

ARCHER DANIELS MIDLAND CO
Form 10-Q
November 08, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549**

FORM 10-Q

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

**For the quarterly period ended September 30, 2007
OR**

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

For the transition period from _____ to _____

Commission file number 1-44

ARCHER-DANIELS-MIDLAND COMPANY
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

41-0129150
(I. R. S. Employer
Identification No.)

4666 Faries Parkway Box 1470
Decatur, Illinois
(Address of principal executive offices)

62525
(Zip Code)

(217) 424-5200
(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 No .

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable

date.

Common Stock, no par value – 642,890,659 shares
(October 31, 2007)

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Archer-Daniels-Midland Company****Consolidated Statements of Earnings
(Unaudited)**

	Three Months Ended September 30,	
	2007	2006
	(In millions, except per share amounts)	
Net sales and other operating income	\$ 12,828	\$ 9,447
Cost of products sold	11,898	8,581
Gross Profit	930	866
Selling, general and administrative expenses	354	310
Other income – net	(71)	(20)
Earnings Before Income Taxes	647	576
Income taxes	206	173
Net Earnings	\$ 441	\$ 403
Average number of shares outstanding – basic	644	657
Average number of shares outstanding – diluted	647	661
Basic and diluted earnings per common share	\$ 0.68	\$ 0.61
Dividends per common share	\$ 0.115	\$ 0.10

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Balance Sheets

	(Unaudited) September 30, 2007	June 30, 2007
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,121	\$ 663
Segregated cash and investments	1,182	1,424
Receivables	8,428	6,404
Inventories	7,747	6,060
Other assets	540	571
Total Current Assets	19,018	15,122
Investments and Other Assets		
Investments in and advances to affiliates	2,624	2,498
Long-term marketable securities	684	657
Goodwill	319	317
Other assets	519	514
Total Investments and Other Assets	4,146	3,986
Property, Plant, and Equipment		
Land	225	227
Buildings	3,056	3,002
Machinery and equipment	12,015	11,822
Construction in progress	1,073	884
	16,369	15,935
Accumulated depreciation	(10,141)	(9,925)
Total Property, Plant, and Equipment	6,228	6,010
Total Assets	\$ 29,392	\$ 25,118
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt	\$ 2,523	\$ 468
Accounts payable	5,512	4,919
Accrued expenses	3,424	2,416
Current maturities of long-term debt	67	65
Total Current Liabilities	11,526	7,868
Long-Term Liabilities		
Long-term debt	4,733	4,752
Deferred income taxes	552	532
Other	761	713
Total Long-Term Liabilities	6,046	5,997
Shareholders' Equity		
Common stock	5,056	5,090
Reinvested earnings	6,375	5,982

Accumulated other comprehensive income	389	181
Total Shareholders' Equity	11,820	11,253
Total Liabilities and Shareholders' Equity	\$ 29,392	\$ 25,118

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended September 30,	
	2006	2005
	(In thousands)	
Operating Activities		
Net earnings	\$ 441	\$ 403
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation	185	171
Deferred income taxes	(18)	(10)
Gain on marketable securities transactions	(15)	(4)
Equity in earnings of affiliates, net of dividends	(52)	(48)
Pension and postretirement accruals, net of contributions	14	19
Other – net	88	50
Changes in operating assets and liabilities		
Segregated cash and investments	246	8
Receivables	(814)	(126)
Inventories	(1,858)	(421)
Other assets	(71)	(37)
Accounts payable and accrued expenses	644	72
Total Operating Activities	(1,210)	77
Investing Activities		
Purchases of property, plant, and equipment	(359)	(251)
Proceeds from sales of property, plant, and equipment	9	11
Net assets of businesses acquired	(5)	(20)
Purchases of marketable securities	(122)	(139)
Proceeds from sales of marketable securities	242	74
Other – net	11	9
Total Investing Activities	(224)	(316)
Financing Activities		
Long-term debt borrowings	17	10
Long-term debt payments	(39)	(42)
Net borrowings under lines of credit agreements	2,041	168
Purchases of treasury stock	(60)	–
Cash dividends	(74)	(66)
Other – net	7	14
Total Financing Activities	1,892	84
Increase (decrease) in cash and cash equivalents	458	(155)
Cash and cash equivalents beginning of period	663	1,113
Cash and cash equivalents end of period	\$ 1,121	\$ 958

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

**Notes to Consolidated Financial Statements
(Unaudited)**

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending June 30, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2007.

Last-in, First-out (LIFO) Inventories

Interim period LIFO calculations are based on interim period costs and management's estimates of year-end inventory levels. Because the availability and price of agricultural commodity-based LIFO inventories are unpredictable due to factors such as weather, government farm programs and policies, and changes in global demand, quantities of LIFO-based inventories at interim periods may vary significantly from management's estimates of year-end inventory levels.

Note 2. New Accounting Standards

During July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation Number 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement Number 109* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing the minimum requirements a tax position must meet before being recognized in the financial statements. In addition, FIN 48 prohibits the use of Statement of Financial Accounting Standards (SFAS) Number 5, *Accounting for Contingencies*, in evaluating the recognition and measurement of uncertain tax positions. The Company adopted the provisions of FIN 48 on July 1, 2007. The effect of the adoption was immaterial to the Company.

The Company files income tax returns in multiple jurisdictions and is subject to examination by taxing authorities throughout the world. In the U.S., the Company remains subject to Federal examination for tax years 2003 through 2007. The amount of unrecognized tax benefits at September 30, 2007 was immaterial. There were no significant increases or decreases in unrecognized tax benefits as a result of tax positions taken during a prior period or taken during the current quarter and there were no material settlements during the quarter ended September 30, 2007. The Company classifies interest and penalties related to uncertain tax positions as interest expense and penalty expense which are included in the accompanying consolidated statements of earnings in other income – net and selling, general and administrative expenses, respectively. The amount of interest expense and penalty expense was immaterial for the quarter ended September 30, 2007.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 2. New Accounting Standards (Continued)

During September 2006, the FASB issued SFAS Number 157, *Fair Value Measurements*. SFAS Number 157 establishes a framework for measuring fair value within generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS Number 157 does not require any new fair value measurements in generally accepted accounting principles. However, the definition of fair value in SFAS Number 157 may affect assumptions used by companies in determining fair value. The Company will be required to adopt SFAS Number 157 on July 1, 2008. The Company has not completed its evaluation of the impact of adopting SFAS Number 157 on the Company's financial statements, but currently believes the impact of the adoption of SFAS Number 157 will not require material modification of the Company's fair value measurements and will be substantially limited to expanded disclosures in the notes to the Company's consolidated financial statements.

During February 2007, the FASB issued SFAS Number 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS Number 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS Number 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. The Company will be required to adopt SFAS Number 159 on July 1, 2008 and has not yet assessed the impact of the adoption of this standard on the Company's financial statements.

Note 3. Long-Term Debt

The Company has outstanding \$1.2 billion principal amount of convertible senior notes (the Notes) due in 2014. As of September 30, 2007 none of the conditions permitting conversion of the Notes had been satisfied and no share amounts related to the conversion of the Notes or exercise of the warrants sold in connection with the issuance of the Notes, were included in diluted average shares outstanding. For further information on the Notes, refer to Note 7 "Debt and Financing Arrangements" in the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2007.

Note 4. Comprehensive Income

The components of comprehensive income, net of related tax, are as follows:

	Three Months Ended	
	September 30,	
	2007	2006
	(In millions)	
Net earnings	\$ 441	\$ 403
Net change in unrealized gain (loss) on investments	(2)	8
Deferred gain on hedging activities	5	48
Pension liability adjustment	(5)	—
Foreign currency translation adjustment	210	29
Comprehensive income	\$ 649	\$ 488

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Other Income - Net

	Three Months Ended	
	September 30, 2007	2006
	(In millions)	
Interest expense	\$ 88	\$ 97
Investment income	(63)	(61)
Net gain on marketable securities transactions	(15)	(4)
Equity in earnings of unconsolidated affiliates	(85)	(57)
Other - net	4	5
	\$ (71)	\$ (20)

Note 6. Segment Information

The Company is principally engaged in procuring, transporting, storing, processing, and merchandising agricultural commodities and products. The Company has reclassified certain operations within its reportable segments to reflect how the Company now manages its businesses following a realignment of the organizational structure of the Company and to reflect the activities of the Company as viewed by the Company's chief operating decision maker. The Company's operations are classified into three reportable business segments: Oilseeds Processing, Corn Processing and Agricultural Services. Each of these segments is organized based upon the nature of products and services offered. The Company's remaining operations are aggregated and classified as Other. The reclassification of certain operations in the Company's reportable segments principally resulted in the movement of certain food, feed, and industrial operations previously classified in Other to the respective segment which produces the raw material feedstock used in those operations. The Oilseeds Processing segment now includes the Company's natural health and nutrition and protein specialties operations, the Corn Processing segment now includes the Company's industrial bioproducts operations, and the Agricultural Services segment now includes the Company's formula feed processing and edible bean origination operations. Prior period segment information has been reclassified to conform to the new presentation.

The Oilseeds Processing segment includes activities related to the crushing and origination of oilseeds such as soybeans, cottonseed, sunflower seeds, canola, peanuts, and flaxseed into vegetable oils and meals principally for the food and feed industries. In addition, oilseeds and oilseed products may be used internally or resold into the marketplace as raw materials for other processing. Crude vegetable oil is sold "as is" or is further processed by refining, bleaching, and deodorizing into salad oils. Salad oils can be further processed by hydrogenating and/or interesterifying into margarine, shortening, and other food products. Partially refined oil is sold for use in chemicals, paints, and other industrial products. Refined oil can be further processed for use in the production of biodiesel. Oilseed meals are primary ingredients used in the manufacture of commercial livestock and poultry feeds.

Oilseeds Processing includes activities related to the production of natural health and nutrition products and the production of other specialty food and feed ingredients. This segment also includes activities related to the Company's interests in unconsolidated affiliates in Asia, principally Wilmar International Limited, the largest agricultural processing business in Asia.

The Corn Processing segment includes activities related to the production of sweeteners, starches, dextrose, and syrups for the food and beverage industry as well as activities related to the production, by fermentation, of

bioproducts such as ethanol, amino acids, and other food, feed and industrial products.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Segment Information (Continued)

The Agricultural Services segment utilizes the Company's extensive grain elevator and transportation network to buy, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, barley, and edible beans, and resells or processes these commodities primarily as food and feed ingredients for the agricultural processing industry. Agricultural Services' grain sourcing and transportation network provides reliable and efficient services to the Company's agricultural processing operations. Also included in Agricultural Services are the activities of A.C. Toepfer International, a global merchandiser of agricultural commodities and processed products.

Other includes the Company's remaining operations, consisting of activities related to processing agricultural commodities into food ingredient products such as wheat into wheat flour, cocoa into chocolate and cocoa products, and barley into malt for the beverage industry. Other also includes financial activities related to banking, captive insurance, private equity fund investments, and futures commission merchant activities.

Intersegment sales have been recorded at amounts approximating market. Operating profit for each segment is based on net sales less identifiable operating expenses, including an interest charge related to working capital usage. Also included in segment operating profit are the related equity in earnings of affiliates based on the equity method of accounting. General corporate expenses, investment income, unallocated interest expense, marketable securities transactions, and FIFO to LIFO inventory adjustments have been excluded from segment operations and classified as Corporate.

For detailed information regarding the Company's reportable segments, see Note 14 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended June 30, 2007.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 6. Segment Information (Continued)

	Three Months Ended September 30,	
	2007	2006
	(In millions)	
Sales to external customers		
Oilseeds Processing	\$ 4,610	\$ 3,238
Corn Processing	1,521	1,351
Agricultural Services	5,540	3,975
Other	1,157	883
Total	\$ 12,828	\$ 9,447
Intersegment sales		
Oilseeds Processing	\$ 147	\$ 83
Corn Processing	19	10
Agricultural Services	420	304
Other	31	30
Total	\$ 617	\$ 427
Net sales		
Oilseeds Processing	\$ 4,757	\$ 3,321
Corn Processing	1,540	1,361
Agricultural Services	5,960	4,279
Other	1,188	913
Intersegment elimination	(617)	(427)
Total	\$ 12,828	\$ 9,447
Segment operating profit		
Oilseeds Processing	\$ 209	\$ 170
Corn Processing	253	289
Agricultural Services	229	115
Other	106	74
Total segment operating profit	797	648
Corporate	(150)	(72)
Earnings before income taxes	\$ 647	\$ 576

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 2. OF OPERATIONS

Company Overview

The Company is principally engaged in procuring, transporting, storing, processing, and merchandising agricultural commodities and products. The Company's operations are classified into three reportable business segments: Oilseeds Processing, Corn Processing and Agricultural Services. Each of these segments is organized based upon the nature of products and services offered. The Company's remaining operations are aggregated and classified as Other.

The Oilseeds Processing segment includes activities related to the crushing and origination of oilseeds such as soybeans, cottonseed, sunflower seeds, canola, peanuts, and flaxseed into vegetable oils and meals principally for the food and feed industries. In addition, oilseeds and oilseed products may be used internally or resold into the marketplace as raw materials for other processing. Crude vegetable oil is sold "as is" or is further processed by refining, bleaching, and deodorizing into salad oils. Salad oils can be further processed by hydrogenating and/or interesterifying into margarine, shortening, and other food products. Partially refined oil is sold for use in chemicals, paints, and other industrial products. Refined oil can be further processed for use in the production of biodiesel. Oilseed meals are primary ingredients used in the manufacture of commercial livestock and poultry feeds. Oilseeds Processing includes activities related to the production of natural health and nutrition products and the production of other specialty food and feed ingredients. This segment also includes activities related to the Company's interests in unconsolidated affiliates in Asia, principally Wilmar International Limited, the largest agricultural processing business in Asia.

The Corn Processing segment includes activities related to the production of sweeteners, starches, dextrose, and syrups for the food and beverage industry as well as activities related to the production, by fermentation, of bioproducts such as ethanol, amino acids, and other food, feed and industrial products.

The Agricultural Services segment utilizes the Company's extensive grain elevator and transportation network to buy, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, barley, and edible beans, and resells or processes these commodities primarily as food and feed ingredients for the agricultural processing industry. Agricultural Services' grain sourcing and transportation network provides reliable and efficient services to the Company's agricultural processing operations. Also included in Agricultural Services are the activities of A.C. Toepfer International, a global merchandiser of agricultural commodities and processed products.

Other includes the Company's remaining operations, consisting of activities related to processing agricultural commodities into food ingredient products such as wheat into wheat flour, cocoa into chocolate and cocoa products, and barley into malt for the beverage industry. Other also includes financial activities related to banking, captive insurance, private equity fund investments, and futures commission merchant activities.

Operating Performance Indicators

The Company is exposed to certain risks inherent to an agricultural-based commodity business. These risks are further described in Item 1A, "Risk Factors" included in the Company's annual report on Form 10-K for the year ended June 30, 2007.

**ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
2. OF OPERATIONS (Continued)**

The Company's Oilseeds Processing, Agricultural Services, and Wheat Processing operations are principally agricultural commodity-based businesses where changes in segment selling prices move in relationship to changes in prices of the commodity-based agricultural raw materials. Therefore, changes in agricultural commodity prices have relatively equal impacts on both net sales and cost of products sold and minimal impact on the gross profit of underlying transactions. As a result, changes in net sales amounts of these business segments do not necessarily correspond to the changes in gross profit realized by these businesses.

The Company's Corn Processing operations and certain other food and feed processing operations also utilize agricultural commodities (or products derived from agricultural commodities) as raw materials. In these operations, agricultural commodity price changes can result in significant fluctuations in cost of products sold and such price changes cannot necessarily be passed directly through to the selling price of the finished products. For products such as ethanol, selling prices bear no direct relationship to the raw material cost of the agricultural commodity from which it is produced.

The Company conducts its business in many countries. For the majority of the Company's subsidiaries located outside the United States, the local currency is the functional currency. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars at the weighted average exchange rates for the applicable periods. Fluctuations in the exchange rates of foreign currencies, primarily the Euro and British pound, as compared to the U.S. dollar will result in corresponding fluctuations in the relative U.S. dollar value of the Company's revenues and expenses. The impact of these currency exchange rate changes was not significant during the quarter ended September 30, 2007.

The Company measures the performance of its business segments using key operating statistics such as segment operating profit and return on fixed capital investment and net assets. The Company's operating results can vary significantly due to changes in unpredictable factors such as fluctuations in energy prices, weather conditions, plantings, global government farm programs and policies, changes in global demand resulting from population growth and changes in standards of living, and global production of similar and competitive crops. Due to these unpredictable factors, the Company does not provide forward-looking information in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Additionally, the Company's operating results for the current quarter are not necessarily indicative of the results that may be expected for the year ending June 30, 2008.

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

As an agricultural-based commodity business, the Company is subject to a variety of market factors which affect the Company's operating results. Net earnings for the quarter increased principally due to increased segment operating profits, partially offset by increased corporate expenses related principally to LIFO inventory valuation charges and costs associated with realignment of the Company's organizational structure. Large North American crops and global wheat shortages created favorable operating conditions in agricultural merchandising and handling operations. Abundant oilseeds supplies and good demand for vegetable oil and soybean meal positively impacted crushing margins in North America. Abundant crops and increased fertilizer margins positively impacted South American oilseeds operating results. Corn prices rose in connection with increases in other agricultural commodity prices, resulting in higher net corn costs and reducing ethanol margins, which negatively affected corn processing operating results. Corn processing operating results were favorably impacted by increased selling prices for sweetener and starch products resulting from higher industry capacity utilization.

**ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
2. OF OPERATIONS (Continued)**

Analysis of Statements of Earnings

Net sales and other operating income increased 36% to \$12.8 billion for the quarter, due primarily to higher selling prices of Agricultural Services merchandised commodities and increased selling prices and volumes of oilseeds processing products.

Net sales and other operating income by segment for the quarter are as follows:

	Three Months Ended		Change
	2007	September 30, 2006	
	(In millions)		
Oilseeds Processing			
Crushing & Origination	\$ 2,808	\$ 1,916	\$ 892
Refining, Packaging, Biodiesel & Other	1,767	1,296	471
Asia	35	26	9
Total Oilseeds Processing	4,610	3,238	1,372
Corn Processing			
Sweeteners and Starches	834	629	205
Bioproducts	687	722	(35)
Total Corn Processing	1,521	1,351	170
Agricultural Services			
Merchandising & Handling	5,480	3,914	