

ARCHER DANIELS MIDLAND CO  
Form 10-Q  
November 07, 2011

---

---

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, 2011  
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 has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

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

Large Accelerated Filer

Accelerated Filer

Edgar Filing: ARCHER DANIELS MIDLAND CO - Form 10-Q

Non-accelerated Filer

Smaller reporting Company

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 – 667,981,388 shares  
(October 31, 2011)

---

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## Archer-Daniels-Midland Company

Consolidated Statements of Earnings  
(Unaudited)

|  | Three Months Ended<br>September 30,        |          |
|--|--|----------|
|  | 2011                                       | 2010     |
|  | (In millions, except<br>per share amounts) |          |
| Net sales and other operating income                                 | \$21,902                                   | \$16,799 |
| Cost of products sold  | 20,868                                     | 15,991   |
| Gross Profit   | 1,034                                      | 808      |
| Selling, general and administrative expenses                         | 407  | 381      |
| Interest expense   | 113  | 117      |
| Equity in earnings of unconsolidated affiliates                      | (124)                                      | (125)    |
| Interest income  | (40)                                       | (24)     |
| Other (income) expense – net   | 18   | (3)      |
| Earnings Before Income Taxes   | 660  | 462      |
| Income taxes   | 199  | 120      |
| Net Earnings Including Noncontrolling Interests                      | 461  | 342      |
| Less: Net earnings (losses) attributable to noncontrolling interests | 1  | (3)      |
| Net Earnings Attributable to Controlling Interests                   | \$460                                      | \$345    |
| Average number of shares outstanding – basic                         | 673  | 640      |
| Average number of shares outstanding – diluted                       | 674  | 641      |
| Basic and diluted earnings per common share                          | \$0.68                                     | \$0.54   |
| Dividends per common share   | \$0.16                                     | \$0.15   |

See notes to consolidated financial statements.



## Archer-Daniels-Midland Company

## Consolidated Balance Sheets

|   | (Unaudited)<br>September 30,<br>2011 | June 30,<br>2011 |
|---|--------------------------------------|------------------|
|   | (In millions)                        |                  |
| Assets                                    |                                      |                  |
| Current Assets                            |                                      |                  |
| Cash and cash equivalents                 | \$ 1,320                             | \$ 615           |
| Short-term marketable securities          | 506                                  | 739              |
| Segregated cash and investments           | 3,377                                | 3,396            |
| Receivables                               | 10,336                               | 9,816            |
| Inventories                               | 11,122                               | 12,055           |
| Other assets                              | 618                                  | 883              |
| Total Current Assets                      | 27,279                               | 27,504           |
| Investments and Other Assets              |                                      |                  |
| Investments in and advances to affiliates | 3,202                                | 3,240            |
| Long-term marketable securities           | 306                                  | 666              |
| Goodwill                                  | 607                                  | 602              |
| Other assets                              | 399                                  | 681              |
| Total Investments and Other Assets        | 4,514                                | 5,189            |
| Property, Plant, and Equipment            |                                      |                  |
| Land                                      | 307                                  | 305              |
| Buildings                                 | 4,397                                | 4,413            |
| Machinery and equipment                   | 16,218                               | 16,245           |
| Construction in progress                  | 935                                  | 765              |
|   | 21,857                               | 21,728           |
| Accumulated depreciation                  | (12,202 )                            | (12,228 )        |
| Net Property, Plant, and Equipment        | 9,655                                | 9,500            |
| Total Assets                              | \$ 41,448                            | \$ 42,193        |
| Liabilities and Shareholders' Equity      |                                      |                  |
| Current Liabilities                       |                                      |                  |
| Short-term debt                           | \$ 1,170                             | \$ 1,875         |
| Accounts payable                          | 7,371                                | 7,550            |
| Accrued expenses                          | 4,289                                | 3,615            |
| Current maturities of long-term debt      | 1,649                                | 178              |
| Total Current Liabilities                 | 14,479                               | 13,218           |
| Long-Term Liabilities                     |                                      |                  |
| Long-term debt                            | 6,678                                | 8,266            |
| Deferred income taxes                     | 836                                  | 859              |
| Other                                     | 1,046                                | 1,012            |
| Total Long-Term Liabilities               | 8,560                                | 10,137           |

Edgar Filing: ARCHER DANIELS MIDLAND CO - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| Shareholders' Equity                          |           |           |
| Common stock                                  | 6,408     | 6,636     |
| Reinvested earnings                           | 12,349    | 11,996    |
| Accumulated other comprehensive income (loss) | (374 )    | 176       |
| Noncontrolling interests                      | 26        | 30        |
| Total Shareholders' Equity                    | 18,409    | 18,838    |
| Total Liabilities and Shareholders' Equity    | \$ 41,448 | \$ 42,193 |

See notes to consolidated financial statements.

---

## Archer-Daniels-Midland Company

Consolidated Statements of Cash Flows  
(Unaudited)

|   | Three Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|
|   | 2011                                | 2010    |
|   | (In millions)                       |         |
| <b>Operating Activities</b>   |                                     |         |
| Net earnings including noncontrolling interests   | \$461                               | \$342   |
| Adjustments to reconcile net earnings to net cash provided by<br>(used in) operating activities |                                     |         |
| Depreciation and amortization   | 207                                 | 252     |
| Deferred income taxes   | 21                                  | (73)    |
| Equity in earnings of affiliates, net of dividends  | (57)                                | (86)    |
| Stock compensation expense  | 27                                  | 25      |
| Pension and postretirement accruals, net  | 33                                  | 25      |
| Deferred cash flow hedges   | 9                                   | 41      |
| Other – net   | 81                                  | (16)    |
| Changes in operating assets and liabilities   |                                     |         |
| Segregated cash and investments   | 13                                  | (582)   |
| Receivables   | (874)                               | (1,685) |
| Inventories   | 809                                 | (1,157) |
| Other assets  | 233                                 | 52      |
| Accounts payable and accrued expenses   | 1,124                               | 1,991   |
| Total Operating Activities  | 2,087                               | (871)   |
| <b>Investing Activities</b>   |                                     |         |
| Purchases of property, plant, and equipment   | (443)                               | (335)   |
| Proceeds from sales of property, plant, and equipment   | 3                                   | 41      |
| Net assets of businesses acquired   | (12)                                | –       |
| Cash divested from deconsolidation  | (130)                               | –       |
| Purchases of marketable securities  | (181)                               | (589)   |
| Proceeds from sales of marketable securities  | 481                                 | 375     |
| Other – net   | 33                                  | 6       |
| Total Investing Activities  | (249)                               | (502)   |
| <b>Financing Activities</b>   |                                     |         |
| Long-term debt borrowings   | 2                                   | 22      |
| Long-term debt payments   | (85)                                | (34)    |
| Net borrowings (payments) under lines of credit agreements                                      | (663)                               | 1,324   |
| Debt exchange premiums  | (32)                                | –       |
| Purchases of treasury stock   | (240)                               | (31)    |
| Cash dividends  | (107)                               | (96)    |
| Acquisition of noncontrolling interest  | (9)                                 | –       |
| Other – net   | 1                                   | 4       |
| Total Financing Activities  | (1,133)                             | 1,189   |

Edgar Filing: ARCHER DANIELS MIDLAND CO - Form 10-Q

|  |         |        |
|--|---------|--------|
| Increase (decrease) in cash and cash equivalents | 705     | (184 ) |
| Cash and cash equivalents beginning of period    | 615     | 1,046  |
| Cash and cash equivalents end of period          | \$1,320 | \$862  |

See notes to consolidated financial statements.

---



## Archer-Daniels-Midland-Company

Consolidated Statement of Shareholders' Equity  
(Unaudited)

|  | Common Stock |          | Reinvested<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss)<br>(In<br>millions) | Noncontrolling<br>Interests | Total<br>Shareholders'<br>Equity |
|--|--------------|----------|------------------------|---|-----------------------------|----------------------------------|
|  | Shares       | Amount   |                        |   |                             |                                  |
| Balance June 30, 2011                        | 676          | \$ 6,636 | \$ 11,996              | \$ 176  | \$ 30                       | \$ 18,838                        |
| Comprehensive income                         |              |          |                        |   |                             |                                  |
| Net earnings                                 |              |          | 460                    |   | 1                           |                                  |
| Other comprehensive<br>income                |              |          |                        | (550 )  |                             |                                  |
| Total<br>comprehensive<br>income             |              |          |                        |   |                             | (89 )                            |
| Cash dividends<br>paid-\$.16<br>per share    |              |          | (107 )                 |   |                             | (107 )                           |
| Treasury stock<br>purchases                  | (9 )         | (240 )   |                        |   |                             | (240 )                           |
| Stock compensation<br>expense                |              | 27       |                        |   |                             | 27                               |
| Acquisition of<br>noncontrolling<br>interest |              | (5 )     |                        |   | (4 )                        | (9 )                             |
| Other  | 1            | (10 )    |                        |   | (1 )                        | (11 )                            |
| Balance September 30,<br>2011                | 668          | \$ 6,408 | \$ 12,349              | \$ (374 )   | \$ 26                       | \$ 18,409                        |

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, 2011 are not necessarily indicative of the results that may be expected for the year ending June 30, 2012. 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, 2011.

Principles of Consolidation

On September 30, 2011, the Company finalized the sale of the majority ownership interest of Hickory Point Bank and Trust Company, fsb (Bank), a previously wholly-owned subsidiary. As a result, the accounts of the Bank were deconsolidated with no impact to after-tax earnings for the quarter ended September 30, 2011. The Company will account for its remaining ownership interest in the Bank under the equity method.

Adoption of New Accounting Standards

Effective July 1, 2011, the Company adopted the second phase of the amended guidance in Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures, which requires the Company to disclose information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis, separately for assets and liabilities. The adoption of this amended guidance requires expanded disclosure in the notes to the Company's consolidated financial statements but does not impact financial results (See Note 3 for the disclosures required by this guidance).

Reclassifications

Other (income) expense – net in prior year's consolidated statement of earnings has been reclassified to conform to the current year's presentation with corresponding changes to certain prior year items in Notes 4 and 9.

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.



Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 2. New Accounting Standards

Effective July 1, 2012, the Company will be required to adopt the amended guidance of ASC Topic 220, Comprehensive Income, which requires the Company to present total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amended guidance eliminates the option to present components of other comprehensive income as part of the statement of shareholders' equity. The Company will be required to apply the presentation and disclosure requirements of the amended guidance retrospectively. The adoption of this amended guidance will change financial statement presentation and require expanded disclosures in the Company's consolidated financial statements but will not impact financial results.

Effective July 1, 2012, the Company will be required to adopt the amended guidance of ASC Topic 350, Intangibles – Goodwill and Other, which changes the process for how entities test goodwill for impairment. The amended guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The Company does not expect any impact on its financial results as a result of the adoption of this amended guidance.

Note 3. Fair Value Measurements

The Company determines the fair value of certain of its inventories of agricultural commodities, derivative contracts, and marketable securities based on the fair value definition and hierarchy levels established in the guidance of ASC Topic 820, Fair Value Measurements and Disclosures. Three levels are established within the hierarchy that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 1 assets and liabilities include exchange-traded derivative contracts, U.S. treasury securities and certain publicly traded equity securities.

Level 2: Observable inputs, including Level 1 prices that have been adjusted; quoted prices for similar assets or liabilities; quoted prices in markets that are less active than traded exchanges; and other inputs that are observable or can be substantially corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities. In evaluating the significance of fair value inputs, the Company generally classifies assets or liabilities as Level 3 when their fair value is determined using unobservable inputs that individually or when aggregated with other unobservable inputs, represent more than 10% of the fair value of the assets or liabilities. Judgment is required in evaluating both quantitative and qualitative factors in the determination of significance for purposes of fair value level classification. Level 3 amounts can include assets and liabilities whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as assets and liabilities for which the determination of fair value requires significant management judgment or estimation.



## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 3. Fair Value Measurements (Continued)

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of input that is a significant component of the fair value measurement determines the placement of the entire fair value measurement in the hierarchy. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment that may affect the classification of fair value assets and liabilities within the fair value hierarchy levels.

The Company's policy regarding the timing of transfers between levels, including both transfers into and transfers out of Level 3, is to measure and record the transfers at the end of the reporting period. For the period ended September 30, 2011, the Company had no transfers between Levels 1 and 2.

The following tables set forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2011 and June 30, 2011.

## Fair Value Measurements at September 30, 2011

|                               | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total            |
|-------------------------------|--|---|--|------------------|
|                               | (In millions)  |   |  |                  |
| <b>Assets:</b>                |  |   |  |                  |
| Inventories carried at market | \$ –   | \$ 4,550  | \$ 1,348   | \$ 5,898         |
| Unrealized derivative gains:  |  |   |  |                  |
| Commodity contracts           | 1,217  | 1,438   | 270  | 2,925            |
| Foreign exchange contracts    | –  | 260   | –  | 260              |
| Marketable securities         | 1,351  | 67  | –  | 1,418            |
| <b>Total Assets</b>           | <b>\$ 2,568</b>  | <b>\$ 6,315</b>   | <b>\$ 1,618</b>                                    | <b>\$ 10,501</b> |
| <b>Liabilities:</b>           |  |   |  |                  |
| Unrealized derivative losses: |  |   |  |                  |
| Commodity contracts           | \$ 1,233   | \$ 1,194  | \$ 244   | \$ 2,671         |
| Foreign exchange contracts    | –  | 311   | –  | 311              |
| Inventory-related payables    | –  | 181   | 134  | 315              |
| <b>Total Liabilities</b>      | <b>\$ 1,233</b>  | <b>\$ 1,686</b>   | <b>\$ 378</b>                                      | <b>\$ 3,297</b>  |



## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 3. Fair Value Measurements (Continued)

## Fair Value Measurements at June 30, 2011

|                               | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total     |
|-------------------------------|--|---|--|-----------|
|                               | (In millions)  |   |  |           |
| Assets:                       |  |   |  |           |
| Inventories carried at market | \$ —   | \$ 5,153  | \$ 762   | \$ 5,915  |
| Unrealized derivative gains:  |  |   |  |           |
| Commodity contracts           | 1,198  | 1,457   | 112  | 2,767     |
| Foreign exchange contracts    | —  | 237   | —  | 237       |
| Interest rate contracts       | —  | 3   | —  | 3         |
| Marketable securities         | 1,628  | 328   | —  | 1,956     |
| Total Assets                  | \$ 2,826   | \$ 7,178  | \$ 874   | \$ 10,878 |
| Liabilities:                  |  |   |  |           |
| Unrealized derivative losses: |  |   |  |           |
| Commodity contracts           | \$ 1,317   | \$ 1,193  | \$ 44  | \$ 2,554  |
| Foreign exchange contracts    | —  | 178   | —  | 178       |
| Inventory-related payables    | —  | 278   | 45   | 323       |
| Total Liabilities             | \$ 1,317   | \$ 1,649  | \$ 89  | \$ 3,055  |

The Company uses the market approach valuation technique to measure the majority of its assets and liabilities carried at fair value. Estimated fair values for inventories carried at market are based on exchange-quoted prices, adjusted for differences in local markets, broker or dealer quotations or market transactions in either listed or over-the-counter (OTC) markets. In such cases, the inventory is classified in Level 2. Certain inventories may require management judgment or estimation for a significant component of the fair value amount. In such cases, the inventory is classified as Level 3. Changes in the fair value of inventories are recognized in the consolidated statements of earnings as a component of cost of products sold.



Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 3. Fair Value Measurements (Continued)

The Company's derivative contracts that are measured at fair value include forward commodity purchase and sale contracts, exchange-traded commodity futures and option contracts, and OTC instruments related primarily to agricultural commodities, ocean freight, energy, interest rates, and foreign currencies. Exchange-traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified in Level 1. The majority of the Company's exchange-traded futures and options contracts are cash-settled on a daily basis and, therefore, are not included in the fair value tables. Fair value for forward commodity purchase and sale contracts is estimated based on exchange-quoted prices adjusted for differences in local markets. These differences are generally determined using inputs from broker or dealer quotations or market transactions in either the listed or OTC markets. When observable inputs are available for substantially the full term of the contract, it is classified in Level 2. When unobservable inputs have a significant impact on the measurement of fair value, the contract is classified in Level 3. Based on historical experience with the Company's suppliers and customers, the Company's own credit risk and knowledge of current market conditions, the Company does not view nonperformance risk to be a significant input to fair value for the majority of its forward commodity purchase and sale contracts. However, in certain cases, if the Company believes the nonperformance risk to be a significant input, the Company records estimated fair value adjustments, and classifies the contract in Level 3. Except for certain derivatives designated as cash flow hedges, changes in the fair value of commodity-related derivatives are recognized in the consolidated statements of earnings as a component of cost of products sold. Changes in the fair value of foreign currency-related derivatives are recognized in the consolidated statements of earnings as a component of net sales and other operating income, cost of products sold, and other (income) expense – net. The effective portions of changes in the fair value of derivatives designated as cash flow hedges are recognized in the consolidated balance sheets as a component of accumulated other comprehensive income (loss) (AOCI) until the hedged items are recorded in earnings or it is probable the hedged transaction will no longer occur.

The Company's marketable securities are comprised of U.S. Treasury securities, obligations of U.S. government agencies, corporate and municipal debt securities, and equity investments. U.S. Treasury securities and certain publicly traded equity investments are valued using quoted market prices and are classified in Level 1. U.S. government agency obligations, corporate and municipal debt securities and certain equity investments are valued using third-party pricing services and substantially all are classified in Level 2. Security values that are determined using pricing models are classified in Level 3. Unrealized changes in the fair value of available-for-sale marketable securities are recognized in the consolidated balance sheets as a component of AOCI unless a decline in value is deemed to be other-than-temporary at which point the decline is recorded in earnings.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 3. Fair Value Measurements (Continued)

The following tables present a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended September 30, 2011 and 2010.

|  | Level 3 Fair Value Asset Measurements at<br>September 30, 2011 |   |              |
|--|--|---|--------------|
|  | Inventories<br>Carried at<br>Market                            | Commodity<br>Derivative<br>Contracts Gains<br>(In millions) | Total Assets |
| Balance, June 30, 2011   | \$ 762   | \$ 112  | \$ 874       |
| Total increase (decrease) in realized or<br>unrealized gains included in cost of<br>products sold* | (46 )  | 197   | 151          |
| Purchases  | 136  | 4   | 140          |
| Sales  | (261 )   | –   | (261 )       |
| Settlements  | –  | (59 )   | (59 )        |
| Transfers into Level 3   | 767  | 50  | 817          |
| Transfers out of Level 3   | (10 )  | (34 )   | (44 )        |
| Ending balance, September 30, 2011   | \$ 1,348   | \$ 270  | \$ 1,618     |

\*Includes gains of \$157 million that are attributable to the change in unrealized gains relating to Level 3 assets still held at September 30, 2011.

|   | Level 3 Fair Value Liability Measurements at<br>September 30, 2011 |  |                   |
|---|--|--|-------------------|
|   | Inventory-<br>related<br>Payables                                  | Commodity<br>Derivative<br>Contracts Losses<br>(In millions) | Total Liabilities |
| Balance, June 30, 2011  | \$ 45  | \$ 44  | \$ 89             |
| Total increase (decrease) in realized or<br>unrealized losses included in cost of<br>products sold* | –  | 170  | 170               |
| Purchases   | (6 )   | 1  | (5 )              |
| Sales   | 2  | –  | 2                 |
| Settlements   | –  | 19   | 19                |
| Transfers into Level 3  | 93   | 15   | 108               |
| Transfers out of Level 3  | –  | (5 )   | (5 )              |

Edgar Filing: ARCHER DANIELS MIDLAND CO - Form 10-Q

|                                    |        |        |        |
|------------------------------------|--------|--------|--------|
| Ending balance, September 30, 2011 | \$ 134 | \$ 244 | \$ 378 |
|------------------------------------|--------|--------|--------|

\*Includes losses of \$171 million that are attributable to the change in unrealized losses relating to Level 3 liabilities still held at September 30, 2011.

---

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 3. Fair Value Measurements (Continued)

|   | Inventories<br>Carried at<br>Market, Net | Level 3 Fair Value Measurements at<br>September 30, 2010<br>Commodity<br>Derivative<br>Contracts,<br>Net<br>(In millions) | Total  |
|---|--|---|--------|
| Balance, June 30, 2010  | \$ 427                                   | \$ 13   | \$ 440 |
| Total gains (losses), realized or<br>unrealized, included in earnings<br>before income taxes* | 31                                       | 37  | 68     |
| Purchases, issuances and settlements  | 71                                       | 1   | 72     |
| Transfers into Level 3  | 6  | 1   | 7      |
| Transfers out of Level 3  | (164 )                                   | (17 )   | (181 ) |
| Ending balance, September 30, 2010  | \$ 371                                   | \$ 35   | \$ 406 |

\*Includes gains of \$47 million that are attributable to the change in unrealized gains or losses relating to Level 3 assets and liabilities still held at September 30, 2010.

Transfers into Level 3 of assets and liabilities previously classified in Level 2 were due to the relative value of unobservable inputs to the total fair value measurement of certain products and derivative contracts rising above the 10% threshold. Transfers out of Level 3 were primarily due to the relative value of unobservable inputs to the total fair value measurement of certain products and derivative contracts falling below the 10% threshold and thus permitting reclassification to Level 2.

## Note 4. Derivative Instruments and Hedging Activities

The Company recognizes all of its derivative instruments as either assets or liabilities at fair value in its consolidated balance sheets. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. The majority of the Company's derivatives have not been designated as hedging instruments. For those derivative instruments that are designated and qualify as hedging instruments, a reporting entity must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation. As of September 30, 2011 and June 30, 2011, the Company has certain derivatives designated as cash flow hedges. Within the Note 4 tables, zeros represent minimal amounts.

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 4. Derivative Instruments and Hedging Activities (Continued)

## Derivatives Not Designated as Hedging Instruments

The Company generally follows a policy of using exchange-traded futures and exchange-traded and OTC options contracts to manage its net position of merchandisable agricultural commodity inventories and forward cash purchase and sales contracts to reduce price risk caused by market fluctuations in agricultural commodities and foreign currencies. The Company also uses exchange-traded futures and exchange-traded and OTC options contracts as components of merchandising strategies designed to enhance margins. The results of these strategies can be significantly impacted by factors such as the volatility of the relationship between the value of exchange-traded commodities futures contracts and the cash prices of the underlying commodities, counterparty contract defaults, and volatility of freight markets. Exchange-traded futures, exchange-traded and OTC options contracts, and forward cash purchase and sales contracts of certain merchandisable agricultural commodities accounted for as derivatives are stated at fair value. Inventories of certain merchandisable agricultural commodities, which include amounts acquired under deferred pricing contracts, are stated at market value. Inventory is not a derivative and therefore is not included in the tables below. Changes in the market value of inventories of certain merchandisable agricultural commodities, forward cash purchase and sales contracts, exchange-traded futures, and exchange-traded and OTC options contracts are recognized in earnings immediately. Unrealized gains and unrealized losses on forward cash purchase contracts, forward foreign currency exchange (FX) contracts, forward cash sales contracts, and exchange-traded and OTC options contracts represent the fair value of such instruments and are classified on the Company's consolidated balance sheets as receivables and accrued expenses, respectively.

At March 31, 2010, the Company de-designated and discontinued hedge accounting treatment for certain interest rate swaps. At the date of de-designation of these hedges, \$21 million of after-tax gains was deferred in AOCI. These gains will remain in AOCI and are being amortized over 30 years. The Company recognized in earnings \$31 million of pre-tax losses from these interest rate swaps for the quarter ended September 30, 2010.

The following table sets forth the fair value of derivatives not designated as hedging instruments as of September 30, 2011 and June 30, 2011.

|                     | September 30, 2011 |             | June 30, 2011 |             |
|---------------------|--------------------|-------------|---------------|-------------|
|                     | Assets             | Liabilities | Assets        | Liabilities |
|                     | (In millions)      |             | (In millions) |             |
| FX Contracts        | \$260              | \$311       | \$237         | \$178       |
| Interest Contracts  | —                  | —           | 3             | —           |
| Commodity Contracts | 2,925              | 2,670       | 2,766         | 2,553       |
| Total               | \$3,185            | \$2,981     | \$3,006       | \$2,731     |

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 4. Derivative Instruments and Hedging Activities (Continued)

The following table sets forth the pre-tax gains (losses) on derivatives not designated as hedging instruments that have been included in the consolidated statements of earnings for the three months ended September 30, 2011 and 2010.

|  | Three months ended September 30, |           |
|--|----------------------------------|-----------|
|  | 2011                             | 2010      |
|  | (In millions)                    |           |
| <b>Interest Contracts</b>                |                                  |           |
| Interest expense                         | \$ 0                             | \$ 0      |
| Other income (expense) – net             | –                                | (31 )     |
| <b>FX Contracts</b>                      |                                  |           |
| Net sales and other operating income     | \$ 16                            | \$ (34 )  |
| Cost of products sold                    | (134 )                           | 59        |
| Other income (expense) – net             | (6 )                             | 36        |
| <b>Commodity Contracts</b>               |                                  |           |
| Cost of products sold                    | \$ 620                           | \$ (649 ) |
| Total gain (loss) recognized in earnings | \$ 496                           | \$ (619 ) |

## Derivatives Designated as Cash Flow Hedging Strategies

For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI and reclassified into earnings in the same line item affected by the hedged transaction and in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument that is in excess of the cumulative change in the cash flows of the hedged item, if any (i.e., the ineffective portion), hedge components excluded from the assessment of effectiveness, and gains and losses related to discontinued hedges are recognized in the consolidated statement of earnings during the current period.

For each of the commodity hedge programs described below, the derivatives are designated as cash flow hedges. The changes in the market value of such derivative contracts have historically been, and are expected to continue to be, highly effective at offsetting changes in price movements of the hedged item. Once the hedged item is recognized in earnings, the gains/losses arising from the hedge will be reclassified from AOCI to either net sales and other operating income, cost of products sold, interest expense or other income (expense) – net, as applicable. As of September 30, 2011, the Company has \$7 million of after-tax gains in AOCI related to gains and losses from commodity cash flow hedge transactions. The Company expects to recognize all of these after-tax gains in its consolidated statement of earnings during the next 12 months.

The Company, from time to time, uses futures or options contracts to fix the purchase price of anticipated volumes of corn to be purchased and processed in a future month. The objective of this hedging program is to reduce the

variability of cash flows associated with the Company's forecasted purchases of corn. The Company's corn processing plants currently grind approximately 75 million bushels of corn per month. During the past 12 months, the Company hedged between 1% and 100% of its monthly anticipated grind. At September 30, 2011, the Company has designated hedges representing between 1% and 100% of its anticipated monthly grind of corn for the next 12 months.

---

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 4. Derivative Instruments and Hedging Activities (Continued)

The Company, from time to time, also uses futures, options, and swaps to fix the purchase price of the Company's anticipated natural gas requirements for certain production facilities. The objective of this hedging program is to reduce the variability of cash flows associated with the Company's forecasted purchases of natural gas. These production facilities use approximately 3.75 million MMBtus of natural gas per month. During the past 12 months, the Company hedged between 28% and 55% of the quantity of its anticipated monthly natural gas purchases. At September 30, 2011, the Company has designated hedges representing between 19% to 30% of its anticipated monthly natural gas purchases for the next 9 months.

The Company, from time to time, also uses futures, options, and swaps to fix the sales price of certain ethanol sales contracts. The objective of this hedging program is to reduce the variability of cash flows associated with the Company's sales of ethanol under sales contracts that are indexed to unleaded gasoline prices. During the past 12 months, the Company hedged between 7 million to 19 million gallons of ethanol per month under this program. At September 30, 2011, the Company has designated hedges representing between 2 million to 12 million gallons of contracted ethanol sales per month over the next 6 months.

To protect against fluctuations in cash flows due to foreign currency exchange rates, the Company from time to time will use forward foreign exchange contracts as cash flow hedges. Certain production facilities have manufacturing expenses and equipment purchases denominated in non-functional currencies. To reduce the risk of fluctuations in cash flows due to changes in the exchange rate between functional versus non-functional currencies, the Company will hedge some portion of the forecasted foreign currency expenditures. At September 30, 2011, the Company has \$2 million of after-tax gains in AOCI related to foreign exchange contracts designated as cash flow hedging instruments. The Company will recognize the \$2 million of gains in its consolidated statement of earnings over the life of the hedged transactions.

The Company, from time to time, uses treasury-lock agreements and interest rate swaps in order to lock in the Company's interest rate prior to the issuance or remarketing of its long-term debt. Both the treasury-lock agreements and interest rate swaps were designated as cash flow hedges of the risk of changes in the future interest payments attributable to changes in the benchmark interest rate. The objective of the treasury-lock agreements and interest rate swaps was to protect the Company from changes in the benchmark rate from the date of hedge designation to the date when the debt was actually issued. At September 30, 2011, AOCI included \$22 million of after-tax gains related to treasury-lock agreements and interest rate swaps, of which, \$20 million relates to the interest swaps that were de-designated at March 31, 2010 as discussed earlier in Note 4. The Company will recognize the \$22 million of gains in its consolidated statement of earnings over the terms of the hedged items, which range from 10 to 30 years.

The following tables set forth the fair value of derivatives designated as hedging instruments as of September 30, 2011 and June 30, 2011.

| September 30, 2011 |             | June 30, 2011 |             |
|--------------------|-------------|---------------|-------------|
| Assets             | Liabilities | Assets        | Liabilities |
| (In millions)      |             | (In millions) |             |



Edgar Filing: ARCHER DANIELS MIDLAND CO - Form 10-Q

|                     |     |     |     |     |
|---------------------|-----|-----|-----|-----|
| Commodity Contracts | \$0 | \$1 | \$1 | \$1 |
| Total               | \$0 | \$1 | \$1 | \$1 |

---

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 4. Derivative Instruments and Hedging Activities (Continued)

The following table sets forth the pre-tax gains (losses) on derivatives designated as hedging instruments that have been included in the consolidated statements of earnings for the three months ended September 30, 2011 and 2010.

|   | Consolidated Statement of<br>Earnings Locations | Three months ended<br>September 30, |      |
|---|---|-------------------------------------|------|
|   |   | 2011                                | 2010 |
|   |   | (In millions)                       |      |
| Effective amounts recognized in earnings  |   |                                     |      |
| FX Contracts                              | Other income/expense – net                      | \$0                                 | \$0  |
| Interest Contracts                        | Interest expense                                | 0                                   | 0    |
| Commodity Contracts                       | Cost of products sold                           | 0                                   | 65   |
|   | Net sales and other operating income            | 2                                   | 6    |
| Ineffective amount recognized in earnings | Cost of products sold                           | (1                                  | ) 17 |
| Total amount recognized in earnings       |   | \$1                                 | \$88 |

The following tables set forth the changes in AOCI related to derivatives gains (losses) for the three months ended September 30, 2011 and 2010.

|                                | Three months ended<br>September 30, 2011<br>(In millions) |    |   |
|--------------------------------|---|----|---|
| Balance at June 30, 2011       | \$  | 29 |   |
| Unrealized gains               |   | 6  |   |
| Gains reclassified to earnings |   | (3 | ) |
| Tax effect                     |   | (2 | ) |
| Balance at September 30, 2011  | \$  | 30 |   |

|                                | Three months ended<br>September 30, 2010<br>(In millions) |     |   |
|--------------------------------|---|-----|---|
| Balance at June 30, 2010       | \$  | 30  |   |
| Unrealized gains               |   | 112 |   |
| Gains reclassified to earnings |   | (71 | ) |
| Tax effect                     |   | (15 | ) |
| Balance at September 30, 2010  | \$  | 56  |   |



## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 5. Marketable Securities and Cash Equivalents

|                                      | Cost          | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|--------------------------------------|---------------|---------------------|----------------------|---------------|
|                                      | (In millions) |                     |                      |               |
| September 30, 2011                   |               |                     |                      |               |
| United States government obligations |               |                     |                      |               |
| Maturity less than 1 year            | \$468         | \$-                 | \$-                  | \$468         |
| Maturity 1 to 5 years                | 61            | 1                   | -                    | 62            |
| Corporate debt securities            |               |                     |                      |               |
| Maturity 1 to 5 years                | 66            | -                   | (1 )                 | 65            |
| Other debt securities                |               |                     |                      |               |
| Maturity less than 1 year            | 950           | -                   | -                    | 950           |
| Maturity 1 to 5 years                | 4             | -                   | -                    | 4             |
| Equity securities                    |               |                     |                      |               |
| Available-for-sale                   | 157           | 30                  | (34 )                | 153           |
| Trading                              | 22            | -                   | -                    | 22            |
|                                      | \$1,728       | \$31                | \$(35 )              | \$1,724       |

|   | Cost          | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|---|---------------|---------------------|----------------------|---------------|
|   | (In millions) |                     |                      |               |
| June 30, 2011                               |               |                     |                      |               |
| United States government obligations        |               |                     |                      |               |
| Maturity less than 1 year                   | \$753         | \$-                 | \$-                  | \$753         |
| Maturity 1 to 5 years                       | 72            | 1                   | -                    | 73            |
| Government-sponsored enterprise obligations |               |                     |                      |               |
| Maturity less than 1 year                   | 20            | -                   | -                    | 20            |
| Maturity 1 to 5 years                       | 54            | -                   | -                    | 54            |
| Maturity 5 to 10 years                      | 5             | -                   | -                    | 5             |
| Maturity greater than 10 years              | 218           | 8                   | -                    | 226           |
| Corporate debt securities                   |               |                     |                      |               |
| Maturity less than 1 year                   | 1             | -                   | -                    | 1             |
| Maturity 1 to 5 years                       | 35            | 1                   | -                    | 36            |
| Other debt securities                       |               |                     |                      |               |
| Maturity less than 1 year                   | 215           | -                   | -                    | 215           |
| Maturity 1 to 5 years                       | 3             | -                   | -                    | 3             |
| Maturity 5 to 10 years                      | 7             | -                   | -                    | 7             |
| Equity securities                           |               |                     |                      |               |
| Available-for-sale                          | 159           | 83                  | (4 )                 | 238           |

Edgar Filing: ARCHER DANIELS MIDLAND CO - Form 10-Q

|         |         |      |      |           |
|---------|---------|------|------|-----------|
| Trading | 24      | -    | -    | 24        |
|         | \$1,566 | \$93 | \$(4 | ) \$1,655 |

---

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 5. Marketable Securities and Cash Equivalents (Continued)

All of the \$35 million in unrealized losses at September 30, 2011 arose within the last 6 months. The market value of the investments that have been in an unrealized loss position for less than 12 months is \$164 million. The market value of corporate debt securities with unrealized losses as of September 30, 2011 is \$50 million. The \$1 million in unrealized losses associated with corporate debt securities is not considered to be other-than-temporary because the expected cash flows to be collected is equivalent to or exceeds the amortized cost basis of the securities. The market value of available-for-sale equity securities with unrealized losses as of September 30, 2011 is \$114 million. Of the \$34 million in unrealized losses associated with available-for-sale equity securities, \$20 million is related to the Company's investment in one security. The Company evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2011.

Note 6. Debt and Financing Arrangements

The Company has outstanding \$1.15 billion principal amount of convertible senior notes (the Notes) due in 2014. As of September 30, 2011, none of the conditions permitting conversion of the Notes had been satisfied. Therefore, 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 8 "Debt and Financing Arrangements" in the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended June 30, 2011.

The Company also has outstanding \$1.5 billion principal amount of floating rate notes due on August 13, 2012. Interest on the notes accrues at a floating rate of three-month LIBOR reset quarterly plus 0.16% and is paid quarterly. As of September 30, 2011, the interest rate on the notes was 0.45%.

On September 26, 2011, the Company issued \$528 million of 4.535% senior Debentures due in 2042 (the New Debentures) in exchange for \$404 million of its previously issued and outstanding 6.45%, 6.625%, 6.75%, 6.95%, 7% and 7.5% debentures. The Company paid \$32 million of debt premium to certain bondholders associated with these exchanges. The discount on the New Debentures is being amortized over the life of the New Debentures using the effective interest method.

At September 30, 2011, the fair value of the Company's long-term debt exceeded the carrying value by \$1.4 billion, as estimated using quoted market prices or discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

At September 30, 2011, excluding the accounts receivable securitization facility discussed below, the Company had lines of credit totaling \$6.9 billion, of which, \$6.0 billion was unused. Of the Company's total lines of credit, \$4.6 billion support a commercial paper borrowing facility, against which there was no commercial paper outstanding at September 30, 2011.

On July 1, 2011, the Company entered into a 364-day accounts receivable securitization facility. The facility provides the Company with up to \$1.0 billion in liquidity. Under the facility, the Company's U.S.-originated trade accounts

receivables are sold to a wholly-owned, bankruptcy-remote entity which then sells an undivided interest in the receivable as collateral for any borrowings under the facility. Receivable balances related to this facility will continue to be reported as receivables in the Company's consolidated balance sheets based upon the Company's continuing involvement with these assets. Any borrowings under the facility will be classified as secured borrowings. The Company has no outstanding borrowings under the facility as of September 30, 2011.

---

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 7. Income Taxes

The Company's effective tax rate for the quarter ended September 30, 2011 was 30%, compared to 26% for the quarter ended September 30, 2010 and 33% for the full fiscal year 2011. The changes in the Company's effective tax rate were primarily due to changes in the geographic mix of pretax earnings.

The Company is subject to income taxation in many jurisdictions around the world. The Company is subject to routine examination by domestic and foreign tax authorities and frequently faces challenges regarding the amount of taxes due. These challenges include positions taken by the Company related to the timing, nature and amount of deductions and the allocation of income among various tax jurisdictions. Resolution of the related tax positions, through negotiation with relevant tax authorities or through litigation, may take years to complete. Therefore, it is difficult to predict the timing for resolution of tax positions. In its routine evaluations of the exposure associated with various tax filing positions, the Company recognizes a liability, when necessary, for estimated potential additional tax owed by the Company in accordance with ASC 740, Income Taxes. However, the Company cannot predict or provide assurance as to the ultimate outcome of these ongoing or future examinations.

The Company's wholly-owned subsidiary, ADM do Brasil Ltda. (ADM do Brasil), received three separate tax assessments from the Brazilian Federal Revenue Service (BFRS) challenging the tax deductibility of commodity hedging losses and related expenses incurred by ADM do Brasil. The tax assessments are for income tax, penalties and interest for the tax years 2004, 2006 and 2007 in the amounts of \$468 million, \$19 million, and \$80 million, respectively (adjusted for interest and variation in currency exchange rates). ADM do Brasil's tax return for 2005 was also audited and no assessment was received. The statute of limitations for 2005 has expired. If the BFRS were to challenge commodity hedging deductions in tax years after 2007, the Company estimates it could receive additional claims of approximately \$97 million (as of September 30, 2011 and subject to variation in currency exchange rates).

ADM do Brasil enters into commodity hedging transactions that can result in gains, which are included in ADM do Brasil's calculations of taxable income in Brazil, and losses, which ADM do Brasil deducts from its taxable income in Brazil. The Company has evaluated its tax position regarding these hedging transactions and concluded, based upon advice from Brazilian legal counsel, that it was appropriate to recognize both gains and losses resulting from hedging transactions when determining its Brazilian income tax expense. Therefore, the Company has continued to recognize the tax benefit from hedging losses in its financial statements and has not recorded any tax liability for the amounts assessed by the BFRS.

ADM do Brasil filed an administrative appeal for each of the assessments. During the second quarter of fiscal 2011, a decision in favor of the BFRS on the 2004 assessment was received and a second level administrative appeal has been filed. There have been no decisions on the initial appeal related to the 2006 and 2007 assessments. If ADM do Brasil continues to be unsuccessful in the administrative appellate process, further appeals are available in the Brazilian federal courts. While the Company believes that its consolidated financial statements properly reflect the tax deductibility of these hedging losses, the ultimate resolution of this matter could result in the future recognition of additional payments of, and expense for, income tax and the associated interest and penalties. The Company intends to vigorously defend its position against the current assessments and any similar assessments that may be issued for years subsequent to 2007.





## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 8. Comprehensive Income

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

|  | Three Months Ended<br>September 30,<br>2011          2010<br>(In millions) |         |
|--|--|---------|
| Net earnings including noncontrolling interests                            | \$461  | \$342   |
| Unrealized gain (loss) on investments                                      | (59)   | ) 22    |
| Deferred gain on hedging activities  | 1  | 26      |
| Pension liability adjustment   | 6  | (13)    |
| Foreign currency translation adjustment                                    | (498)  | ) 489   |
| Comprehensive income   | (89)   | ) 866   |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | 1  | (3)     |
| Comprehensive income attributable to controlling interests                 | \$(90)   | ) \$869 |

## Note 9. Other (Income) Expense - Net

The following table sets forth the items in other (income) expense:

|  | Three Months Ended<br>September 30,<br>2011          2010<br>(In millions) |         |
|--|--|---------|
| Net gain on marketable securities transactions | \$(5)  | ) \$(2) |
| Charges from debt buyback or exchange          | 12   | –       |
| Unrealized losses on interest rate swaps       | –  | 31      |
| Other – net                                    | 11   | (32)    |
|  | \$18   | ) \$(3) |

## Note 10. Segment Information

The Company is principally engaged in procuring, transporting, storing, processing, and merchandising agricultural commodities and products. The Company's operations are organized, managed, and 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, which include wheat processing, cocoa processing, and its financial business units, are not reportable segments, as defined

by ASC Topic 280, Segment Reporting, and are classified as Other.

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 is equity in earnings of affiliates based on the equity method of accounting. Certain Corporate items are not allocated to the Company's reportable business segments. Corporate results principally include the impact of LIFO-related inventory adjustments, unallocated corporate expenses, unallocated net interest costs, and the after-tax elimination of income attributable to mandatorily redeemable interests in consolidated subsidiaries.

---

## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 10. Segment Information (Continued)

Prior year sales to external customers by segment and intersegment sales have been reclassified to conform to the current year's presentation resulting in reclassified net sales at the segment level with no impact to total net sales or operating profit by segment.

For detailed information regarding the Company's reportable segments, see Note 16 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended June 30, 2011.

|                                | Three Months Ended<br>September 30,<br>2011                  2010<br>(In millions) |          |
|--------------------------------|--|----------|
| Sales to external customers    |  |          |
| Oilseeds Processing            | \$8,326  | \$6,091  |
| Corn Processing                | 3,293  | 2,155    |
| Agricultural Services          | 8,666  | 6,926    |
| Other                          | 1,617  | 1,627    |
| Total                          | \$21,902   | \$16,799 |
| Intersegment sales             |  |          |
| Oilseeds Processing            | \$382  | \$386    |
| Corn Processing                | 75   | 31       |
| Agricultural Services          | 1,006  | 560      |
| Other                          | 38   | 36       |
| Total                          | \$1,501  | \$1,013  |
| Net sales                      |  |          |
| Oilseeds Processing            | \$8,708  | \$6,477  |
| Corn Processing                | 3,368  | 2,186    |
| Agricultural Services          | 9,672  | 7,486    |
| Other                          | 1,655  | 1,663    |
| Intersegment elimination       | (1,501)  | (1,013)  |
| Total                          | \$21,902   | \$16,799 |
| Segment operating profit       |  |          |
| Oilseeds Processing            | \$221  | \$308    |
| Corn Processing                | 179  | 341      |
| Agricultural Services          | 244  | 132      |
| Other                          | 55   | (16)     |
| Total segment operating profit | 699  | 765      |
| Corporate                      | (39)   | (303)    |

Edgar Filing: ARCHER DANIELS MIDLAND CO - Form 10-Q

|                              |       |       |
|------------------------------|-------|-------|
| Earnings before income taxes | \$660 | \$462 |
|------------------------------|-------|-------|

---

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

Note 11. Contingencies

Since August 2008, the Company has been conducting an internal review of its policies, procedures and internal controls pertaining to the adequacy of its anti-corruption compliance program and of certain transactions conducted by the Company and its affiliates and joint ventures, primarily relating to grain and feed exports, that may have violated company policies, the U.S. Foreign Corrupt Practices Act, and other U.S. and foreign laws. The Company initially disclosed this review to the U.S. Department of Justice, the Securities and Exchange Commission, and certain foreign regulators in March 2009 and has subsequently provided periodic updates to the agencies. The Company engaged outside counsel and other advisors to assist in the review of these matters and has implemented, and is continuing to implement, appropriate remedial measures. In connection with this review, government agencies could impose civil penalties or criminal fines and/or order that the Company disgorge any profits derived from any contracts involving inappropriate payments. These events have not had, and are not expected to have, a material impact on the Company's business or financial condition.

---

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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 organized, managed, and 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, which include wheat processing, cocoa processing, and its financial business units, are not reportable segments, as defined by the applicable accounting standard, and are classified as Other.

The Oilseeds Processing segment includes global activities related to the origination, merchandising, crushing, and further processing of oilseeds such as soybeans and soft seeds (cottonseed, sunflower seed, canola, rapeseed, and flaxseed) into vegetable oils and protein meals. Oilseeds products produced and marketed by the Company include ingredients for the food, feed, energy, and other industrial products industries. Crude vegetable oils produced by the segment's crushing activities are sold "as is" or are further processed by refining, blending, bleaching, and deodorizing into salad oils. Salad oils are sold "as is" or are further processed by hydrogenating and/or interesterifying into margarine, shortening, and other food products. Partially refined oils are used to produce biodiesel or are sold to other manufacturers for use in chemicals, paints, and other industrial products. Oilseed protein meals are principally sold to third parties to be used as ingredients in commercial livestock and poultry feeds. The Oilseeds Processing segment also produces natural health and nutrition products and other specialty food and feed ingredients. In North America, cottonseed flour is produced and sold primarily to the pharmaceutical industry and cotton cellulose pulp is manufactured and sold to the chemical, paper, and filter markets. In Europe and South America, the Oilseeds Processing segment includes origination and merchandising activities of a network of grain elevators, port facilities, and transportation assets used to buy, store, clean, and transport agricultural commodities, as adjuncts to its oilseeds processing assets. In South America, the Oilseeds Processing segment operates fertilizer blending facilities. The Oilseeds Processing segment also includes the Company's share of the results of its equity investment in Wilmar International Limited (Wilmar) and its share of results for its Edible Oils Limited and Stratas Foods, LLC joint ventures.

The Company's Corn Processing segment is engaged in corn wet milling and dry milling activities, with its asset base primarily located in the central part of the United States. The Corn Processing segment converts corn into sweeteners and starches, and bioproducts. Its products include ingredients used in the food and beverage industry including sweeteners, starch, syrup, glucose, and dextrose. Dextrose and starch are used by the Corn Processing segment as feedstocks for its bioproducts operations. By fermentation of dextrose, the Corn Processing segment produces alcohol, amino acids, and other specialty food and animal feed ingredients. Ethyl alcohol is produced by the Company for industrial use as ethanol or as beverage grade. Ethanol, in gasoline, increases octane and is used as an extender and oxygenate. Bioproducts also include amino acids such as lysine and threonine that are vital compounds used in swine feeds to produce leaner animals and in poultry feeds to enhance the speed and efficiency of poultry production. Corn gluten feed and meal, as well as distillers' grains, are produced for use as animal feed ingredients. Corn germ, a by-product of the wet milling process, is further processed into vegetable oil and protein meal. Other Corn Processing products include citric and lactic acids, lactates, sorbitol, xanthan gum, and glycols which are used in various food and industrial products. The Corn Processing segment includes the activities of the Company's Brazilian sugarcane operations, propylene and ethylene glycol facility, a bioplastic facility, and other equity investments in renewable plastics. This segment includes the Company's share of the results of its equity investments in Almidones Mexicanos S.A., Eaststarch C.V., and Red Star Yeast Company LLC.





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

The Agricultural Services segment utilizes its extensive U.S. grain elevator and global transportation network to buy, store, clean, and transport agricultural commodities, such as oilseeds, corn, wheat, milo, oats, rice, and barley, and resells these commodities primarily as food and feed ingredients and as raw materials for the agricultural processing industry. Agricultural Services' grain sourcing and transportation network provides reliable and efficient services to the Company's customers and agricultural processing operations. Agricultural Services' transportation network capabilities include truck, rail, barge, port, and ocean-going vessel handling and freight services. The Agricultural Services segment includes the activities of Alfred C. Toepfer International, an 80% owned global merchant of agricultural commodities and processed products. The Agricultural Services segment also includes the Company's share of the results of its Kalama Export Company joint venture, activities related to the processing and distributing of formula feeds and animal health and nutrition products, and the procuring, processing, and distributing of edible beans.

Other includes the Company's remaining processing operations, consisting of activities related to processing agricultural commodities into food ingredient products such as wheat into wheat flour, and cocoa into chocolate and cocoa products. Other also includes financial activities related to banking, captive insurance, futures commission merchant activities, private equity fund investments, and the Company's share of the results of its equity investment in Gruma S.A.B de C.V. On September 30, 2011, the Company finalized the sale of the majority ownership interest of Hickory Point Bank and Trust Company, fsb (Bank), a previously wholly-owned subsidiary. The Bank was deconsolidated from the Company's consolidated financial statements in the first quarter of fiscal 2012 resulting in no material effect to ADM. The Company will account for its remaining ownership interest in the Bank under the equity method.

Corporate results principally include the impact of LIFO-related inventory adjustments, unallocated corporate expenses, unallocated net interest costs, and the after-tax elimination of income attributable to mandatorily redeemable interests in consolidated subsidiaries.

#### 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, 2011.

The Company's oilseeds processing, agricultural services, and wheat processing operations are principally agricultural commodity-based businesses where changes in 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 other operating income and cost of products sold. Thus, changes in margins and gross profit of these businesses do not necessarily correspond to the changes in net sales and other operating income amounts.

The Company's corn processing operations and certain other food and animal feed processing operations also utilize agricultural commodities (or products derived from agricultural commodities) as raw materials. In these operations, agricultural commodity market 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.

The Company conducts its business in over 75 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. For the majority of the Company's business activities in Brazil, the functional currency is the U.S. dollar; however certain transactions, including taxes, occur in the local currency and require conversion to the functional currency. Fluctuations in the exchange rates of foreign currencies, primarily the Euro, British pound, Canadian dollar, and Brazilian real, as compared to the U.S. dollar can result in corresponding fluctuations in the U.S. dollar value of revenues and expenses reported by the Company.

---

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

The Company measures the performance of its business segments using key financial metrics such as segment operating profit, return on invested capital, and cost per metric ton. The Company's operating results can vary significantly due to changes in factors such as fluctuations in energy prices, weather conditions, crop plantings, government programs and policies, changes in global demand resulting from population growth, general global economic conditions, 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."

Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

Net earnings attributable to controlling interests increased \$115 million to \$460 million due principally to changes in LIFO inventory valuations partially offset by lower segment operating profit and higher income taxes. Earnings before income taxes this quarter includes credits of \$126 million from the effect of decreasing agricultural commodity prices on LIFO inventory valuation reserves, compared to charges of \$123 million in the first quarter of fiscal 2011 caused by increasing agricultural commodity prices. Segment operating profit for the three months ended September 30, 2011 declined \$66 million to \$699 million compared to \$765 million for the three months ended September 30, 2010.

Income taxes increased \$79 million due to higher earnings before income taxes and a higher effective income tax rate primarily due to changes in the geographic mix of forecasted earnings.

Market Factors Influencing Operations or Results

As an agricultural commodity-based business, the Company is subject to a variety of market factors which affect the Company's operating results. From a demand perspective, concerns about a slowdown in global economic activity and the potential impact on demand for commodity and related products were important factors in the volatility and general decline in agricultural commodity prices during the quarter. Global protein meal demand continues to grow although at varying rates in different regions around the world. Biodiesel markets continued to support global demand for refined and crude vegetable oils. Excess industry production capacity has impacted spot oilseed crushing margins. Sweeteners and starches demand remained strong due primarily to U.S. exports of sweeteners and improved demand for industrial starches. Ethanol sales volumes were supported by favorable gasoline blending economics in the U.S. and good U.S. export demand. From a supply perspective, the ongoing harvest is replenishing the North American supply chain while crop supplies in certain regions, including South America and the Black Sea region, are adequate. The relatively low U.S. carryover stocks for corn and soybeans and the uncertainties surrounding the size of this year's harvest also contributed to volatile commodity market price movements in the quarter.

Analysis of Statements of Earnings

Prior year net sales and other operating income by segment has been reclassified to conform to the current year's presentation resulting in reclassified net sales and other operating income at the segment level with no impact to total net sales and other operating income or operating profit.



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

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

|  | Three Months Ended<br>September 30, |          | Change  |
|--|-------------------------------------|----------|---------|
|  | 2011                                | 2010     |         |
|  | (In millions)                       |          |         |
| Oilseeds Processing                      |                                     |          |         |
| Crushing and Origination                 | \$4,998                             | \$4,087  | \$911   |
| Refining, Packaging, Biodiesel and Other | 3,249                               | 1,951    | 1,298   |
| Asia                                     | 79                                  | 53       | 26      |
| Total Oilseeds Processing                | 8,326                               | 6,091    | 2,235   |
| Corn Processing                          |                                     |          |         |
| Sweeteners and Starches                  | 1,184                               | 851      | 333     |
| Bioproducts                              | 2,109                               | 1,304    | 805     |
| Total Corn Processing                    | 3,293                               | 2,155    | 1,138   |
| Agricultural Services                    |                                     |          |         |
| Merchandising and Handling               | 8,592                               | 6,878    | 1,714   |
| Transportation                           | 74                                  | 48       | 26      |
| Total Agricultural Services              | 8,666                               | 6,926    | 1,740   |
| Other                                    |                                     |          |         |
| Processing                               | 1,589                               | 1,601    | (12 )   |
| Financial                                | 28                                  | 26       | 2       |
| Total Other                              | 1,617                               | 1,627    | (10 )   |
| Total                                    | \$21,902                            | \$16,799 | \$5,103 |

Net sales and other operating income increased 30% to \$21.9 billion due to higher average selling prices including \$0.6 billion related to the effects of changing foreign currency rates, partially offset by lower sales volumes. Oilseeds Processing sales increased 37% to \$8.3 billion due principally to higher average selling prices of vegetable oils, merchandised commodities, protein meal, and biodiesel. Corn Processing sales increased 53% to \$3.3 billion due principally to higher average selling prices of ethanol and other corn products and higher processed volumes. Agricultural Services sales increased 25% to \$8.7 billion, due to higher average selling prices partially offset by lower sales volumes. Other sales were flat as lower sales volumes of cocoa and cocoa products offset higher average selling prices for wheat flour.

Cost of products sold increased 30% to \$20.9 billion due principally to higher costs of agricultural commodities, higher manufacturing costs, and \$0.6 billion related to the effects of changing foreign currency rates. Manufacturing expenses increased \$136 million due to higher employee and benefit-related costs, energy costs, chemicals, and fuel costs. Partially offsetting these increased costs was lower depreciation expense of \$43 million primarily due to a change in the estimated service lives for certain machinery and equipment assets during the second quarter of fiscal 2011.

Selling, general and administrative expenses increased 7% to \$407 million due principally to higher employee and benefit-related costs associated mostly with acquisitions and foreign currency effects.

Interest income increased 67% to \$40 million due principally to interest income received related to a gain contingency that was settled during the quarter.

---

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

Other (income) expense – net declined \$21 million to \$18 million of expense due primarily to higher expense for the elimination of after-tax income attributable to mandatorily redeemable interests and charges related to debt buybacks this quarter. These increased expenses were partially offset by the absence of unrealized losses on interest rate swaps of \$31 million last year.

Operating profit by segment and earnings before income taxes for the quarter are as follows:

|   | Three Months Ended<br>September 30, |               | Change  |
|---|-------------------------------------|---------------|---------|
|   | 2011                                | 2010          |         |
|   |                                     | (In millions) |         |
| Oilseeds Processing                         |                                     |               |         |
| Crushing and Origination                    | \$115                               | \$176         | \$(61 ) |
| Refining, Packaging, Biodiesel and<br>Other | 49                                  | 76            | (27 )   |
| Asia  | 57                                  | 56            | 1       |
| Total Oilseeds Processing                   | 221                                 | 308           | (87 )   |
| Corn Processing                             |                                     |               |         |
| Sweeteners and Starches                     | 28                                  | 146           | (118 )  |
| Bioproducts                                 | 151                                 | 195           | (44 )   |
| Total Corn Processing                       | 179                                 | 341           | (162 )  |
| Agricultural Services                       |                                     |               |         |
| Merchandising and Handling                  | 219                                 | 103           | 116     |
| Transportation                              | 25                                  | 29            | (4 )    |
| Total Agricultural Services                 | 244                                 | 132           | 112     |
| Other                                       |                                     |               |         |
| Processing                                  | 59                                  | 26            | 33      |
| Financial                                   | (4 )                                | (42 )         | 38      |
| Total Other                                 | 55                                  | (16 )         | 71      |
| Total Segment Operating Profit              | 699                                 | 765           | (66 )   |
| Corporate                                   | (39 )                               | (303 )        | 264     |
| Earnings Before Income Taxes                | \$660                               | \$462         | \$198   |

Oilseeds Processing operating profit decreased \$87 million to \$221 million. Crushing and Origination operating profit decreased \$61 million to \$115 million primarily due to a weak margin environment for global soybean crushing and European rapeseed crushing. That impact was mitigated by stronger results from ADM's North American softseed crushing businesses and South American origination. Refining, Packaging, Biodiesel and Other results decreased \$27 million to \$49 million as lower results from South America and Europe were partially offset by good North American biodiesel demand and strong sales volumes and margins of protein specialty products. Asia results were in line with last year, principally reflecting ADM's share of its results from equity investee, Wilmar.





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

Corn Processing operating profits decreased \$162 million to \$179 million. Processed volumes were up 5 percent and overall net corn costs more than doubled from the first quarter of last year. Sweeteners and starches operating profit decreased \$118 million to \$28 million, as higher net corn costs more than offset higher average selling prices and sales volumes. Export demand for sweeteners remained strong. Net corn costs for sweeteners and starches were higher partly due to mark-to-market benefits recognized in prior quarters, of corn futures contracts entered into as economic hedges of this quarter's corn requirements. Bioproducts profit in the quarter decreased \$44 million to \$151 million. Lysine and spot ethanol margins in the quarter were good, however gains from ownership positions this quarter were lower than the prior year. Bioproducts results in the prior year were negatively impacted by startup costs of \$32 million related to the Company's new dry-grind ethanol, bioplastic, and glycol plants.

Agricultural Services operating profits increased \$112 million to \$244 million. Merchandising and handling earnings increased primarily due to stronger global merchandising results, including as a result of a strong recovery of exports from the Black Sea region. In the prior year's quarter, merchandising and handling results were positively impacted by an early U.S. harvest, strong U.S. export demand for agricultural commodities, and an insurance recovery of \$67 million related to property damage and business interruption resulting from a fiscal year 2009 explosion at the Company's Destrehan, Louisiana export facility. Earnings from transportation operations were steady despite lower U.S. grain export volumes.

Other operating profit increased \$71 million to operating income of \$55 million. In other processing, which includes wheat milling, cocoa and ADM's equity share of Gruma, S.A.B. de C.V., profits rose \$33 million to \$59 million, on stronger cocoa press margins. Wheat milling results remained strong. Results in cocoa were reduced by approximately \$60 million in both quarters for net unrealized mark-to-market losses related to certain cocoa forward purchase and sales commitments accounted for as derivatives. Financial operating profit increased \$38 million mainly due to improved results of ADM's captive insurance subsidiary principally related to the absence of prior year's insurance claim on the Company's Destrehan, Louisiana export facility. This quarter, ADM completed the sale of a majority ownership interest in Hickory Point Bank, FSB, the impact of which was immaterial.

Corporate results for the quarter are as follows:

|  | Three Months Ended<br>September 30, |           |         |
|--|-------------------------------------|-----------|---------|
|  | 2011                                | 2010      | Change  |
|  | (In millions)                       |           |         |
| LIFO credit (charge)                   | \$126                               | \$(123)   | ) \$249 |
| Unallocated interest expense - net     | (76)                                | ) (89)    | ) 13    |
| Unallocated corporate costs            | (84)                                | ) (73)    | ) (11)  |
| Charges from debt buyback and exchange | (4)                                 | ) -       | (4)     |
| Losses on interest rate swaps          | -                                   | (31)      | ) 31    |
| Other                                  | (1)                                 | ) 13      | (14)    |
| Total Corporate                        | \$(39)                              | ) \$(303) | ) \$264 |

Corporate results were a loss of \$39 million this quarter compared to a loss of \$303 million last year. The effects of changing commodity prices on LIFO inventory valuations resulted in a credit of \$126 million compared to a charge of

\$123 million for the prior year quarter. Corporate unallocated interest expense decreased \$13 million mostly due to lower interest expense on lower long-term debt balances. Also, in the prior year the Company incurred \$31 million of losses on interest rate swaps.

---

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

Liquidity and Capital Resources

A Company objective is to have sufficient liquidity, balance sheet strength, and financial flexibility to fund the operating and capital requirements of a capital-intensive, agricultural-commodity based business. The primary source of funds to finance the Company's operations and capital expenditures is cash generated by operations. In addition, the Company maintains a commercial paper borrowing facility and has access to equity and debt capital from public and private sources in both U.S. and international markets.

At September 30, 2011, the Company had \$1.8 billion of cash, cash equivalents, and short-term marketable securities and a current ratio, defined as current assets divided by current liabilities, of 1.9 to 1. Included in working capital is \$6.7 billion of readily marketable commodity inventories. Cash provided by operating activities was \$2.1 billion for the quarter compared to cash used in operating activities of \$0.9 billion the same quarter last year. Working capital decreased in the current year due principally to the decline in market prices of agricultural commodities during the quarter. Cash used in investing activities was \$0.2 billion for the quarter compared to a \$0.5 billion use in the same quarter last year. Capital expenditures were \$0.4 billion in the current quarter compared to \$0.3 billion in the prior year. Related to the sale of the majority interest in the Bank, the Company reduced its holdings of marketable securities by \$0.3 billion and divested cash of \$0.1 billion as a result of deconsolidation. Cash used in financing activities was \$1.1 billion for the quarter compared to cash provided by financing activities of \$1.2 billion the same quarter last year. Net borrowings, principally commercial paper, decreased primarily as a result of decreased working capital requirements. Additionally, the Company acquired 8.6 million of its common shares for \$0.2 billion this quarter.

At September 30, 2011, the Company's capital resources included net worth of \$18.4 billion and lines of credit, excluding the accounts receivable securitization facility discussed below, totaling \$6.9 billion, of which \$6.0 billion is unused. The Company's ratio of long-term debt to total capital (the sum of the Company's long-term debt and shareholders' equity) was 27% at September 30, 2011 and 30% at June 30, 2011. This ratio is a measure of the Company's long-term indebtedness and is an indicator of financial flexibility. Of the Company's total lines of credit, \$4.6 billion support a commercial paper borrowing facility, against which there was no commercial paper outstanding at September 30, 2011.

On July 1, 2011, the Company entered into a 364-day accounts receivable securitization facility. The facility provides the Company with up to \$1.0 billion in liquidity. Under the facility, the Company's U.S.-originated trades accounts receivable are sold to a wholly-owned bankruptcy-remote entity which then sells an undivided interest in the receivable as collateral for any borrowings under the facility. Any borrowings under the facility will be recorded as secured borrowings. This facility expands the Company's access to liquidity through efficient use of its balance sheet assets. The Company has no outstanding borrowings under the facility as of September 30, 2011.

Contractual Obligations and Commercial Commitments

The Company's purchase obligations as of September 30, 2011 were \$19.4 billion principally related to obligations to purchase agricultural commodity inventories. As of September 30, 2011, the Company expects to make payments related to purchase obligations of \$15 billion within the next twelve months. There were no other material changes in the Company's contractual obligations and off balance sheet arrangements during the three months ended September 30, 2011.

Critical Accounting Policies

There were no material changes in the Company's critical accounting policies during the three months ended September 30, 2011.

---

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in: commodity market prices as they relate to the Company's net commodity position, foreign currency exchange rates, and interest rates. Significant changes in market risk sensitive instruments and positions for the quarter ended September 30, 2011 are described below. There were no material changes during the quarter in the Company's potential loss arising from changes in foreign currency exchange rates and interest rates.

For detailed information regarding the Company's market risk sensitive instruments and positions, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" included in the Company's annual report on Form 10-K for the year ended June 30, 2011.

#### Commodities

The availability and prices of agricultural commodities are subject to wide fluctuations due to factors such as changes in weather conditions, disease, plantings, government programs and policies, competition, changes in global demand resulting from population growth and changes in standards of living, and global production of similar and competitive crops.

The fair value of the Company's commodity position is a summation of the fair values calculated for each commodity by valuing all of the commodity positions at quoted market prices for the period, where available, or utilizing a close proxy. The Company has established metrics to monitor the amount of market risk exposure, which consist of volumetric limits and value-at-risk (VaR) limits. VaR measures the potential loss, at a 95% confidence level, that could be incurred over a one-year period. Volumetric limits are monitored daily and VaR calculations and sensitivity analysis are monitored weekly.

In addition to measuring the hypothetical loss resulting from an adverse two standard deviation move in market prices (assuming no correlations) over a one-year period using VaR, sensitivity analysis is performed measuring the potential loss in fair value resulting from a hypothetical 10% adverse change in market prices. The highest, lowest, and average weekly position together with the market risk from a hypothetical 10% adverse price change is as follows:

| Long/(Short)     | Three months ended<br>September 30, 2011 |             | Year ended<br>June 30, 2011 |             |
|------------------|--|-------------|-----------------------------|-------------|
|                  | Fair Value                               | Market Risk | Fair Value                  | Market Risk |
|                  | (In millions)                            |             |                             |             |
| Highest position | \$ 1,438                                 | \$ 144      | \$ 2,388                    | \$ 239      |
| Lowest position  | 384                                      | 38          | 368                         | 37          |
| Average position | 654                                      | 65          | 1,644                       | 164         |

The change in fair value of the average position was principally the result of a decrease in quantities underlying the daily net commodity position.

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2011, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rules 13a – 15(e) and 15d – 15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (b) accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. There was no change in the Company's internal controls over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

---

## PART II – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

Since August 2008, the Company has been conducting an internal review of its policies, procedures and internal controls pertaining to the adequacy of its anti-corruption compliance program and of certain transactions conducted by the Company and its affiliates and joint ventures, primarily relating to grain and feed exports, that may have violated company policies, the U.S. Foreign Corrupt Practices Act, and other U.S. and foreign laws. The Company initially disclosed this review to the U.S. Department of Justice, the Securities and Exchange Commission, and certain foreign regulators in March 2009 and has subsequently provided periodic updates to the agencies. The Company engaged outside counsel and other advisors to assist in the review of these matters and has implemented, and is continuing to implement, appropriate remedial measures. In connection with this review, government agencies could impose civil penalties or criminal fines and/or order that the Company disgorge any profits derived from any contracts involving inappropriate payments. These events have not had, and are not expected to have, a material impact on the Company's business or financial condition.

The Company is a party to routine legal proceedings that arise in the course of its business. The Company is not currently a party to any legal proceeding or environmental claim that it believes would have a material adverse effect on its financial position, results of operations, or liquidity.

## ITEM 1A. RISK FACTORS

There were no significant changes in the Company's risk factors during the three months ended September 30, 2011.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Issuer Purchases of Equity Securities

| Period                                  | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program (2) | Number of Shares Remaining that May be Purchased Under the Program (2) |
|---|--------------------------------------|------------------------------|--|--|
| July 1, 2011 to July 31, 2011           | 6,588                                | \$ 30.279                    | 400  | 86,779,649   |
| August 1, 2011 to August 31, 2011       | 8,629,487                            | 27.830                       | 8,629,487  | 78,150,162   |
| September 1, 2011 to September 30, 2011 | 251                                  | 29.494                       | 251  | 78,149,911   |
| Total                                   | 8,636,326                            | \$ 27.832                    | 8,630,138  | 78,149,911   |

- (1) Total shares purchased represents those shares purchased as part of the Company's publicly announced share repurchase program described below, shares received as payment of the exercise price for stock option exercises, and shares received as payment of the withholding taxes on vested restricted stock grants.

- (2) On November 5, 2009, the Company's Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 100,000,000 shares of the Company's common stock during the period commencing January 1, 2010 and ending December 31, 2014.
-



ITEM 6. EXHIBITS

- (3)(i) Composite Certificate of Incorporation, as amended, filed on November 13, 2001 as Exhibit 3(i) to Form 10-Q for the quarter ended September 30, 2001 (File No. 1-44), is incorporated herein by reference.
  - (ii) Bylaws, as amended, filed on August 12, 2009 as Exhibit 3(ii) to Form 8-K (File No. 1-44), are incorporated herein by reference.
  - (4) Registration Rights Agreement, dated as of September 26, 2011, by and among ADM and Barclays Capital Inc., BNP Paribas Securities Corp., Deutsche Bank Securities Inc., HSBC Securities (USA) Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Morgan Stanley & Co. LLC, as Dealer Managers, filed on September 27, 2011 as Exhibit 4.3 to Form 8-K (File No. 1-44), is incorporated herein by reference.
  - (31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
  - (31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
  - (32.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - (32.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - (101) Interactive Data File
-

SIGNATURES

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.

ARCHER-DANIELS-MIDLAND COMPANY

/s/ R. G. Young  
R. G. Young  
Senior Vice President and  
Chief Financial Officer

/s/ D. J. Smith  
D. J. Smith  
Executive Vice President, Secretary and  
General Counsel

Dated: November 4, 2011