

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)