CORN PRODUCTS INTERNATIONAL INC
Form 10-K/A
June 26, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001
Commission file number 1-13397

CORN PRODUCTS INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	22-3514823
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
6500 SOUTH ARCHER AVENUE, BEDFORD PARK, ILLINOIS	60501-1933
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (708) 563-2400

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value per share	New York Stock Exchange
Preferred Stock Purchase Rights (currently traded with Common Stock)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the Registrant's voting stock held by non-affiliates of the Registrant

(based upon the per share closing price of $33.03 on March 20, 2002, and, for the purpose of this calculation only, the assumption that all Registrant's directors and executive officers are affiliates) was approximately $1,097,906,000.

The number of shares outstanding of the Registrant's Common Stock, par value $.01 per share, as of March 20, 2002, was 35,528,210.

Documents Incorporated by Reference:

Information required by Part II (Items 5, 6, 7 and 8) and Part IV (Item 14(a)(1)) of this document is incorporated by reference to certain portions of the Registrant's 2001 Annual Report to Stockholders.

Information required by Part III (Items 10, 11, 12 and 13) of this document is incorporated by reference to certain portions of the Registrant's definitive Proxy Statement distributed in connection with its 2002 Annual Meeting of Stockholders.

PART I.

ITEM 1. BUSINESS

THE COMPANY

Corn Products International, Inc. (the "Company") was incorporated as a Delaware corporation in March 1997 to assume the operations of the corn refining business of Bestfoods, formerly CPC International Inc. ("CPC" or "Bestfoods") and to effect the distribution of 100 percent of the outstanding shares of the Company to the Bestfoods common stockholders. On December 31, 1997, Bestfoods transferred the assets and related liabilities of its corn refining business to the Company. Effective at 11:59:59 p.m. on December 31, 1997, Bestfoods distributed all of the common stock of the Company to holders of common stock of Bestfoods. Since that time, the Company has operated as an independent company whose common stock is traded on the New York Stock Exchange. Unless the context indicates otherwise, references to the "Company" and "Corn Products" refer to the corn refining business of Bestfoods for periods prior to January 1, 1998 and to Corn Products International, Inc. and its subsidiaries for the periods on or after such date.

OVERVIEW

Corn Products International, Inc., together with its subsidiaries, produces a large variety of food ingredients and industrial products derived from the wet milling of corn and other starch-based materials (such as tapioca and yucca). The Company is one of the largest corn refiners in the world and the leading corn refiner in Latin America. In addition, it is the world's leading producer of dextrose and has strong regional leadership in cornstarch and liquid sweeteners. The Company had consolidated net sales of $1.89 billion in 2001. Approximately 64 percent of the Company's 2001 revenues were provided from its North America operations with the remainder coming from its South America and Asia/Africa operations.

Corn refining is a capital-intensive two-step process that involves the wet milling and processing of corn. During the front-end process, corn is steeped in water and separated into starch and by-products such as animal feed and germ. The starch is then either dried for sale or further modified or refined through various processes to make sweeteners and other starch-based products designed to serve the particular needs of various industries. The Company's sweetener products include high fructose corn syrups ("HFCS"), glucose corn syrups, high maltose corn syrups, dextrose, maltodextrins and glucose and corn syrup solids. The Company's starch-based products include both industrial and food grade starches.

The Company supplies a broad range of customers in many industries. The Company's most important customers are in the food and beverage, pharmaceutical, paper products, corrugated and laminated paper, textile and brewing industries and in the animal feed markets worldwide. The Company believes its customers value its local approach to service.

PRODUCTS

The Company's sweetener products have grown to account for more than one half of net sales while starch products and co-products each account for less than one quarter of net sales.

Sweetener Products. The Company's sweetener products represented approximately 57 percent, 55 percent and 51 percent of the Company's net sales for 2001, 2000 and 1999, respectively.

High Fructose Corn Syrup: The Company produces three types of high fructose corn syrup: (i) HFCS-55, which is primarily used as a sweetener in soft drinks; (ii) HFCS-42, which is used as a sweetener in various consumer products such as fruit-flavored beverages, yeast-raised breads, rolls, dough, ready-to-eat cakes, yogurt and ice cream; and (iii) HFCS-90 which is used in specialty and low calorie foods.

Glucose Corn Syrups: Corn syrups are fundamental ingredients in many industrial products and are widely used in food products such as baked goods, snack foods, beverages, canned fruits, condiments, candy and other sweets, dairy products, ice cream, jams and jellies, prepared mixes and table syrups. The Company offers corn syrups that are manufactured through an ion exchange process, a method that creates the highest quality, purest corn syrups.

High Maltose Corn Syrup: This special type of glucose syrup has a unique carbohydrate profile, making it ideal for use as a source of fermentable sugars in brewing beers. High maltose corn syrups are also used in the production of confections, canning and some other food processing applications.

Dextrose: The Company was granted the first U.S. patent for dextrose in 1923. The Company currently produces dextrose products that are grouped in three different categories - monohydrate, anhydrous and specialty. Monohydrate dextrose is used across the food industry in many of the same products as glucose corn syrups, especially in confectionery applications. Anhydrous dextrose is used to make solutions for intravenous injection and other pharmaceutical applications, as well as some specialty food applications. Specialty dextrose products are used in a wide range of applications, from confectionery tableting to dry mixes to carriers for high intensity sweeteners. Dextrose also has a wide range of industrial applications, including use in wall board and production of biodegradable surfactants (surface agents), humectants (moisture agents), and as the base for fermentation products including vitamins, organic acids, amino acids and alcohol.

Maltodextrins and Glucose and Corn Syrup Solids: These products have a multitude of food applications, including formulations where liquid corn syrups cannot be used. Maltodextrins are resistant to browning, provide excellent solubility, have a low hydroscopicity (do not retain moisture), and are ideal for their carrier/bulking properties. Corn syrup solids have a bland flavor, remain clear in solution, and are easy to handle and also provide bluing properties.

Starch Products. Starch products represented approximately 20 percent, 21 percent and 22 percent of the Company's net sales for 2001, 2000 and 1999, respectively. Starches are an important component in a wide range of processed foods, where they are used particularly as a thickener and binder. Cornstarch is also sold to cornstarch packers for sale to consumers. Starches are also used in paper production to produce a smooth surface for printed communications and to improve strength in today's recycled papers. In the corrugating industry, starches are used to produce high quality adhesives for the production of shipping containers, display board and other corrugated applications. The textile industry has successfully used starches for over a century to provide size and finishes for manufactured products. Industrial starches are used in the production of construction materials, adhesives, pharmaceuticals and cosmetics, as well as in mining, water filtration and oil and gas drilling.

Co-Products and others. Co-products and others accounted for 23 percent, 24 percent and 27 percent of the Company's net sales for 2001, 2000 and 1999, respectively. Refined corn oil is sold to packers of cooking oil and to producers of margarine, salad dressings, shortening, mayonnaise and other foods. Corn gluten feed is sold as animal feed. Corn gluten meal and steepwater are sold as additives for animal feed. Until the Company's sale of its wholly-owned subsidiary, Enzyme Bio-Systems Ltd., in early February 2002, enzymes were produced and marketed for a variety of food and industrial applications.

GEOGRAPHIC SCOPE AND OPERATIONS

The Company operates in one business segment, corn refining, and is managed on a geographic regional basis. The business includes regional operations in North America, South America and Asia/Africa. In 2001, approximately 64 percent of the Company's net sales were derived from operations in North America, while South America and Asia/Africa represented approximately 23 percent and 13 percent, respectively. See Note 14 to the Consolidated Financial Statements entitled "Segment Information," included herewith as part of Exhibit 13.1, for certain financial information with respect to geographic areas.

The Company's North America region consists of operations in the U.S., Canada and Mexico, and includes CornProductsMCP, Sweeteners LLC ("CPMCP"), a non-consolidated joint marketing company that was formed with Minnesota Corn Processors, LLC ("MCP") on December 1, 2000 for the purpose of selling and distributing certain designated sweetener products throughout the United States. For a further discussion of CPMCP, see Note 5 to the Consolidated Financial Statements included herewith as part of Exhibit 13.1. The region's facilities include 11 plants producing regular and modified starches, dextrose, high fructose and high maltose corn syrups and corn syrup solids, dextrins and maltodextrins, caramel color and sorbitol. The Company's plant in Bedford Park, Illinois is a major supplier of starch and dextrose products for the Company's U.S. and export customers. The Company's other U.S. plants in Winston-Salem, North Carolina and Stockton, California enjoy strong market shares in their local areas, as do the Company's Canadian plants in Cardinal, London and Port Colborne, Ontario. The Company is the largest corn refiner in Mexico with plants in Guadalajara (2 plants), Mexico City and San Juan del Rio.

The Company is the largest corn refiner in South America, with leading market shares in Argentina, Brazil, Chile and Colombia. The Company's South America region includes 12 plants that produce regular, modified, waxy and tapioca starches, high fructose and high maltose corn syrups and corn syrup solids, dextrins and maltodextrins, dextrose, caramel color, sorbitol and vegetable adhesives.

The Company's Asia/Africa region consists of corn refining operations in Kenya, Malaysia, Pakistan, South Korea and Thailand. The region's facilities include 6 plants that produce modified, regular, waxy and tapioca starches, dextrins, glucose, dextrose and caramel color.

In addition to the operations in which it engages directly, the Company has strategic alliances through technical license agreements with companies in India, South Africa, Zimbabwe, Serbia and Venezuela. As a group, the Company's strategic alliance partners produce high fructose, glucose and high maltose syrups (both corn and tapioca), regular, modified, waxy and tapioca starches, dextrose and dextrins, maltodextrins and caramel color. These products have leading positions in many of their target markets.

COMPETITION

The corn refining industry is highly competitive. Most of the Company's products are viewed as commodities that compete with virtually identical products and derivatives manufactured by other companies in the industry. The U.S. is a particularly competitive market. Competitors include ADM Corn Processing Division ("ADM") (a division of Archer Daniels Midland Company), Cargill, A.E. Staley Manufacturing Co. ("Staley") (a subsidiary of Tate & Lyle, PLC), National Starch and Chemical Company ("National Starch") (a subsidiary of Imperial Chemicals Industries plc) and several others. Mexico and Canada face competition from US imports and local production including ALMEX, a Mexican joint venture between ADM and Staley. In South America, Cargill and National Starch have corn-refining operations in Brazil. Other local corn refiners also operate in many of our markets. Competition within markets is largely based on price, quality and product availability.

Several of the Company's products also compete with products made from raw materials other than corn. High fructose corn syrup and monohydrate dextrose compete principally with cane and beet sugar products. Co-products such as corn oil and gluten meal compete with products of the corn dry milling industry and with soybean oil, soybean meal and others. Fluctuations in prices of these competing products may affect prices of, and profits derived from, the Company's products.

CUSTOMERS

The Company supplies a broad range of customers in over 60 industries. Approximately 22 percent of the Company's 2001 net sales were to companies engaged in the processed foods industry and approximately 20 percent of the Company's 2001 net sales were to companies engaged in the soft drink industry. Additionally, approximately 15 percent of the Company's 2001 net sales were to feed users.

RAW MATERIALS

The basic raw material of the corn refining industry is yellow dent corn. In the United States, the corn refining industry processes about 10 percent to 15 percent of the annual U.S. corn crop. The supply of corn in the United States has been, and is anticipated to continue to be, adequate for the Company's domestic needs. The price of corn, which is determined by reference to prices on the Chicago Board of Trade, fluctuates as a result of three primary supply factors -- farmer planting decisions, climate and government policies -- and three major market demand factors -- livestock feeding, shortages or surpluses of world grain supplies and domestic and foreign government policies and trade agreements.

Corn is also grown in other areas of the world, including Canada, South Africa, Argentina, Brazil, China and Australia. The Company's affiliates outside the United States utilize both local supplies of corn and corn imported from other geographic areas, including the United States. The supply of corn for these affiliates is also generally expected to be adequate for the Company's needs. Corn prices for the Company's non-U.S. affiliates generally fluctuate as a result of the same factors that affect U.S. corn prices.

Due to the competitive nature of the corn refining industry and the availability of substitute products not produced from corn, such as sugar from cane or beet, end product prices may not necessarily fluctuate in relation to raw material costs of corn.

The Company follows a policy of hedging its exposure to commodity fluctuations with commodities futures contracts for certain of its North American corn purchases. All firm priced business is hedged when contracted. Other business may or may not be hedged at any given time based on

management's judgment as to the need to fix the costs of its raw materials to protect the Company's profitability. See Registrant's Management's Discussion and Analysis of Financial Condition and Results of Operations, section entitled "Risk and Uncertainties - Commodity costs," included herewith as part of Exhibit 13.1.

PRODUCT DEVELOPMENT

The Company's product development activity is focused on developing product applications for identified customer and market needs. Through this approach, the Company has developed value-added products for use in the corrugated paper, food, textile, baking and confectionery industries. The Company usually collaborates with customers to develop the desired product application either in the customers' facilities, the Company's technical service laboratories or on a contract basis. These efforts are supported by the Company's marketing, product technology and technology support staff. Product development is enhanced through technology transfers pursuant to existing licensing arrangements.

SALES AND DISTRIBUTION

Salaried sales personnel, who are generally dedicated to customers in a geographic region, sell the Company's products directly to manufacturers and distributors. In addition, the Company has a staff that provides technical support to the sales personnel on an industry basis. In 2001 the Company began selling and distributing certain designated sweetener production destined for sale in the U.S. through its joint marketing company, CPMCP. See also Note 5 to the Consolidated Financial Statements included herewith as part of Exhibit 13.1. The Company generally utilizes contract truck drivers to deliver bulk products to customer destinations but also has some of its own trucks for product delivery. In North America, the trucks generally ship to nearby customers. For those customers located considerable distances from Company plants, a combination of railcars and trucks is used to deliver product. Railcars are generally leased for terms of five to fifteen years.

PATENTS, TRADEMARKS AND TECHNICAL LICENSE AGREEMENTS

The Company owns a number of patents, which relate to a variety of products and processes, and a number of established trademarks under which the Company markets such products. The Company also has the right to use certain other patents and trademarks pursuant to patent and trademark licenses. The Company does not believe that any individual patent or trademark is material. There is not currently any pending challenge to the use or registration of any of the Company's significant patents or trademarks that would have a material adverse impact on the Company or its results of operations.

The Company is a party to several technical license agreements with third parties in other countries whereby the Company provides technical, management and business advice on the operations of corn refining businesses and receives royalties in return. These arrangements provide the Company with product penetration in the various countries in which they exist, as well as experience and relationships that could facilitate future expansion. The duration of the agreements range from one to ten years or longer, and most of these relationships have been in place for many years. These agreements in the aggregate provide approximately $1 million of annual revenue to the Company.

EMPLOYEES

As of December 31, 2001, the Company had approximately 6,600 employees, of which

approximately 800 were located in the U.S. Approximately 38 percent of U.S. and 53 percent of non-U.S. employees are unionized. The Company believes its union and non-union employee relations are good.

GOVERNMENT REGULATION AND ENVIRONMENTAL MATTERS

As a manufacturer and maker of food items and items for use in the pharmaceutical industry, the Company's operations and the use of many Company products are subject to various U.S., state, foreign and local statutes and regulations, including the Federal Food, Drug and Cosmetic Act and the Occupational Safety and Health Act, and to regulation by various government agencies, including the United States Food and Drug Administration, which prescribe requirements and establish standards for product quality, purity and labeling. The finding of a failure to comply with one or more regulatory requirements can result in a variety of sanctions, including monetary fines. The Company may also be required to comply with U.S., state, foreign and local laws regulating food handling and storage. The Company believes these laws and regulations have not negatively affected its competitive position.

The operations of the Company are also subject to various U.S., state, foreign and local laws and regulations with respect to environmental matters, including air and water quality and underground fuel storage tanks, and other regulations intended to protect public health and the environment. The Company believes it is in material compliance with all such applicable laws and regulations. Based upon current laws and regulations and the interpretations thereof, the Company does not expect that the costs of future environmental compliance will be a material expense, although there can be no assurance that the Company will remain in compliance or that the costs of remaining in compliance will not have a material adverse effect on the Company's financial condition and results of operations.

The Company currently anticipates that it may spend an immaterial amount in fiscal 2002 for environmental control equipment to be incorporated into existing facilities and in planned construction projects. This equipment is intended to enable the Company to continue its policy of compliance with existing environmental laws and regulations. Under the U.S. Clean Air Act Amendments of 1990, air toxin regulations will be promulgated for a number of industry source categories. The U.S. Environmental Protection Agency's regulatory timetable specifies the promulgation of standards for industrial boilers in the year 2002. At that time, the Company's U.S. facilities may require additional pollution control devices to meet these standards. Currently, the Company can not accurately estimate the ultimate financial impact of the standards.

Executive Officers of the Registrant

Set forth below are the names and ages of all executive officers of the Company, indicating their positions and offices with the Company.

Name	Age	All positions and offices with the Company
Samuel C. Scott III	57	Chairman and Chief Executive Officer of Corn Produc February 2001 and President of Corn Products since Mr. Scott also served as Chief Operating Officer of Products from 1997 through January 2001. Prior ther served as President of Bestfoods' worldwide Corn Re Business from 1995 to 1997 and was President of Bes North American Corn Refining Business from 1989 to was elected a Vice President of Bestfoods in 1991. is a director of Motorola, Inc. and Russell Reynold Associates.
Cheryl K. Beebe	46	Vice President since 1999 and Treasurer of Corn Pro since 1997. Ms. Beebe served as Director of Finance Planning for the Bestfoods Corn Refining Business w from 1995 to 1997 and as Director of Financial Anal Planning for Corn Products North America from 1993. Beebe joined Bestfoods in 1980 and served in variou financial positions in Bestfoods.
Marcia E. Doane	60	Vice President, General Counsel and Corporate Secre Corn Products since 1997. Ms. Doane served as Vice President, Legal and Regulatory Affairs of the Corn Division of Bestfoods from 1996 to 1997. Prior ther served as Counsel to the Corn Products Division fro 1996. Ms. Doane joined Bestfoods' legal department as Operations Attorney for the Corn Products Divisi
Jorge L. Fiamenghi	46	Vice President and President of the South America D of Corn Products since 1999. Mr. Fiamenghi served Acting President, US-Canadian region from August 20 February 2002. Mr. Fiamenghi served as President a General

		Manager Corn Products Brazil from 1996 to 1999. Mr. Fiamenghi was General Manager for the Bestfoods Cor Refining affiliate in Argentina beginning in 1991. thereto, he was Financial and Planning Director for Bestfoods South American Corn Refining division fro 1991 and served as Financial and Administrative Man the Bestfoods Corn Refining division in Mexico begi 1987. Mr. Fiamenghi joined Bestfoods in 1971 and s various financial and planning positions in Bestfoo
Jack C. Fortnum	45	Vice President since 1999 and President US business February 2002. Mr. Fortnum served as Executive Vice President, US-Canadian Region from August 2001 unti February 2002. Prior to that, Mr. Fortnum served as Controller of Corn Products since 1997, as the Vice President of Finance for Refineries de Maize, Bestf Argentine subsidiary, from 1995 to 1997, as the Dir Finance and Planning for Bestfoods Latin America Co Refining Division from 1993 to 1995, and as the Vic President and Comptroller of Canada Starch Operatin Inc., the Canadian subsidiary of Bestfoods, and as President of Finance of the Canadian Corn Refining from 1989.
Jeffrey B. Hebble	46	Vice President since 2000 and President of the Asia Division of Corn Products since February 2001. Pri thereto, Mr. Hebble served as Vice President of the Asia/Africa Division since 1998. Mr. Hebble joined in 1986 and served in various positions in the Corn Division and in Stamford Food Industries, a Corn Pr subsidiary in Malaysia.
James J. Hirchak	47	Vice President - Human Resources of Corn Products s 1997. Mr. Hirchak joined Bestfoods in 1976 and held Human Resources positions in Bestfoods until 1984, joined Bestfoods' Corn Products

		Division. In 1987, Mr. Hirchak was appointed Direct Resources for Corn Products' North American operati he served as Vice President, Human Resources for th Products Division from 1992 to 1997.
Eugene J. Northacker	60	Vice President and President North America Division February 2002. Mr. Northacker served as Acting Pres South America Division from August 2001 to February Prior to his retirement from the Company in January served as Vice President and President South Americ Division since 1997. Mr. Northacker was appointed P of Bestfoods' Latin America Corn Refining Division

		elected a Vice President of Bestfoods in 1992. Pri that, he served as Business Director of Bestfoods' America Corn Refining Division from 1989 to 1992, a Refining General Manager of Bestfoods' then Mexican subsidiary from 1984 to 1986. Mr. Northacker joined Bestfoods in 1968 in the financial group of Bestfoo American consumer foods division and has held execu assignments in several Bestfoods subsidiaries.
James W. Ripley	58	Vice President - Finance and Chief Financial Office Products since 1997. Mr. Ripley served as Comptroll Bestfoods from 1995 to 1997. Prior thereto, he serv Vice President of Finance for Bestfoods' North Amer Refining Division from 1984 to 1995. Mr. Ripley joi Bestfoods in 1968 as chief international accountant subsequently served as Bestfoods' Assistant Corpora Comptroller, Corporate General Audit Coordinator an Assistant Comptroller for Bestfoods' European Consu Division.
Richard M. Vandervoort	58	Vice President - Strategic Business Development, In Relations and Government and Regulatory Affairs of Products since 1998. Mr. Vandervoort served as Vice President - Business Development and Procurement, C Products International North American Division from 1998.

		Prior thereto, he served as Vice President - Busine Management and Marketing for Bestfoods' Corn Produc Division from 1989 to 1997. Mr. Vandervoort joined in 1971 and served in various executive sales posit Bestfoods' Corn Products Division and in Peterson/P Inc., a Bestfoods subsidiary.

ITEM 2. PROPERTIES

The Company operates, directly and through its subsidiaries, 28 manufacturing facilities, 27 of which are owned and one of which is leased (Jundiai, Brazil). In addition, the Company owns its corporate headquarters in Bedford Park, Illinois. The following list details the locations of the Company's manufacturing facilities within each of its three geographic regions:

North America	South America
Cardinal, Ontario, Canada	Baradero, Argentina
London, Ontario, Canada	Chacabuco, Argentina
Port Colborne, Ontario, Canada	Balsa Nova, Brazil
San Juan del Rio, Queretaro, Mexico	Cabo, Brazil
Guadalajara, Jalisco, Mexico (2 plants)	Conchal, Brazil
Mexico City, Edo. de Mexico	Jundiai, Brazil
Stockton, California, U.S.	Mogi-Guacu, Brazil

Bedford Park, Illinois, U.S.	Llay-Llay, Chile
Winston-Salem, North Carolina, U.S.	Barranquilla, Colombia
	Cali, Colombia
	Medellin, Colombia
	Guayaquil, Ecuador

While the Company has achieved high capacity utilization, the Company believes its manufacturing facilities are sufficient to meet its current production needs. The Company has preventive maintenance and de-bottlenecking programs designed to further improve grind capacity and facility reliability.

The Company has electricity co-generation facilities at all of its U.S. and Canadian plants, as well as at its plants in San Juan del Rio, Mexico, Baradero, Argentina and Faisalabad, Pakistan, that provide electricity at a lower cost than is available from third parties. The Company generally owns and operates such co-generation facilities itself, but has two large facilities at its Stockton, California and Cardinal, Ontario locations that are owned by, and operated pursuant to, co-generation agreements with third parties.

The Company believes it has competitive, up-to-date and cost-effective facilities. In recent years, significant capital expenditures have been made to update, expand and improve the Company's facilities, averaging in excess of $100 million per year for the last five years. Capital investments have included the

rebuilding of the Company's plants in Cali, Colombia and Baradero, Argentina; an expansion of both grind capacity and dextrose production capacity at the Company's Argo facility in Bedford Park, Illinois and Baradero, Argentina; entry into the high maltose corn syrup business in Brazil, Colombia and Argentina; entry into the HFCS business in Argentina; and the installation of energy co-generation facilities in Canada. In addition, prior to the Company's acquisition of Arancia Corn Products, the Mexican business completed a major expansion of the San Juan del Rio plant to produce HFCS. The Company believes these capital expenditures will allow the Company to operate highly efficient facilities for the foreseeable future with further annual capital expenditures that are in line with historical averages.

ITEM 3. LEGAL PROCEEDINGS

Under the terms of the agreements relating to the spin-off of the Company from Bestfoods, the Company agreed to indemnify Bestfoods for certain liabilities relating to the operation of the Corn Refining Business prior to the spin-off, including liabilities relating to the antitrust legal proceedings described below.

In July 1995, Bestfoods received a federal grand jury subpoena in connection with an investigation by the Antitrust Division of the U.S. Department of Justice of U.S. corn refiners regarding the marketing of high fructose corn syrup and other "food additives" (the investigation of Bestfoods relates only to high fructose corn syrup). Bestfoods has produced the documents sought by the Justice Department and the federal grand jury has since been disbanded. Bestfoods, as a high fructose corn syrup producer, was also named as one of the defendants in a number of private treble damage class actions, by direct and indirect customers, and one individual action, alleging violations of federal and state antitrust laws. Following the certification of the consolidated federal class actions, Bestfoods entered into settlements of the federal claims and the one individual action. Bestfoods remains a party to the state law actions filed in Alabama, California, the District of Columbia, West

Virginia and Kansas, each of which was filed in 1995 or 1996. The amount of damages claimed in the various pending state law actions is either unspecified or stated as not exceeding $50,000 per claimant.

The Company is currently subject to various other claims and suits arising in the ordinary course of business, including certain environmental proceedings. The Company does not believe that the results of such legal proceedings, even if unfavorable to the Company, will be material to the Company. There can be no assurance, however, that any claims or suits arising in the future, whether taken individually or in the aggregate, will not have a material adverse effect on the Company's financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Shares of Corn Product's Common Stock are traded on the New York Stock Exchange ("NYSE") under the ticker symbol "CPO." The range of the NYSE reported high, low and closing market prices of the Company's Common Stock, holders of record and quarterly dividends are incorporated by reference from the Registrant's Consolidated Financial Statements filed herewith as part of Exhibit 13.1, section entitled "Supplemental Financial Information."

The Company's policy is to pay a modest dividend. The amount and timing of the dividend payment, if any, is based on a number of factors including estimated earnings, financial position and cash flow. The payment of a dividend is solely at the discretion of the Company's Board of Directors. It is subject to the Company's financial results and the availability of surplus funds to pay dividends.

ITEM 6. SELECTED FINANCIAL DATA

Incorporated by reference from the Registrant's Consolidated Financial Statements filed herewith as part of Exhibit 13.1, section entitled "Nine-Year Financial Highlights."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Incorporated by reference from Exhibit 13.1 filed herewith, section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTERNATIONAL OPERATIONS AND FOREIGN EXCHANGE. For more than 70 years, the Company has operated a multinational business subject to the risks inherent in operating in foreign countries and with foreign currencies. The Company's

U.S. dollar denominated results are subject to foreign currency exchange fluctuations and its operations are subject to political, economic and other risks.

The Company primarily sells world commodities and, therefore, believes that local prices will adjust relatively quickly to offset the effect of a local devaluation. The Company generally does not enter into foreign currency hedging transactions. However, the Company may occasionally hedge commercial transactions and certain liabilities that are denominated in a currency other than the currency of the operating unit entering into the underlying transaction.

In each country where we conduct business, the business and assets are subject to varying degrees of risks and uncertainty. The Company insures its business and assets in each country against insurable risk in a manner that it deems appropriate. Because of its geographic dispersion, the Company believes that a loss from non-insurable events in any one country would not have a material adverse effect on the Company's operations as a whole.

UNCERTAIN ABILITY TO GENERATE ADEQUATE FINANCIAL PERFORMANCE. The Company's ability to generate operating income and to increase profitability depends to a large extent upon its ability to price finished products at a level that will cover manufacturing and raw material costs and provide a profit

margin. The Company's ability to maintain appropriate price levels is determined by a number of factors largely beyond the Company's control, such as aggregate industry supply and market demand, which may vary from time to time, and the economic condition of the geographic region of the Company's operations.

UNCERTAIN ABILITY TO CONTAIN COSTS OR TO FUND CAPITAL EXPENDITURES. The Company's future profitability and growth also depends on the Company's ability to contain operating costs and per-unit product costs, to maintain and/or implement effective cost control programs and to develop value-added products and new product applications successfully, while at the same time maintaining competitive pricing and superior quality products, customer service and support. The Company's ability to maintain a competitive cost structure depends on continued containment of manufacturing, delivery and administrative costs as well as the implementation of cost-effective purchasing programs for raw materials, energy and related manufacturing requirements. The Company plans to focus capital expenditures on implementing productivity improvements and, if supported by profitable customer demand, expand the production capacity of its facilities. The Company may need additional funds for working capital as the Company grows and expands its operations. To the extent possible, the Company expects to fund its capital expenditures from operating cash flow. If the Company's operating cash flow is insufficient to fund such expenditures, the Company may either reduce its capital expenditures or utilize certain general credit facilities. The Company may also seek to generate additional liquidity through the sale of debt or equity securities in private or public markets or through the sale of non-productive assets. The Company cannot provide any assurance that cash flow from operations will be sufficient to fund anticipated capital expenditures or that additional funds can be obtained from financial markets or from the sale of assets at terms favorable to the Company. If the Company is unable to generate sufficient cash flows or raise sufficient additional funds to cover capital expenditures, it may not be able to achieve its desired operating efficiencies and expansion plans, which may adversely impact the Company's competitiveness and, therefore, its results of operations.

INTEREST RATE EXPOSURE. Approximately 33 percent of the Company's borrowings are fixed rate bonds and loans. The remaining 67 percent of the

Company's borrowings are at floating interest rates of which approximately 10 percent are long-term loans and 57 percent are short-term credit facilities. Should short-term rates change, this could affect the Company's interest cost. A hypothetical increase of 1 percentage point in the weighted average interest rate for 2001 would have increased interest expense and lowered pretax income for 2001 by approximately $4 million.

At December 31, 2001 and 2000, the carrying and fair value of long-term debt, including the current portion, were as follows:

(in millions)	2001 Carrying value	2001 Fair value	20 Carrying value
US revolving credit facility, due 2002	$277	$277	$209
8.45% senior notes, due 2009	200	192	200
Canadian term loans, due 2005	57	57	27
Korean term loans, due 2002-2004	62	62	--
Other, due in varying amounts through 2008, fixed and floating interest rates ranging from 1.00% - 17.93%	6	6	88
Total	$602	$594	$524

COMPETITION; EXPANDING INDUSTRY CAPACITY. The Company operates in a highly competitive environment. Almost all of the Company's products compete with virtually identical or similar products manufactured by other companies in the corn refining industry. In the United States, there are other corn refiners, several of which are divisions of larger enterprises that have greater financial resources and some of which, unlike the Company, have vertically integrated their corn refining and other operations. Many of the Company's products also compete with products made from raw materials other than corn. Fluctuation in prices of these competing products may affect prices of, and profits derived from, the Company's products. Competition within markets is largely based on price, quality and product availability.

PRICE VOLATILITY AND UNCERTAIN AVAILABILITY OF CORN. Corn purchasing costs, which include the price of the corn plus delivery cost, account for 40 percent to 65 percent of the Company's product costs. The price and availability of corn is influenced by economic and industry conditions, including supply and demand factors such as crop disease and severe weather conditions such as drought, floods or frost, that are difficult to anticipate and cannot be controlled by the Company. In addition, government programs supporting sugar prices indirectly impact the price of corn sweeteners, especially high fructose corn syrup. The Company cannot assure that it will be able to purchase corn at prices that it can adequately pass on to customers or in quantities sufficient to sustain or increase its profitability.

COMMODITY COSTS. The Company's finished products are made primarily from corn. In North America, the Company sells a large portion of finished product at firm prices established in supply contracts lasting for periods of up to one year. In order to minimize the effect of volatility in the cost of corn related to these firm-priced supply contracts, the Company enters into corn futures contracts, or takes hedging positions in the corn futures market. From time to time, the Company may also enter into anticipatory hedges. These contracts typically mature within one year. At expiration, the Company settles the derivative contracts at a net amount equal to the difference between the then-current price of corn and the fixed contract price. While these hedging instruments are subject to fluctuations in value, changes in the value of the underlying exposures the Company is hedging generally offset such fluctuations. While the corn futures contracts or hedging positions are intended to minimize the volatility of corn costs on operating profits, occasionally the hedging activity can result in losses, some of which may be material. Outside of North America, sales of finished product under long-term, firm-priced supply contracts are not material.

The Company's hedging instruments generally relate to contracted firm-priced business. Based on the Company's overall commodity hedge exposure at December 31, 2001, a hypothetical 10 percent change in market rates applied to the fair value of the instruments would have no material impact on the Company's earnings, cash flows, financial position or fair value of commodity price and risk-sensitive instruments over a one-year period.

Energy costs for the Company represent a significant portion of its operating costs. The primary use of energy is to create steam in the production process and in dryers to dry product. The forms of energy we consume are coal, natural gas, electricity and fuel oil. The market prices for these commodities vary depending on supply and demand, world economies and other factors. The Company purchases these commodities based on its anticipated usage and the future outlook for these costs. The Company cannot assure that it will be able to purchase these commodities at prices that it can adequately pass on to customers to sustain or increase profitability.

VOLATILITY OF MARKETS. The market price for the common stock of the Company may be significantly affected by factors such as the announcement of new products or services by the Company or

its competitors; technological innovation by the Company, its competitors or other vendors; quarterly variations in the Company's operating results or the operating results of the Company's competitors; general conditions in the Company's and its customers' markets; changes in the earnings estimates by analysts or reported results that vary materially from such estimates. In addition, the stock market has experienced significant price fluctuations that have affected the market prices of equity securities of many companies that have been unrelated to the operating performance of any individual company. These broad market fluctuations may materially and adversely affect the market price of the Company's common stock.

UNCERTAINTY OF DIVIDENDS. The payment of dividends is at the discretion of the Company's Board of Directors and will be subject to the Company's financial results and the availability of surplus funds to pay dividends. No assurance can be given that the Company will continue to pay dividends.

CERTAIN ANTI-TAKEOVER EFFECTS. Certain provisions of the Company's Amended and Restated Certificate of Incorporation (the "Corn Products Charter") and the Company's By-laws (the "Corn Products By-Laws") and of the Delaware General Corporation Law (the "DGCL") may have the effect of delaying, deterring or preventing a change in control of the Company not approved by the Company's Board. These provisions include (i) a classified Board of Directors, (ii) a requirement of the unanimous consent of all stockholders for action to be taken without a meeting, (iii) a requirement that special meetings of stockholders be called only by the Chairman of the Board or the Board of Directors, (iv) advance notice requirements for stockholder proposals and nominations, (v) limitations on the ability of stockholders to amend, alter or repeal the Company's By-laws and certain provisions of the Corn Products Charter, (vi) authorization for the Company's Board to issue without stockholder approval preferred stock with such terms as the Board of Directors may determine and (vii) authorization for the Corn Products Board to consider the interests of creditors, customers, employees and other constituencies of the Company and its subsidiaries and the effect upon communities in which the Company and its subsidiaries do business, in evaluating proposed corporate transactions. With certain exceptions, Section 203 of the DGCL ("Section 203") imposes certain restrictions on mergers and other business combinations between the Company and any holder of 15 percent or more of the Company's Common Stock. In addition, the Company has adopted a stockholder rights plan (the "Rights Plan"). The Rights Plan is designed to protect stockholders in the event of an unsolicited offer and other takeover tactics, which, in the opinion of the Company's Board, could impair the Company's ability to represent stockholder interests. The provisions of the Rights Plan may render an unsolicited takeover of the Company more difficult or less likely to occur or might prevent such a takeover.

These provisions of the Corn Products Charter and Corn Products By-laws, the DGCL and the Rights Plan could discourage potential acquisition proposals and could delay or prevent a change in control of the Company, although such proposals, if made, might be considered desirable by a majority of the Company's stockholders. Such provisions could also make it more difficult for third parties to remove and replace the members of the Company's Board. Moreover, these provisions could diminish the opportunities for a stockholder to participate in certain tender offers, including tender offers at prices above the then-current market value of the Company's Common Stock, and may also inhibit increases in the market price of the Company's Common Stock that could result from takeover attempts or speculation.

LIMITED RELEVANCE OF HISTORICAL FINANCIAL INFORMATION. The Company's historical financial information may not necessarily reflect the results of operations, financial position and cash flows of the Company in the future.

RELIANCE ON MAJOR CUSTOMERS. A substantial portion of the Company's 2001 worldwide sales

were made to companies engaged in the processed foods industry and the soft drink industry. If the Company's processed foods customers or soft drink customers were to substantially decrease their purchases, the business of the Company might be materially adversely affected. However, the Company believes there is no concentration of risk with any single customer or supplier, or small group of customers or suppliers, whose failure or non-performance would materially affect the Company's results.

FORWARD LOOKING STATEMENTS

This annual report contains forward-looking statements concerning the Company's financial position, business and future earnings and prospects, in addition to other statements using words such as anticipate, believe, plan, estimate, expect, intend and other similar expressions. These statements contain certain inherent risks and uncertainties. Although we believe our expectations reflected in these forward-looking statements are based on reasonable assumptions, stockholders are cautioned that no assurance can be given that our expectations will prove correct. Actual results and developments may differ materially from the expectations conveyed in these statements, based on factors such as the following: fluctuations in worldwide commodities markets and the associated risks of hedging against such fluctuations; fluctuations in aggregate industry supply and market demand; general political, economic, business, market and weather conditions in the various geographic regions and countries in which we manufacture and sell our products, including fluctuations in the value of local currencies, energy costs and availability and changes in regulatory controls regarding quotas, tariffs, taxes and biotechnology issues; and increased competitive and/or customer pressure in the corn-refining industry. Our forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of the statement. If we do update or correct one or more of these statements, investors and others should not conclude that we will make additional updates or corrections. For a further description of risk factors, see the Company's most recently filed Annual Report on Form 10-K and subsequent reports on Forms 10-Q or 8-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Incorporated by reference from Exhibit 13.1 filed herewith, sections entitled "Report of Management," "Report of Independent Auditors," "Financial Statements and Notes thereto" and "Supplemental Financial Information."

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the headings "Board of Directors," "Matters To Be Acted Upon - Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement for the Company's 2002 Annual Meeting of Stockholders (the "Proxy Statement") and the information contained under the heading "Executive Officers of the Registrant" in Item 1 hereof is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information contained under the heading "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information contained under the heading "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained under the heading "Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Item 14(a)(1) Consolidated Financial Statements and Schedules

Incorporated by reference from Exhibit 13.1 filed herewith, sections entitled "Report of Management," "Report of Independent Auditors," "Financial Statements and Notes thereto" and "Supplemental Financial Information."

Item 14(a)(2) Financial Statement Schedules

All financial statement schedules have been omitted because the information either is not required or is otherwise included in the financial statements and notes thereto.

Item 14(a)(3) Exhibits

The Exhibits set forth in the accompanying Exhibit Index are filed as a part of this report. The following is a list of each management contract or compensatory plan or arrangement required to be filed as an Exhibit to this report:

Exhibit Number

10.7
10.8
10.9
10.10
10.11
10.12
10.13
10.14
10.15
10.16
10.17
10.18
10.19
10.20
10.21

Item 14(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the quarter ended December 31, 2001.

Page 18

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 26th day of June, 2002.

CORN PRODUCTS INTERNATIONAL, INC.

By: /s/ Samuel C. Scott III

Samuel C. Scott III
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant, in the capacities indicated and on the 26th day of June, 2002.

Signature	Title
/s/ Samuel C. Scott III Samuel C. Scott III	Chairman, President and Chief Executive Officer
/s/ James W. Ripley James W. Ripley	Chief Financial Officer
/s/ Robin A. Kornmeyer Robin A. Kornmeyer	Corporate Controller
*Richard J. Almeida Richard J. Almeida	Director
*Ignacio Aranguren-Castiello Ignacio Aranguren-Castiello	Director
*Alfred C. DeCrane, Jr. Alfred C. DeCrane, Jr.	Director
*Guenther E. Greiner Guenther E. Greiner	Director
*Ronald M. Gross Ronald M. Gross	Director
*Karen L. Hendricks Karen L. Hendricks	Director
*Bernard H. Kastory Bernard H. Kastory	Director
*William S. Norman	Director

William S. Norman

*James M. Ringler ---------------------------- James M. Ringler	Director
*Clifford B. Storms ---------------------------- Clifford B. Storms	Director

*By: /s/ Marcia E. Doane

Marcia E. Doane
Attorney-in-fact

(Being the principal executive officer, the principal financial officer, the controller and all of the directors of Corn Products International, Inc.)

EXHIBIT NO.	DESCRIPTION
2.1**	Distribution Agreement dated December 1, 1997, between the Company and Bestfoods
3.1*	Amended and Restated Certificate of Incorporation of the Company, filed as Exhibit 3.1 to the Company's Registration Statement on Form 10, File No. 1-13397
3.2*	Amended By-Laws of the Company, filed as Exhibit 3.ii to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2000, File No. 1-13397
4.1*	Rights Agreement dated November 19, 1997 between the Company and First Chicago Trust Company of New York, filed as Exhibit 1 to the Company's Registration Statement on Form 8-A12B, File No. 1-13397
4.2*	Certificate of Designation for the Company's Series A Junior Participating Preferred Stock, filed as Exhibit 1 to the Company's Registration Statement on Form 8-A12B, File No. 1-13397
4.3**	5-Year Revolving Credit Agreement dated December 17, 1997 among the Company and the agents and banks named therein
4.4*	Indenture Agreement dated as of August 18, 1999 between the Company and The Bank of New York, as Trustee, filed on August 27, 1999 as Exhibit 4.1 to the Company's current report on Form 8-K, File No. 1-13397
10.1**	Master Supply Agreement dated January 1, 1998 between the Company and Bestfoods
10.2**	Tax Sharing Agreement dated December 1, 1997 between the Company and Bestfoods

10.3*	Employee Benefits Agreement dated December 1, 1997 between the Company and Bestfoods, filed as Exhibit 4.E to the Company's Registration Statement on Form S-8, File No. 333-43525
10.4**	Access Agreement dated January 1, 1998 between the Company and Bestfoods
10.5*	CornProductsMCP Sweeteners LLC Limited Liability Company Agreement dated December 1, 2000 between the Company and Minnesota Corn Processors, LLC, filed as Exhibit 10.5 to the Company's annual report on Form 10-K for the year ended December 31, 2000, File No. 1-13397
10.6*	Supply Agreement dated January 1, 2001 by and among the Company, Minnesota Corn Processors, LLC and CornProductsMCP Sweeteners LLC, filed as Exhibit 10.6 to the Company's annual report on Form 10-K for the year ended December 31, 2000, File No. 1-13397
10.7*	1998 Stock Incentive Plan of the Company, filed as Exhibit 4.D to the Company's Registration Statement on Form S-8, File No. 333-43525, as amended by Amendments Nos. 1 and 2 filed as Exhibits Nos. 10.19 and 10.20, respectively, to the Company's annual report on Form 10-K for the year ended December 31, 2000, File No. 1-13397
10.8**	Deferred Stock Unit Plan of the Company
10.9**	Form of Severance Agreement entered into by each of S.C. Scott, J.L. Fiamenghi, J.W. Ripley, M.E. Doane and R.M. Vandervoort (the "Named Executive Officers")
10.10*	Form of Amendment to Executive Severance Agreement entered into by each of S.C. Scott, J.L. Fiamenghi, J.W. Ripley, M.E. Doane and R.M. Vandervoort, filed as Exhibit 10.10 to the Company's annual report on Form 10-K for the year ended December 31, 2000, File No. 1-13397
10.11*	Separation Agreement dated September 20, 2001 between the Company and M.R. Pyatt, filed as Exhibit 10 to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2001, File No. 1-13397
10.12**	Form of Indemnification Agreement entered into by each of the members of the Company's Board of Directors and the Named Executive Officers
10.13*	Deferred Compensation Plan for Outside Directors of the Company (Amended and Restated as of September 19, 2001), filed as Exhibit 4(d) to the Company's Registration Statement on Form S-8, File No. 333-75844
10.14*	Supplemental Executive Retirement Plan, filed as Exhibit 4(e) to the Company's Registration Statement on Form S-8, File No. 333-75844
10.15**	Executive Life Insurance Plan

10.16**	Deferred Compensation Plan, as amended by Amendment No. 1 filed as Exhibit 10.21 to the Company's annual report on Form 10-K for the year ended December 31, 2001, File No. 1-13397
10.17*	Annual Incentive Plan, filed as Exhibit 10.18 to the Company's annual report on Form 10-K for the year ended December 31, 1999, File No. 1-13397
10.18*	Performance Plan, filed as Exhibit 10.19 to the Company's annual report on Form 10-K for the year ended December 31, 1999, File No. 1-13397
10.19*	Amendment No. 1 to 1998 Stock Incentive Plan dated January 20, 1999, filed as Exhibit 10.19 to the Company's annual report on Form 10-K for the year ended December 31, 2000, File No. 1-13397
10.20*	Amendment No. 2 to 1998 Stock Incentive Plan dated November 21, 2000, filed as Exhibit 10.20 to the Company's annual report on Form 10-K for the year ended December 31, 2000, File No. 1-13397
10.21	Amendment No. 1 to Deferred Compensation Plan dated January 19, 2002
12.1	Earnings Per Share Computation
12.2	Computation of Ratio of Earnings to Fixed Charges
13.1	Portions of the 2001 Annual Report to Stockholders of the Company
18.1*	Preferability letter from KPMG, filed as Exhibit 18.1 to the Company's annual report on Form 10-K for the year ended December 31, 2000, File No. 1-13397
21.1	Subsidiaries of the Registrant
23.1	Consent of KPMG LLP
24.1	Power of Attorney

----

* Incorporated herein by reference as indicated in the exhibit description.

** Incorporated herein by reference to the exhibits filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

bsp;

Cash Flows from Investing Activities

Purchase of investments available for sale	(3,772)	(2,281)
Proceeds from sales of investments available for sale	822	500
Proceeds from maturity of investments available for sale	3,265	282
Proceeds from maturity of investments held to maturity	110	
Net increase in loans held for investment	(527)	(15,127)
Purchase of property and equipment	(130)	(751)
Change in federal funds sold	(1,479)	2,362
Net (increase) decrease in interest bearing bank deposits	276	(155)
Net Cash Used in Investing Activities	(1,435)	(15,170)
Cash Flows from Financing Activities		
Net change in demand and savings deposits	2,017	(857)
Net change in time deposits	3,632	2,842
Net change in short-term debt	(1,330)	3,642
Cash dividends paid	(499)	(482)
Repurchase of common stock	(220)	(56)
Proceeds from sale of common stock	1	
Change in federal funds purchased	(2,562)	
Proceeds of long-term debt	5,000	5,000
Repayment of long-term debt	(6,393)	(1,895)
Net Cash Provided (Used) by Financing Activities	(354)	8,194

Net Increase (Decrease) in Cash and Cash Equivalents
280 (1,154)
Cash and Cash Equivalents, Beginning of Period
6,247 7,904

Cash and Cash Equivalents, End of Period
$6,527 $6,750

Supplemental Disclosure

Cash paid for:

Interest expense
$2,652 $1,826
Income taxes

The accompanying notes are an integral part of these statements.

4

Table of Contents

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

	Three Months Ended March 31, 2007	2006
Balance, beginning of period	38,105	$ 36,567
Comprehensive Income		
Net income	1,089	1,085
Net change in unrealized appreciation on securities available for sale, net of taxes	(78)	173
Total comprehensive income	1,011	1,258
Issuance of Common Stock	1	
Repurchase of common stock	(220)	(56)
Dividends declared	(498)	(480)
Balance, end of period	$ 38,399	$ 37,289

The accompanying notes are an integral part of these statements.

5

Table of Contents

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ACCOUNTING PRINCIPLES:

The consolidated financial statements include the accounts of F & M Bank Corp. and its subsidiaries (the Company). Significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements conform to accounting principles generally accepted in the United States and to general industry practices. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2007 and the results of operations for the three month periods ended March 31, 2007 and March 31, 2006. The notes included herein should be read in conjunction with the notes to financial statements included in the 2006 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 March 31, 2007 and December 31, 2006 are as follows:

	2007		2006	
	Cost	**Market Value**	**Cost**	**Market Value**
Securities Held to Maturity				
U. S. Treasury and Agency obligations	$	$	$ 110	$ 110
Total	$	$	$ 110	$ 110

	2007		2006	
	Market Value	**Cost**	**Market Value**	**Cost**
Securities Available for Sale				
Government sponsored enterprises	$ 18,967	$ 18,909	$ 18,945	$ 18,902
Equity securities	6,499	6,375	6,508	6,276
Mortgage-backed securities	2,321	2,383	2,506	2,580
Corporate Bonds	2,407	2,500	2,437	2,500
Municipals	370	375	369	375
Total	$ 30,564	$ 30,542	$ 30,765	$ 30,633

Table of Contents

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 3 LOANS HELD FOR INVESTMENT:

Loans outstanding at March 31, 2007 and December 31, 2006 are summarized as follows:

	2007	2006
Real Estate		
Construction	$ 48,621	$ 46,669
Residential	140,594	141,058
Commercial and agricultural	101,160	103,933
Installment loans to individuals	17,936	15,990
Credit cards	1,628	1,709
Other	55	102
Total	$ 309,994	$ 309,461

NOTE 4 ALLOWANCE FOR LOAN LOSSES:

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

	Three Months Ended March 31, 2007	2006
Balance, beginning of period	$ 1,791	$ 1,673
Provisions charged to operating expenses	60	60
Net (charge-offs) recoveries:		
Loan recoveries	14	11
Loan charge-offs	(9)	(26)
Total Net (Charge-Offs) Recoveries*	5	(15)
Balance, End of Period	$ 1,856	$ 1,718
* Components of Net (Charge-Offs) Recoveries		
Real Estate		
Commercial	2	1
Installment	3	(16)
Total	$ 5	$ (15)

7

Table of Contents

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.

NOTE 6 EMPLOYEE BENEFIT PLAN

The Bank has a qualified noncontributory defined benefit pension plan that covers substantially all of its employees. The benefits are primarily based on years of service and earnings. The following is a summary of net periodic pension costs for the three-month periods ended March 31, 2007 and 2006.

	2007	2006
Service cost	$ 79,197	$ 75,811
Interest cost	59,473	52,406
Expected return on plan assets	(68,550)	(62,665)
Amortization of net obligation at transition	2,539	2,540
Amortization of prior service cost	(1,325)	(1,325)
Amortization of net (gain) or loss	11,380	13,130
Net periodic benefit cost	$ 82,714	$ 79,897

Table of Contents

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

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 opened 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 simultaneously closed and consolidated, into the new branch, the operation 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. In September the Bank received regulatory approval to expand its courier service into Page and Shenandoah Counties. The Bank has since added a second courier vehicle to accommodate the additional customer deposit pick ups. 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, the southern part of Page County and the northern part of Augusta County. The addition of the Luray branch will increase 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 (Continued)

Critical Accounting Policies

General

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that are used. The fair value of the investment portfolio is based on period end valuations but changes daily with the market. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of these transactions would be the same, the timing of events that would impact these transactions could change.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) 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).

Table of Contents

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

Overview

Net income for the first quarter of 2007 was $1,089,000 or $.46 per share, compared to $1,085,000 or $.45 in the first quarter of 2006, an increase of .37%. Core operating earnings, (exclusive of non-recurring items) totaled $1,075,000 in 2007 and $1,130,000 in 2006, a decrease of 4.9%. During the first quarter, noninterest income, exclusive of securities transactions, increased 12% and noninterest expense increased 13% during the same period.

Results of Operations

The 2007 year to date tax equivalent net interest margin decreased $4,000 or .12% compared to the same period 2006. The yield on earning assets increased .36 %, while the cost of funds increased .85% compared to the same period in 2006. These increases resulted as maturing assets and liabilities began repricing 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 March 2007. 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 resulted in a .38% decrease in the net interest margin compared to the same period in 2006. This has resulted due to the fact that a large portion of rate sensitive liabilities (certificates of deposit) are repricing at higher rates more quickly (shorter maturities) than rate sensitive assets (primarily adjustable rate mortgage loans).

A schedule of the net interest margin for 2007 and 2006 can be found in Table I on page 18.

Noninterest income, exclusive of securities transactions, increased $70,000 or 12% through March 31, 2007. Items contributing to the increase include a $20,000 increase in secondary market loan origination fees, a $23,000 increase in debt card, ATM surcharge and merchant credit card income and a $7,000 increase in returns on low income housing investments. The returns on these investments are principally in the form of tax credits and in 2007 included $39,000 related to the recognition of 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.

Noninterest expense increased $301,000 in 2007. The increase is the result of a $179,000 increase in salaries and benefits expense (13%). The increase in salaries and benefits includes normal salary increases, growth in staff, and an increase in the cost of group insurance of 9.3%. Exclusive of personnel expenses, other noninterest expenses increased at an annualized rate of 14% in 2007 compared to 2006. Areas that increased include a $74,000 increase in occupancy and equipment expense, $12,000 increase in data processing expense and $11,000 increase in ATM expenses. Occupancy expense increased due to costs associated with three branch offices that were opened in the second and third quarters of 2006. ATM expenses increased due to a change in ATM processors during the first quarter which resulted in some overlapping expense for a short period of time. Operating costs continue to compare very favorably to the peer group. As stated in the most recently available Bank Holding Company Performance Report, the Company s and peer group noninterest expenses averaged 2.71% and 3.23% of average assets, respectively. The Company s operating costs have always compared favorably to the peer group due to an excellent asset to employee ratio and below average facilities costs.

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

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 decreased due to growth in the loan portfolio.

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 March 31, 2007, the market value of securities available for sale exceeded their cost by $22,000. This includes increases in value in the equity securities portfolio held by the Company and a modest decrease 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 were virtually unchanged in the first quarter of 2007. The portfolio is made up of primarily agency and mortgage-backed securities with an average portfolio life of approximately two years. This short average life results in less portfolio volatility and positions the Bank to redeploy assets in response to rising rates. Scheduled maturities in 2007 total $9,032,000 and these bonds have an average yield of approximately 3.97%. Based on current market rates, as these bonds mature, the funds will be reinvested at rates that are approximately 100 BP higher.

The Company s equity securities portfolio was $124,000 above cost at March 31, 2007. The increase in the value of the equities portfolio is spread over a number of asset sectors including holdings in the financial sector. 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 March 31, 2007, revealed no securities that were impaired as of quarter end and management continues to re-evaluate the portfolio for impairment on a quarterly basis.

Table of Contents

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

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 first three months of 2007 resulted in an increase of $533,000 in the Bank s core loan portfolio. The increase in the loan portfolio is reflective of the strong local economy. The growth has been concentrated within the real estate portfolio, both residential and commercial properties.

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 $3,773,000 at March 31, 2007 compared to $2,187,000 at December 31, 2006. 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 March 31, 2007, 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:

	March 31, 2007	**December 31, 2006**
Nonaccrual loans	$ 1,749,000	$
Loans past due 90 days or more and still accruing interest	2,024,000	2,187,000
	$ 3,773,000	$ 2,187,000
Percent of loans held for investment	1.22%	.71%

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Allowance for Loan Losses

Management evaluates the allowance for loan losses on a quarterly basis in light of national and local economic trends, changes in the nature and volume of the loan portfolio and the trend of past due and criticized loans. Specific factors evaluated include internally generated loan review reports, past due reports, historical loan loss experience and changes in the financial strength of individual borrowers that have been included on the 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 significantly higher risk of charge-off. Loss rates vary by loan type to reflect the likelihood that collateral values will offset a portion of the anticipated losses.

The remainder of the portfolio falls into pools by type of homogenous loans that do not exhibit any of the above described weaknesses. Loss rates are assigned based on historical loss rates over the prior five years. A multiplier has been applied to these loss rates to reflect the time for loans to season within the portfolio and the inherent imprecision of these estimates.

All potential losses are evaluated within a range of low to high. An unallocated reserve has been established to reflect other unidentified losses within the portfolio. This helps to offset the increased risk of loss associated with fluctuations in past due trends, changes in the local and national economies, and other unusual events. The Board approves the loan loss provision for the following quarter based on this evaluation and an effort is made to keep the actual allowance at or above the midpoint of the range established by the evaluation process.

The allowance for loan losses of $1,856,000 at March 31, 2007 is equal to .60% of loans held for investment. This compares to an allowance of $1,791,000 (.58%) at December 31, 2006. Management has funded the allowance at a rate of $20,000 per month throughout the year of 2007, for a total of $60,000. Total recoveries exceed charge-offs by $5,000 year to date. 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.

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

Deposits and Other Borrowings

The Company s main source of funding is comprised of deposits received from individuals, governmental entities and businesses located within the Company s service area. Deposit accounts include demand deposits, savings, money market and certificates of deposit. Total deposits have increased $5,648,892 since December 31, 2006. Time deposits increased $3,632,000 during this period while demand deposits and savings deposits increased $2,017,000. Due to the growth in its loan portfolio and competition for deposits within its market, the Bank has offered various short term certificate of deposit rate specials to attract new funds.

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 $6,393,000 through March 31, 2007. Additional borrowings of $5,000,000 were obtained to refinance short term debt at more favorable long term rates.

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 March 31, 2007, the Company s total risk based capital and total capital to total assets ratios were 13.48% and 9.44%, respectively. Both ratios are in excess of regulatory minimums and exceed the ratios of the Company s peers. Earnings have been sufficient to allow an increase in the first quarter dividend in 2007 of 5%.

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.

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

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 March 31, 2007, the Company had a cumulative Gap Rate Sensitivity Ratio of (15.43%) 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. 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. Shares repurchased through March 31, 2007 total 80,021; of this amount, 7,052 shares were repurchased in 2007, at an average cost of $28.92 per share.

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 of Contents

TABLE 1

F & M BANK CORP.
NET INTEREST MARGIN ANALYSIS
(ON A FULLY TAXABLE EQUIVALENT BASIS)
(Dollar Amounts in Thousands)

	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006		
	Average Balance[2]	Income/ Expense	Rates	Average Balance[2]	Income/ Expense	Rates
Interest Income						
Loans held for investment[1,2]	$ 309,136	$ 5,564	7.20%	$ 281,824	$ 4,830	6.86%
Loans held for sale			%	569		%
Federal funds sold	1,184	14	4.73%	1,156	12	4.15%
Interest bearing deposits	1,996	23	4.61%	2,094	26	4.97%
Investments						
Taxable [3]	23,450	309	5.27%	19,675	200	4.07%
Partially taxable	6,826	91	5.33%	6,686	113	6.76%
Tax exempt [2,3]	375	4	4.27%	375	4	4.27%
Total Earning Assets	342,967	6,005	7.00%	312,379	5,185	6.64%
Interest Expense						
Demand deposits	50,286	262	2.08%	37,889	75	.79%
Savings	31,288	85	1.09%	42,998	131	1.22%
Time deposits	165,101	1,862	4.51%	139,943	1,249	3.57%
Short-term debt	12,748	156	4.89%	15,258	160	4.19%
Long-term debt	28,768	324	4.51%	23,074	250	4.33%
Total Interest Bearing Liabilities	$ 288,191	2,689	3.73%	$ 259,162	1,865	2.88%
Net Interest Margin [1]		$ 3,316			$ 3,320	
Net Yield on Interest Earning Assets			3.87%			4.25%

1 Interest income on loans includes loan fees.

2 An incremental income tax rate

of 34% was used to calculate the tax equivalent income on nontaxable and partially taxable investments and loans.

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

Table of Contents

TABLE II

F & M BANK CORP.
INTEREST SENSITIVITY ANALYSIS
March 31, 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	$ 51,747	$ 4,380	$ 89,189	$ 4,783	$	$ 150,099
Installment	3,795	628	10,749	2,500		17,672
Real estate for investments	23,781	6,793	97,161	12,860		140,595
Real estate for sale						
Credit cards	1,628					1,628
Federal funs sold	1,479					1,479
Interest bearing bank deposits	1,036	396	297			1,729
Investment securities	9,052	880	11,665	2,040	6,927	30,564
Total	92,518	13,077	209,061	22,183	6,927	343,766
Sources of Funds						
Interest bearing demand deposits		17,807	27,999	5,096		50,902
Savings deposits		6,209	18,626	6,209		31,044
Certificates of deposit $100,000 and over	8,147	27,156	12,347			47,650
Other certificates of deposit	18,618	68,840	32,534			119,992
Short-term borrowings	7,825					7,825
Long-term borrowings	1,124	2,910	18,572	5,248		27,854
Total	35,714	122,922	110,078	16,553		285,267
Discrete Gap	56,804	(109,845)	98,983	5,630	6,927	58,499
Cumulative Gap	56,804	(53,041)	45,942	51,572	58,499	
Ratio of Cumulative Gap to Total Earning Assets	16.52%	(15.43)%	13.36%	15.00%	17.02%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of March 31, 2007. In preparing the above table, no assumptions were made with respect to loan prepayments. Loan principal payments are included in the earliest period in which the loan matures or can reprice. Principal payments on installment loans scheduled prior to maturity are included in the period of maturity or repricing. Proceeds from the redemption of investments and deposits are included in the period of maturity. Estimated maturities of deposits, which have no stated maturity dates, were derived from guidance contained in FDICIA 305.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As a result of the enactment of the Sarbanes-Oxley Act of 2002, issuers such as F & M Bank Corp. that file periodic reports under the Securities Exchange Act of 1934 (the Act) are required to include in those reports certain information concerning the issuer s controls and procedures for complying with the disclosure requirements of the federal securities laws. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports it files or submits under the Act, is communicated to the issuer s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have established our disclosure controls and procedures to ensure that material information related to the Company is made known to our principal executive officers and principal financial officer on a regular basis, in particular during the periods in which our quarterly and annual reports are being prepared. These disclosure controls and procedures consist principally of communications between and among the Chief Executive Officer and the Chief Financial Officer, and the other executive officers of the Company and its subsidiaries to identify any new transactions, events, trends, contingencies or other matters that may be material to the Company s operations. As required, we will evaluate the effectiveness of these disclosure controls and procedures on a quarterly basis, and most recently did so as of the end of the period covered by this report.

The Company s Chief Executive Officer and Chief Financial Officer, based on their evaluation as of the end of the period covered by this quarterly report of the Company s disclosure controls and procedures (as defined in Rule 13(a)-14(e) of the Securities Exchange Act of 1934), have concluded that the Company s disclosure controls and procedures are adequate and effective for purposes of Rule 13(a)-14(e) and timely, alerting them to financial information relating to the Company required to be included in the Company s filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Changes in Internal Controls

Due to the nature of the Company s business as stewards of assets of customers; internal controls are of the utmost importance. The Company has established procedures during the normal course of business to reasonably ensure that fraudulent activity of either a material amount to these results or in any amount is not occurring. In addition to these controls and review by executive officers, the Company retains the services of 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.

Table of Contents

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 20, 2007.

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 Not Applicable

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).

Table of Contents

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

May 7, 2007