F&M BANK CORP
Form 10-Q
November 13, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

þ **Quarterly report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2007.

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 000-13273
F & M BANK CORP.

Virginia	54-1280811
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

P. O. Box 1111
Timberville, Virginia 22853
(Address of Principal Executive Offices) (Zip Code)
(540) 896-8941
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

State the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Class	Outstanding at September 30, 2007
Common Stock, par value $5	2,349,752 shares

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006
Interest Income		
Interest and fees on loans held for investment	$ 5,712	$ 5,362
Interest and fees on loans held for sale	22	
Interest on federal funds sold	89	34
Interest on interest bearing deposits	22	29
Dividends on equity securities	127	116
Interest on debt securities	316	252
Total Interest Income	6,288	5,793
Interest Expense		
Interest on demand deposits	315	147
Interest on savings accounts	83	102
Interest on time deposits over $100,000	509	535
Interest on time deposits	1,519	1,180
Total interest on deposits	2,426	1,964
Interest on short-term debt	117	197
Interest on long-term debt	277	253
Total Interest Expense	2,820	2,414
Net Interest Income	3,468	3,379
Provision for Loan Losses	60	60
Net Interest Income after Provision for Loan Losses	3,408	3,319
Noninterest Income		
Service charges	320	310
Insurance and other commissions	138	71
Other	339	244
Income on bank owned life insurance	74	71
Security gains (losses)	20	109
Total Noninterest Income	891	805

Noninterest Expense				
Salaries		1,213		1,101
Employee benefits		390		361
Occupancy expense		152		130
Equipment expense		153		143
Intangible amortization		69		69
Other		729		675
Total Noninterest Expense		2,706		2,479
Income before Income Taxes		1,593		1,645
Income Taxes		468		482
Net Income	$	1,125	$	1,163
Per Share Data				
Net Income	$	.48	$	.49
Cash Dividends	$	.21	$	.21
Weighted Average Shares Outstanding		2,356,867		2,380,769

The accompanying notes are an integral part of these statements.

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Part I Financial Information
Item 1 Financial Statements

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

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Interest Income		
Interest and fees on loans held for investment	$ 16,895	$ 15,332
Interest and fees on loans held for sale	22	
Interest on federal funds sold	177	54
Interest on interest bearing deposits	64	90
Dividends on equity securities	357	323
Interest on debt securities	912	648
Total Interest Income	18,427	16,447
Interest Expense		
Interest on demand deposits	875	348
Interest on savings accounts	253	351
Interest on time deposits over $100,000	1,650	1,288
Interest on time deposits	4,219	3,095
Total interest on deposits	6,997	5,082
Interest on short-term debt	368	586
Interest on long-term debt	925	777
Total Interest Expense	8,290	6,445
Net Interest Income	10,137	10,002
Provision for Loan Losses	180	180
Net Interest Income after Provision for Loan Losses	9,957	9,822
Noninterest Income		
Service charges	873	895
Insurance and other commissions	290	219
Other	931	672
Income on bank owned life insurance	219	204
Security gains (losses)	238	104
Total Noninterest Income	2,551	2,094

Noninterest Expense				
Salaries		3,516		3,152
Employee benefits		1,151		1,071
Occupancy expense		444		355
Equipment expense		480		403
Intangible amortization		207		207
Other		2,039		1,912
Total Noninterest Expense		7,837		7,100
Income before Income Taxes		4,671		4,816
Income Taxes		1,320		1,433
Net Income	$	3,351	$	3,383
Per Share Data				
Net Income	$	1.42	$	1.41
Cash Dividends	$	.63	$	.61
Weighted Average Shares Outstanding		2,364,243		2,393,154

The accompanying notes are an integral part of these statements.

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

	September 30, 2007 (Unaudited)	December 31, 2006 (Audited)
ASSETS		
Cash and due from banks	$ 7,910	$ 6,247
Interest bearing deposits in banks	1,867	2,005
Fed funds sold	5,011	
Securities held to maturity (note 2)	108	110
Securities available for sale (note 2)	31,168	30,765
Other investments	6,329	6,498
Loans held for investment (note 3)	309,565	309,461
Less allowance for loan losses (note 4)	(1,825)	(1,791)
Net Loans Held for Investment	307,740	307,670
Bank premises and equipment	7,260	7,710
Interest receivable	1,792	1,877
Deposit intangible	943	1,150
Goodwill	2,639	2,639
Bank owned life insurance (note 5)	6,177	5,958
Other assets	3,406	3,295
Total Assets	$ 382,350	$ 375,924
LIABILITIES		
Deposits		
Noninterest bearing demand	$ 43,559	$ 45,291
Interest bearing		
Demand	57,965	47,870
Savings deposits	30,233	32,351
Time deposits over $100,000	46,351	45,395
Time deposits	122,254	118,615
Total Deposits	300,362	289,522
Short-term debt	10,049	11,717
Long-term debt	25,607	29,248
Accrued expenses	7,574	7,332
Total Liabilities	343,592	337,819
STOCKHOLDERS EQUITY		

Common stock, $5 par value, 2,349,752 and 2,363,229 issued and outstanding, in 2007 and 2006, respectively		11,749		11,871
Surplus				
Retained earnings		27,982		26,794
Accumulated other comprehensive income (loss)		(973)		(560)
Total Stockholders Equity		38,758		38,105
Total Liabilities and Stockholders Equity	$	382,350	$	375,924

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended September 30, 2007	2006
Cash Flows from Operating Activities:		
Net income	$ 3,351	$ 3,383
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	535	435
Gain on sale of property and equipment	(69)	
Amortization (accretion) of security premiums (discounts)	(96)	38
Net (increase) decrease in loans held for sale		3,528
Provision for loan losses	180	180
Intangible amortization	207	207
(Increase) decrease in interest receivable	85	(365)
(Increase) decrease in other assets	(118)	41
Increase in accrued expenses	414	1,395
(Gain) loss on security transactions	(238)	(104)
Amortization of limited partnership investments	477	280
Income from life insurance investment	(219)	(203)
Net Adjustments	1,158	5,432
Net Cash Provided by Operating Activities	4,509	8,815
Cash Flows from Investing Activities:		
Purchase of investments held to maturity	(108)	
Purchase of investments available for sale	(17,229)	(11,621)
Proceeds from sales of investments available for sale	2,095	1,993
Proceeds from maturity of investments available for sale	14,160	8,771
Proceeds from maturity of investments held to maturity	110	
Net increase in loans held for investment	(250)	(24,562)
Purchase of property and equipment	(16)	(2,055)
Change in federal funds sold	(5,011)	2,487
Purchase of investment in life insurance		(350)
Net (increase) decrease in interest bearing bank deposits	138	461
Net Cash Used in Investing Activities	(6,111)	(24,876)
Cash Flows from Financing Activities:		
Net change in demand and savings deposits	6,245	(6,820)
Net change in time deposits	4,594	26,436
Net change in short-term debt	894	(1,967)
Cash dividends paid	(1,495)	(1,434)
Repurchase of common stock	(781)	(976)
Change in federal funds purchased	(2,562)	635

Proceeds of long-term debt	5,000	5,000
Proceeds from issuance of common stock	10	
Repayment of long-term debt	(8,640)	(6,585)
Net Cash Provided (Used) by Financing Activities	3,265	14,289
Net Decrease (Increase) in Cash and Cash Equivalents	1,663	(1,772)
Cash and Cash Equivalents, Beginning of Period	6,247	7,904
Cash and Cash Equivalents, End of Period	$ 7,910	$ 6,132
Supplemental Disclosure		
Cash paid for:		
Interest expense	$ 8,122	$ 6,179
Income taxes	925	825

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

	Nine Months Ended September 30, 2007	2006
Balance, beginning of period	$ 38,105	$ 36,567
Comprehensive Income		
Net income	3,351	3,383
Net change in unrealized appreciation on securities available for sale, net of taxes	(413)	401
Total comprehensive income	2,938	3,784
Repurchase of common stock	(781)	(976)
Common stock sold	10	
Dividends declared	(1,514)	(1,455)
Balance, end of period	$ 38,758	$ 37,920

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F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ACCOUNTING PRINCIPLES:

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

The consolidated financial statements conform to accounting principles generally accepted in the United States and to general industry practices. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2007 and the results of operations for the nine month periods ended September 30, 2007 and September 30, 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 September 30, 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	$ 108	$ 108	$ 110	$ 110
Total	$ 108	$ 108	$ 110	$ 110

	2007		2006	
	Market Value	Cost	Market Value	Cost
Securities Available for Sale				
Government sponsored enterprises	$ 16,351	$ 16,270	$ 18,945	$ 18,902
Equity securities	6,417	6,749	6,508	6,276
Mortgage-backed securities	5,710	5,747	2,506	2,580
Corporate Bonds	2,442	2,617	2,437	2,500
Municipals	248	250	369	375
Total	$ 31,168	$ 31,633	$ 30,765	$ 30,633

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F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 3 LOANS HELD FOR INVESTMENT:

Loans outstanding at September 30, 2007 and December 31, 2006 are summarized as follows:

	2007	2006
Real Estate		
Construction	$ 49,738	$ 46,669
Residential	141,101	141,058
Commercial and agricultural	98,786	103,933
Installment loans to individuals	18,032	15,990
Credit cards	1,827	1,709
Other	81	102
Total	$ 309,565	$ 309,461

NOTE 4 ALLOWANCE FOR LOAN LOSSES:

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
Balance, beginning of period	$ 1,791	$ 1,673	$ 1,898	$ 1,775
Provisions charged to operating expenses	180	180	60	60
Net (charge-offs) recoveries:				
Loan recoveries	53	33	13	15
Loan charge-offs	(199)	(85)	(146)	(49)
Total Net Charge-Offs *	(146)	(52)	(133)	(34)
Balance, End of Period	$ 1,825	$ 1,801	$ 1,825	$ 1,801

* Components of Net Charge-Offs

Real Estate				
Commercial	(98)	(16)	(100)	(17)
Installment	(48)	(36)	(33)	(17)
Total	$ (146)	$ (52)	$ (133)	$ (34)

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F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 BANK OWNED LIFE INSURANCE (BOLI)

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

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

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 nine-month periods ended September 30, 2007 and 2006.

	2007	2006
Service cost	$ 237,590	$ 227,433
Interest cost	178,419	157,217
Expected return on plan assets	(205,651)	(187,994)
Amortization of net obligation at transition	7,616	7,619
Amortization of prior service cost	(3,975)	(3,975)
Amortization of net (gain) or loss	34,144	39,392
Net periodic benefit cost	$ 248,143	$ 239,692

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

F & M Bank Corp. (Company) is a one-bank holding company organized under Virginia law which provides financial services through its wholly-owned subsidiaries Farmers & Merchants Bank (Bank) and TEB Life Insurance Company (TEB). Farmers & Merchants Financial Services (FMFS) is a wholly-owned subsidiary of the Bank.

The Bank is a full service commercial bank offering a wide range of banking and financial services through its nine branch offices. In April of 2006, the Bank opened its first office within the Harrisonburg, Virginia city limits on Port Republic Road. In early July 2006, the Bank opened an office at 700 East Main Street, Luray, Virginia, its first office in Page County, Virginia. In late August 2006 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 within the Bank s service area. TEB reinsures credit life and accident and health insurance sold by the Bank in connection with its lending activities. FMFS provides title insurance, brokerage services and property/casualty insurance to customers of the Bank.

The Company s primary trade area services customers in Rockingham County, Shenandoah County, Page County and the northern part of Augusta County.

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.

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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).

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

Overview

Net income for the third quarter of 2007 was $1,125,000 or $.48 per share, compared to $1,163,000 or $.49 in the third quarter of 2006, a decrease of 3.27%. Core operating earnings, (exclusive of non-recurring items) totaled $1,070,000 in 2007 and $1,137,000 in 2006, a decrease of 5.90%. During the third quarter, noninterest income, exclusive of securities transactions and other asset sales, increased 15.22% and noninterest expense increased 10.92% during the same period.

Results of Operations

The 2007 year to date tax equivalent net interest margin increased $136,000 or 1.34% compared to the same period in 2006. The yield on earning assets increased .30%, while the cost of funds increased .60% compared to the same period in 2006. These increases resulted as maturing assets and liabilities continued to reprice 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% with the last increase occurring in June 2006. At its September 2007 meeting the FOMC reversed course and cut the benchmark fed funds rate by .50%, citing the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally. The Interest Sensitivity Analysis on page 19 indicates the Company is in a liability sensitive position in the one year time horizon. Rising short term rates (primarily on time deposits) has resulted in a .23% decrease in the net interest margin for the first nine months of 2007 as compared to the same period in 2006. As the cost of funds has begun to stabilize in the third quarter and longer term earning assets continue to reprice upward this has resulted in a .04% improvement in the third quarter net interest margin as compared to the full year.

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 $323,000 or 16.23% through September 30, 2007. Items contributing to the increase include a $71,000 increase in insurance and commission income, a $69,000 gain on sale of property and equipment, a $48,000 increase in debt card, ATM surcharge and merchant credit card income and a $122,000 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 $155,000 related to the recognition of 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 $737,000 in 2007. The increase is the result of a $444,000 increase in salaries and benefits expense (10.51%). The increase in salaries and benefits includes normal salary increases, growth in staff, and an increase in the cost of group insurance of 7.05%. Exclusive of personnel expenses, other noninterest expenses increased at an annualized rate of 10.18% in 2007 compared to 2006. Areas that increased include a $166,000 increase in occupancy and equipment expense, a $31,000 increase in contributions, a $21,000 increase in data processing expense and $23,000 increase in travel and entertainment and training expense. Occupancy expense increased due to costs associated with three branch offices that were opened in the second and third quarters of 2006. Contribution expense increased due to a $25,000 donation to facilitate the sale of investment property. 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 2.70% and 3.28% of average assets, respectively.

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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 4.75% 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 September 30, 2007, the cost of securities available for sale exceeded their market value by $465,000. This includes decreases in value in the equity securities portfolio held by the Company and a 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 nine months 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. There are no scheduled maturities for the remainder of 2007.

The Company s equity securities portfolio was $332,000 below cost at September 30, 2007. The decrease 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 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 September 30, 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.

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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 and assisted living facilities. Management and the Board of Directors review these concentrations quarterly.

During the first nine months of 2007 the loan portfolio increased only $104,000. This slight increase is indicative of a slowing in the local economy, primarily in the real estate sales sector, both residential and commercial, and the sharp competition within the Bank s service area for high quality loans.

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 $4,091,000 at September 30, 2007 compared to $2,187,000 at December 31, 2006. Approximately 83% of these past due loans are secured by real estate. During the third quarter, the Bank recognized a partial writedown of $100,000 on a commercial loan that management was in the process of negotiating a restructuring of the debt with the customer. Subsequent to the end of the quarter, management learned that the borrower intends to file bankruptcy rather than attempting the workout. At this time the amount of future loss is unknown, however there will be a significant additional loss of up to $500,000. This loan is currently listed as part of the $1,952,000 in nonaccrual loans. Management continues to believe that, with the exception of the aforementioned loan, the bank is generally well secured and continues to actively work with its customers to effect payment. As of September 30, 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:

	September 30, 2007	December 31, 2006
Nonaccrual loans	$ 1,952,000	$
Loans past due 90 days or more and still accruing interest	2,139,000	2,187,000
	$ 4,091,000	$ 2,187,000
As a percentage of loans held for investment	1.32%	.71%

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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 $1,825,000 at September 30, 2007 is equal to .59% of loans held for investment. This compares to an allowance of $1,791,000 (.58%) at December 31, 2006. Management funded the allowance at a rate of $20,000 per month for the first six months of 2007, for a total of $120,000 through six months. Beginning in the third quarter, based on its allowance for loan loss worksheet, management recommended a reduction in the loan loss provision to zero. However, as a result of developments with the one commercial credit previously cited, a provision of $30,000 per month was recognized for the months of August and September, bringing the year to date total to $180,000. Total charge-offs exceed recoveries by $146,000 year to date, annualized this equates to a loss rate of slightly over .06%. 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. Management intends to continue funding $30,000 per month for the fourth quarter of 2007.

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. Should the previously mentioned commercial loan loss occur, management believes the remaining reserves will be adequate to cover other identified losses within the portfolio. This is due to the fact that the allowance worksheet already contains an adequate reserve for this loan as a specifically identified potential loss.

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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 $10,840,000 since December 31, 2006. Time deposits increased $4,595,000 during this period while demand deposits and savings deposits increased $6,245,000. Due to competition for deposits within its market, the Bank has offered various short term certificate of deposit rate specials to attract new funds. Approximately $5.9 million of the increase in deposits came from growth at the three branches that were opened in the second and third quarters of 2006.

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 for the real estate loan portfolio. The Company s subsidiary bank typically 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 $8,179,000 through September 30, 2007. Additional borrowings of $5,000,000 were obtained to refinance maturing debt at more favorable longer term rates.

In September 2002, the Company borrowed $3 million from SunTrust Bank. This loan carried a variable rate of interest of LIBOR + 1.10%. Payments of $230,769 plus interest began in the second quarter of 2004 with the final payment during the second quarter of 2007. 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 September 30, 2007, the Company s total risk based capital and total capital to total assets ratios were 13.58% and 9.36%, 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 third 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.

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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 September 30, 2007, the Company had a cumulative Gap Rate Sensitivity Ratio of (9.17%) 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, on page 19.

Stock Repurchase

As previously reported, on September 20, 2007, the Company s Board of Directors approved an increase in the number of shares of common stock that the Company can repurchase under the share repurchase program from 100,000 to 150,000 shares. Shares repurchased through September 30, 2007 total 97,704; of this amount, 24,735 shares were repurchased in 2007, at an average cost of $30.63 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).

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TABLE 1

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

	Nine Months Ended September 30, 2007			Nine Months Ended September 30, 2006			Three Months Ended September 30, 2007			Three Months Ended September 30, 2006		
	Average Balance	Income/ Expense	Rates	Average Balance	Income/ Expense	Rates	Average Balance	Income/ Expense	Rates	Average Balance	Income/ Expense	Rates
Rate related income												
Loans held for investment[1,4]	$ 309,643	$ 16,961	7.30%	$ 290,397	$ 15,388	7.07%	$ 310,259	$ 5,747	7.41%	$ 295,880	$ 5,383	7.28%
Loans held for sale	396	22	7.41%	188	9	6.38%	1,176	22	7.48%			
Federal funds sold	4,722	177	5.00%	1,486	54	4.85%	7,211	89	4.94%	2,667	34	5.10%
Bank deposits	1,093	50	6.10%	1,982	90	6.05%	1,010	17	6.73%	1,792	28	6.25%
Investments												
Taxable[3]	23,491	1,000	5.68%	21,660	705	4.34%	23,766	351	5.91%	22,238	277	4.98%
Partially taxable [2,3]	7,049	347	6.56%	7,117	328	6.14%	6,764	118	6.98%	7,551	113	5.99%
Tax exempt [2,3]	300	10	4.44%	375	13	4.62%	250	3	4.80%	375	4	4.27%
Total earning assets	346,694	18,567	7.14%	323,205	16,587	6.84%	350,436	6,347	7.24%	330,503	5,839	7.07%
Interest Expense												
Demand deposits	51,997	875	2.24%	38,832	349	1.20%	54,250	315	2.32%	39,412	149	1.51%
Savings	30,981	253	1.09%	39,514	351	1.18%	30,028	83	1.11%	35,865	102	1.14%
Time deposits	168,561	5,869	4.64%	148,683	4,382	3.93%	170,732	2,028	4.75%	160,114	1,714	4.28%
Short-term debt	10,370	368	4.73%	16,718	586	4.67%	10,205	117	4.59%	15,595	196	5.03%
Long-term debt	27,246	925	4.53%	23,251	778	4.46%	26,280	312	4.75%	22,195	254	4.58%
Total interest bearing liabilities	289,155	8,290	3.82%	266,998	6,446	3.22%	291,495	2,855	3.92%	273,181	2,415	3.54%
		$ 10,277			$ 10,141			$ 3,492		$ 3,424		

Net interest income [1]				
Net yield on interest earning assets [1]	3.95%	4.18%	3.99%	4.14%

[1] Interest income on loans includes loan fees.

[2] An incremental tax rate of 34% was used to calculate the tax equivalent income on nontaxable and partially taxable investments.

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

[4] Average balances include non-accrual loans.

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TABLE II

F & M BANK CORP.
INTEREST SENSITIVITY ANALYSIS
September 30, 2007
(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	$ 48,039	$ 9,862	$ 86,491	$ 4,132	$	$ 148,524
Installment	3,980	1,091	10,549	2,493		18,113
Real estate for investments	24,067	14,760	85,562	16,712		141,101
Real estate for sale						
Credit cards	1,827					1,827
Federal funs sold	5,011					5,011
Interest bearing bank deposits	678	891	297			1,866
Investment securities	948	5,793	11,752	5,854	6,929	31,276
Total	84,550	32,397	194,651	29,191	6,929	347,718
Sources of Funds						
Interest bearing demand deposits		19,575	29,569	4,997		54,141
Savings deposits		6,046	18,140	6,047		30,233
Certificates of deposit $100,000 and over	8,616	23,306	14,429			46,351
Other certificates of deposit	28,293	49,366	44,595			122,254
Short-term borrowings	10,049					10,049
Long-term borrowings	893	2,679	17,144	4,891		25,607
Total	47,851	100,972	123,877	15,935		288,635
Discrete Gap	36,699	(68,575)	70,774	13,256	6,929	59,083
Cumulative Gap	36,699	(31,876)	38,898	52,154	59,083	
Ratio of Cumulative Gap to Total Earning Assets	10.55%	(9.17)%	11.19%	15.00%	16.99%	

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

Item 4T. 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 Risk Management Consulting, LLC, 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 Risk Management Consulting, LLC are presented to management of the Bank and to the Audit Committee of the Company.

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Part II Other Information

Item 1.	Legal Proceedings	Not Applicable
Item 1a.	Risk Factors There have been no material changes from the risk factors previously disclosed in Item 1a of the Corporation s Form 10k filed on March 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).

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Signature

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

F & M BANK CORP.

/s/ DEAN W. WITHERS
Dean W. Withers
President and Chief Executive Officer

/s/ NEIL W. HAYSLETT
Neil W. Hayslett
Senior Vice President and Chief Financial Officer

November 9, 2007