ARCHER DANIELS MIDLAND CO
Form 10-Q
February 06, 2012

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

FORM 10-Q

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

For the quarterly period ended December 31, 2011
OR

o 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	41-0129150
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
4666 Faries Parkway Box 1470 Decatur, Illinois	62525
(Address of principal executive offices)	(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 x 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 x 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 x Accelerated Filer o

Non-accelerated Filer o Smaller reporting Company o

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

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 – 661,632,896 shares
(January 31, 2012)

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Archer-Daniels-Midland Company

Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended December 31, 2011	2010
	(In millions, except per share amounts)	
Net sales and other operating income	$23,306	$20,930
Cost of products sold	22,493	19,696
Gross Profit	813	1,234
Selling, general, and administrative expenses	423	412
Asset impairment charges and exit costs	352	–
Interest expense	96	115
Equity in earnings of unconsolidated affiliates	(127)	(138)
Interest income	(22)	(41)
Other (income) expense – net	(30)	(112)
Earnings Before Income Taxes	121	998
Income taxes	38	269
Net Earnings Including Noncontrolling Interests	83	729
Less: Net earnings (losses) attributable to noncontrolling interests	3	(3)
Net Earnings Attributable to Controlling Interests	$80	$732
Average number of shares outstanding – basic	666	639
Average number of shares outstanding – diluted	667	641
Basic earnings per common share	$0.12	$1.15
Diluted earnings per common share	$0.12	$1.14
Dividends per common share	$0.175	$0.150

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Earnings
(Unaudited)

	Six Months Ended December 31,	
	2011	2010
	(In millions, except per share amounts)	
Net sales and other operating income	$45,208	$37,729
Cost of products sold	43,361	35,687
Gross Profit	1,847	2,042
Selling, general, and administrative expenses	830	793
Asset impairment charges and exit costs	352	–
Interest expense	209	232
Equity in earnings of unconsolidated affiliates	(251)	(263)
Interest income	(62)	(65)
Other (income) expense – net	(12)	(115)
Earnings Before Income Taxes	781	1,460
Income taxes	237	389
Net Earnings Including Noncontrolling Interests	544	1,071
Less: Net earnings (losses) attributable to noncontrolling interests	4	(6)
Net Earnings Attributable to Controlling Interests	$540	$1,077
Average number of shares outstanding – basic	669	639
Average number of shares outstanding – diluted	670	641
Basic and diluted earnings per common share	$0.81	$1.68
Dividends per common share	$0.335	$0.300

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Balance Sheets

	(Unaudited) December 31, 2011	June 30, 2011
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	$ 864	$ 615
Short-term marketable securities	594	739
Segregated cash and investments	3,451	3,396
Trade receivables	5,093	4,808
Inventories	12,415	12,055
Other current assets	4,807	5,891
Total Current Assets	27,224	27,504
Investments and Other Assets		
Investments in and advances to affiliates	3,211	3,240
Long-term marketable securities	352	666
Goodwill	591	602
Other assets	537	681
Total Investments and Other Assets	4,691	5,189
Property, Plant, and Equipment		
Land	308	305
Buildings	4,367	4,413
Machinery and equipment	16,169	16,245
Construction in progress	1,059	765
	21,903	21,728
Accumulated depreciation	(12,302)	(12,228)
Net Property, Plant, and Equipment	9,601	9,500
Total Assets	$ 41,516	$ 42,193
Liabilities and Shareholders’ Equity		
Current Liabilities		
Short-term debt	$ 834	$ 1,875
Trade payables	4,136	2,581
Accrued expenses and other payables	8,257	8,584
Current maturities of long-term debt	1,602	178
Total Current Liabilities	14,829	13,218
Long-Term Liabilities		
Long-term debt	6,762	8,266
Deferred income taxes	897	859
Other	863	1,012
Total Long-Term Liabilities	8,522	10,137

Shareholders’ Equity				
Common stock		6,218		6,636
Reinvested earnings		12,322		11,996
Accumulated other comprehensive income (loss)		(563)		176
Noncontrolling interests		188		30
Total Shareholders’ Equity		18,165		18,838
Total Liabilities and Shareholders’ Equity	$	41,516	$	42,193

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
	(In millions)	
Operating Activities		
Net earnings including noncontrolling interests	$544	$1,071
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	414	463
Asset impairment charges	350	–
Deferred income taxes	28	126
Equity in earnings of affiliates, net of dividends	(106)	(181)
Gain on Golden Peanut revaluation	–	(71)
Stock compensation expense	34	36
Pension and postretirement accruals, net	59	47
Deferred cash flow hedges	10	21
Other – net	77	(2)
Changes in operating assets and liabilities, net of businesses acquired		
Segregated cash and investments	(61)	(875)
Trade receivables	(741)	(710)
Inventories	(480)	(4,620)
Other current assets	958	(3,439)
Trade payables	1,545	1,640
Accrued expenses and other payables	410	2,411
Total Operating Activities	3,041	(4,083)
Investing Activities		
Purchases of property, plant, and equipment	(852)	(645)
Proceeds from sales of property, plant, and equipment	24	45
Net assets of businesses acquired	(206)	(163)
Cash divested from deconsolidation	(130)	–
Purchases of marketable securities	(889)	(1,051)
Proceeds from sales of marketable securities	1,084	693
Other – net	35	(20)
Total Investing Activities	(934)	(1,141)
Financing Activities		
Long-term debt borrowings	91	35
Long-term debt payments	(173)	(237)
Net borrowings (payments) under lines of credit agreements	(1,076)	5,179
Debt exchange premiums	(32)	–
Purchases of treasury stock	(427)	(86)
Cash dividends	(224)	(192)
Acquisition of noncontrolling interest	(19)	–
Other – net	2	5

Total Financing Activities	(1,858)	4,704
Increase (decrease) in cash and cash equivalents	249	(520)
Cash and cash equivalents beginning of period	615	1,046
Cash and cash equivalents end of period	$864	$526

See notes to consolidated financial statements.

Archer-Daniels-Midland-Company

Consolidated Statement of Shareholders' Equity
(Unaudited)

	Common Stock Shares	Common Stock Amount	Reinvested Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Shareholders' Equity
				(In millions)		
Balance June 30, 2011	676	$ 6,636	$ 11,996	$ 176	$ 30	$ 18,838
Comprehensive income						
Net earnings			540		4	
Other comprehensive income				(739)		
Total comprehensive income						(195)
Cash dividends paid-$0.335 per share			(224)			(224)
Treasury stock purchases	(15)	(427)				(427)
Stock compensation expense		34				34
Noncontrolling interests previously associated with mandatorily redeemable instruments			10		172	182
Acquisition of noncontrolling interests		(4)			(15)	(19)
Other	1	(21)			(3)	(24)
Balance December 31, 2011	662	$ 6,218	$ 12,322	$ (563)	$ 188	$ 18,165

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 December 31, 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 material effect to after-tax earnings for the quarter and six months ended December 31, 2011. The Company accounts for its remaining ownership interest in the Bank under the equity method.

The Company consolidates certain less than wholly-owned subsidiaries for which the minority interest was subject to a put option and considered mandatorily redeemable. The put option expired on December 31, 2011 and as a result, the Company reclassified $172 million of minority interest from other long-term liabilities to noncontrolling interests in shareholders’ equity at that date.

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, separate 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 4 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 5 and 12. In addition, receivables and accounts payable in the prior year consolidated balance sheet have been reclassified to conform to the current year’s presentation where trade receivables and trade payables are shown separately from other receivables and other payables, respectively. Other receivables and other payables are now included in other current assets and accrued expenses and other payables, respectively. These changes are also reflected in the prior year consolidated statement of cash flows with no impact to total cash provided by (used in) operating, investing, or financing activities.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 1. Basis of Presentation (Continued)

Last-in, First-out (LIFO) Inventories

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

Note 2. New Accounting Standards

Effective March 31, 2012, the Company will be required to adopt the amended guidance of ASC Topic 820, Fair Value Measurements and Disclosures, which clarifies or changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The adoption of this amended guidance will require expanded disclosure in the notes to 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 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. Early adoption of this amended guidance is permitted. The Company does not expect any impact on its financial results as a result of the adoption of this amended guidance.

Note 3. Acquisitions

During the six months ended December 31, 2011, the Company acquired six businesses for a total cost of $206 million and recorded a preliminary allocation of the purchase price related to these acquisitions.

The net cash purchase price for the six acquisitions of $206 million was allocated to working capital, property, plant, and equipment, goodwill, and other long-term assets for $3 million, $160 million, $39 million, and $4 million, respectively.

During the quarter, the Company finalized the purchase price allocation related to the December 31, 2010 acquisition of Golden Peanut Company LLC ("Golden Peanut"). The revised purchase price allocation did not result in material adjustments.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. 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.

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 December 31, 2011, the Company had no transfers between Levels 1 and 2.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Fair Value Measurements (Continued)

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 December 31, 2011 and June 30, 2011.

	Fair Value Measurements at December 31, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets:				
Inventories carried at market	$ –	$ 4,798	$ 1,624	$ 6,422
Unrealized derivative gains:				
Commodity contracts	1,200	737	198	2,135
Foreign exchange contracts	–	288	–	288
Marketable securities	1,790	93	–	1,883
Total Assets	$ 2,990	$ 5,916	$ 1,822	$ 10,728
Liabilities:				
Unrealized derivative losses:				
Commodity contracts	$ 1,295	$ 755	$ 192	$ 2,242
Foreign exchange contracts	–	307	–	307
Inventory-related payables	–	425	196	621
Total Liabilities	$ 1,295	$ 1,487	$ 388	$ 3,170

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 4. Fair Value Measurements (Continued)

	Fair Value Measurements at June 30, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (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 4. 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 4. Fair Value Measurements (Continued)

The following table presents a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended December 31, 2011.

	Level 3 Fair Value Asset Measurements at December 31, 2011		
	Inventories Carried at Market	Commodity Derivative Contracts Gains	Total Assets
		(In millions)	
Balance, September 30, 2011	$ 1,348	$ 270	$ 1,618
Total increase (decrease) in unrealized gains included in cost of products sold	28	138	166
Purchases	959	–	959
Sales	(963)	–	(963)
Settlements	–	(185)	(185)
Transfers into Level 3	306	34	340
Transfers out of Level 3	(54)	(59)	(113)
Ending balance, December 31, 2011	$ 1,624	$ 198	$ 1,822

The following table presents a reconciliation of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended December 31, 2011.

Level 3 Fair Value Liability Measurements at December 31, 2011