9,935	14,381	10,926	185,150
Senior Vice President of the Corporation;	2006	139,231	20,761	13,303	11,073	184,368
Executive Vice President and Chief						
Operating Officer of the Bank						
R. Helm Dobbins	2007	133,847	8,870	13,099	11,757	167,573
Senior Vice President of the Corporation;	2006	124,501	19,040	13,451	10,371	167,363
Execuitive Vice President and Chief						
Credit Officer of the Bank						

The non-equity incentive plan compensation consists of amounts earned under the Corporation's profit sharing and incentive compensation programs. Profit sharing earned on 2007 performance was as follows: Mr. Majors, $5,891; Mr. Petrovich, $2,361; Mr. Jeffrey V. Haley, $2,543; and Mr. Dobbins, $2,270. Incentive compensation earned on 2007 performance was as follows: Mr. Majors, $17,125; Mr. Petrovich $6,864; Mr. Jeffrey V. Haley, $7,392; and Mr. Dobbins, $6,600.

All other compensation includes the use of an automobile with tax gross-ups for commuting expense for the Chief Executive Officer, company contributions to the 401(k) Employee Savings Plan for all named executive officers, and company paid insurance premiums for all named executive officers. None of these compensation items individually exceeds $10,000 and, therefore, are not identified separately.

Grants of Plan-Based Awards

The Grants of Plan-Based Awards table is not presented since there were no stock or option awards granted in 2007.

Outstanding Equity Awards at Fiscal Year-End

The following table reflects the outstanding stock awards as of December 31, 2007, for the named executive officers.

	Option Awards		
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Option Exercise Price ($)	Option Expiration Date
Charles H. Majors	2,000	17.1875	02/17/2008
	2,000	18.7500	02/17/2008
	9,000	13.6875	04/20/2009
	10,000	20.0000	12/21/2009
	10,000	19.9500	03/19/2012
	10,000	26.2000	12/16/2013
	25,000	24.5000	12/21/2014
Neal A. Petrovich	5,000	21.3800	06/15/2014
	5,000	24.5000	12/21/2014
Jeffrey V. Haley	3,270	13.6875	04/20/2009
	3,000	16.5000	03/20/2011
	1,000	19.9500	03/19/2012
	3,000	26.1000	12/17/2012
	5,000	26.2000	12/16/2013
	5,000	24.5000	12/21/2014
R. Helm Dobbins	4,000	24.0000	06/17/2013
	5,000	26.2000	12/16/2013
	5,000	24.5000	12/21/2014

All stock options awarded were issued with ten year expiration dates. All stock options awarded were earned, fully vested, and exercisable prior to January 1, 2006; therefore, the columns regarding unexercisable and unearned options are omitted from the table. Because the Corporation has never awarded shares of common stock to the named executive officers, the columns for stock awards are also omitted from the table.

In February 1998, the Corporation issued stock options on the same day with different exercise prices. The options were issued for an amount equal to or greater than the closing price on the grant date, as permitted by the plan. Three groups of stock options were granted to Mr. Majors and Mr. Jeffrey V. Haley with the same grant date but with exercise prices equal to 100% of fair market value, 110% of fair market value, and 120% of fair market value.

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