

ARCHER DANIELS MIDLAND CO
Form 10-Q
November 08, 2010

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, 2010
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 ☒
Non-accelerated Filer ☐

Accelerated Filer ☐
Smaller reporting Company ☐

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

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 – 638,893,389 shares

(October 29, 2010)

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Archer-Daniels-Midland Company

Consolidated Statements of Earnings
(Unaudited)

Three Months Ended
September 30,
2010 2009
(In millions, except
per share amounts)

Net sales and other operating income	\$16,799	\$14,921
Cost of products sold	15,991	13,948
Gross Profit	808	973
Selling, general and administrative expenses	381	354
Other (income) expense – net	(35)	(98)
Earnings Before Income Taxes	462	717
Income taxes	120	220
Net Earnings Including Noncontrolling Interests	342	497
Less: Net earnings (losses) attributable to noncontrolling interests	(3)	1
Net Earnings Attributable to Controlling Interests	\$345	\$496
Average number of shares outstanding – basic	640	642
Average number of shares outstanding – diluted	641	644
Basic and diluted earnings per common share	\$0.54	\$0.77
Dividends per common share	\$0.15	\$0.14

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Balance Sheets

	(Unaudited) September 30, 2010	June 30, 2010
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 862	\$ 1,046
Short-term marketable securities	508	394
Segregated cash and investments	2,932	2,337
Receivables	8,174	6,122
Inventories	9,024	7,611
Other assets	586	624
Total Current Assets	22,086	18,134
Investments and Other Assets		
Investments in and advances to affiliates	2,961	2,799
Long-term marketable securities	816	678
Goodwill	531	523
Other assets	734	702
Total Investments and Other Assets	5,042	4,702
Property, Plant, and Equipment		
Land	289	277
Buildings	4,124	4,008
Machinery and equipment	15,484	15,107
Construction in progress	648	612
	20,545	20,004
Accumulated depreciation	(11,637)	(11,292)
Net Property, Plant, and Equipment	8,908	8,712
Total Assets	\$ 36,036	\$ 31,548
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt	\$ 1,721	\$ 374
Accounts payable	7,025	5,538
Accrued expenses	3,141	2,317
Current maturities of long-term debt	348	344
Total Current Liabilities	12,235	8,573
Long-Term Liabilities		
Long-term debt	6,834	6,830
Deferred income taxes	395	439
Other	1,185	1,075
Total Long-Term Liabilities	8,414	8,344
Shareholders' Equity		

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

Common stock	5,138	5,151
Reinvested earnings	10,605	10,357
Accumulated other comprehensive income (loss)	(375)	(899)
Noncontrolling interests	19	22
Total Shareholders' Equity	15,387	14,631
Total Liabilities and Shareholders' Equity	\$ 36,036	\$ 31,548

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended September 30,	
	2010	2009
	(In millions)	
Operating Activities		
Net earnings including noncontrolling interests	\$ 342	\$ 497
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	252	209
Deferred income taxes	(73)	(3)
Equity in (earnings) losses of affiliates, net of dividends	(86)	(92)
Stock compensation expense	25	20
Pension and postretirement accruals, net	25	24
Deferred cash flow hedges	41	31
Other – net	(16)	44
Changes in operating assets and liabilities		
Segregated cash and investments	(582)	121
Receivables	(1,685)	713
Inventories	(1,157)	735
Other assets	52	16
Accounts payable and accrued expenses	1,991	(323)
Total Operating Activities	(871)	1,992
Investing Activities		
Purchases of property, plant, and equipment	(335)	(497)
Proceeds from sales of property, plant, and equipment	41	7
Purchases of marketable securities	(589)	(256)
Proceeds from sales of marketable securities	375	313
Other – net	6	4
Total Investing Activities	(502)	(429)
Financing Activities		
Long-term debt borrowings	22	–
Long-term debt payments	(34)	(34)
Net borrowings (payments) under lines of credit agreements	1,324	(107)
Purchases of treasury stock	(31)	–
Cash dividends	(96)	(90)
Other – net	4	3
Total Financing Activities	1,189	(228)
Increase (decrease) in cash and cash equivalents	(184)	1,335
Cash and cash equivalents beginning of period	1,046	1,055

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

Cash and cash equivalents end of period	\$ 862	\$ 2,390
---	--------	----------

See notes to consolidated financial statements.

Archer-Daniels-Midland-Company

Consolidated Statement of Shareholders' Equity
(Unaudited)

	Common Shares	Stock Amount	Reinvested Earnings	Accumulated Other Comprehensive Income (Loss) (In millions)	Noncontrolling Interests	Total Shareholders' Equity
Balance June 30, 2010	639	\$ 5,151	\$ 10,357	\$ (899)	\$ 22	\$ 14,631
Comprehensive income						
Net earnings			345		(3)	
Other comprehensive income				524		
Total comprehensive income						866
Cash dividends paid-.15 per share			(96)			(96)
Treasury stock purchases	(1)	(31)				(31)
Stock compensation expense		25				25
Other	1	(7)	(1)			(8)
Balance September 30, 2010	639	\$ 5,138	\$ 10,605	\$ (375)	\$ 19	\$ 15,387

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, 2010 are not necessarily indicative of the results that may be expected for the year ending June 30, 2011. 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, 2010.

Adoption of New Accounting Standards

Effective July 1, 2010, the Company adopted the amended guidance in Accounting Standards Codification (ASC) Topic 810, Consolidations, which changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights (known as variable interest entities or VIEs) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance and the other entity's purpose and design. The VIEs in which the Company holds variable interests are not individually considered material to the Company's consolidated results. As a result of the adoption of this guidance, the Company deconsolidated one VIE with no material effect on the Company's consolidated financial statements.

Reclassifications

Certain items in prior year's consolidated statements of cash flows have been reclassified to conform to the current year's presentation with no impact to total cash provided by (used in) operating, investing, or financing activities.

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 October 1, 2010 and January 1, 2011, the Company will be required to adopt the amended guidance in ASC Topic 310, Receivables, which requires more robust and disaggregated disclosures about the credit quality of an entity's financing receivables (excluding trade receivables), and its allowances for credit losses. The new disclosures will require additional information for nonaccrual and past due accounts, the allowance for credit losses, impaired loans, credit quality, and account notifications. A financing receivable is defined as a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the entity's statement of financial position. The Company has not yet assessed the impact of this amended guidance on its consolidated financial statements.

Effective July 1, 2011, the Company will be required to adopt the second phase of the amended guidance in 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 will require expanded disclosures in the notes to the Company's consolidated financial statements but will not impact financial results.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 3. Fair Value Measurements

The Company determines the fair market 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, and 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, 2010, the Company had no transfers between Levels 1 and 2.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 3. 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 September 30, 2010 and June 30, 2010.

Fair Value Measurements at September 30, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (In millions)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Inventories carried at market	\$ —	\$ 4,305	\$ 382	\$ 4,687
Unrealized derivative gains				
Commodity contracts	1,030	1,372	116	2,518
Foreign exchange contracts	101	107	—	208
Marketable securities	1,368	492	—	1,860
Total Assets	\$ 2,499	\$ 6,276	\$ 498	\$ 9,273
Liabilities:				
Unrealized derivative losses				
Commodity contracts	\$ 1,080	\$ 1,177	\$ 81	\$ 2,338
Foreign exchange contracts	129	67	—	196
Interest rate contracts	—	57	—	57
Inventory-related payables	—	326	11	337
Total Liabilities	\$ 1,209	\$ 1,627	\$ 92	\$ 2,928

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 3. Fair Value Measurements (Continued)

Fair Value Measurements at June 30, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (In millions)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Inventories carried at market	\$ —	\$ 3,774	\$ 458	\$ 4,232
Unrealized derivative gains				
Commodity contracts	777	1,883	69	2,729
Foreign exchange contracts	162	38	—	200
Marketable securities	1,067	543	—	1,610
Total Assets	\$ 2,006	\$ 6,238	\$ 527	\$ 8,771
Liabilities:				
Unrealized derivative losses				
Commodity contracts	\$ 937	\$ 2,161	\$ 56	\$ 3,154
Foreign exchange contracts	184	82	—	266
Interest rate contracts	—	26	—	26
Inventory-related payables	—	207	31	238
Total Liabilities	\$ 1,121	\$ 2,476	\$ 87	\$ 3,684

The Company uses the market approach valuation technique to measure the majority of its assets and liabilities carried at fair value. Estimated fair market 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 market 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 this table. 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 market 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 market 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 market value of derivatives designated as cash flow hedges are recognized in the consolidated balance sheets as a component of accumulated other comprehensive income (loss) until the hedged items are recorded in earnings or the hedged transaction is no longer probable to 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 market value of available-for-sale marketable securities are recognized in the consolidated balance sheets as a component of accumulated other comprehensive income (loss) 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, 2010 and 2009.

	Level 3 Fair Value Measurements at September 30, 2010		
	Inventories Carried at Market, Net	Commodity Derivative Contracts, Net (In millions)	Total
Balance, June 30, 2010	\$ 427	\$ 13	\$ 440
Total gains (losses), realized or unrealized, included in earnings 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.

	Level 3 Fair Value Measurements at September 30, 2009		
	Inventories Carried at Market, Net	Derivative Contracts, Net (In millions)	Total
Balance, June 30, 2009	\$ 468	\$ (2)	\$ 466
Total gains (losses), realized or unrealized, included in earnings before income taxes*	7	(30)	(23)
Purchases, issuances and settlements	(42)	(9)	(51)
Transfers in and/or out of Level 3	97	(4)	93
Ending balance, September 30, 2009	\$ 530	\$ (45)	\$ 485

*Includes losses of \$1.9 million that are attributable to the change in unrealized gains or losses relating to Level 3 assets and liabilities still held at September 30, 2009.

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

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

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. The Company has certain derivatives designated as cash flow hedges. Within the Note 4 tables, zeros represent minimal amounts.

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 minimize 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 accumulated other comprehensive income (AOCI). These gains will remain in AOCI until the hedged transactions occur or it is probable the hedged transaction will not occur. During the quarter ended September 30, 2010, the Company recognized \$31 million of pre-tax losses in earnings from these interest rate swaps.

The following table sets forth the fair value of derivatives not designated as hedging instruments as of September 30, 2010 and June 30, 2010.

September 30, 2010		June 30, 2010	
Assets	Liabilities	Assets	Liabilities
(In millions)		(In millions)	

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

FX Contracts	\$208	\$196	\$200	\$266
Interest Contracts	-	57	-	26
Commodity Contracts	2,518	2,335	2,727	3,152
Total	\$2,726	\$2,588	\$2,927	\$3,444

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, 2010 and 2009.

	Three months ended September 30, 2010 (In millions)	2009 (In millions)
Interest Contracts		
Other income (expense) – net	\$ (31)	\$ 1
FX Contracts		
Net sales and other operating income	\$ (34)	\$ (15)
Cost of products sold	59	7
Other income (expense) – net	36	8
Commodity Contracts		
Cost of products sold	\$ (649)	\$ 175
Total gain (loss) recognized in earnings	\$ (619)	\$ 176

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 other comprehensive income (OCI) 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 of 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, or cost of products sold. As of September 30, 2010, the Company has \$31 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 the 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 13% and 100% of its monthly anticipated grind. At September 30, 2010, the Company has hedged portions of its anticipated monthly purchases of corn over the next 5 months, ranging from 1% to 95% of its anticipated monthly grind.

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 3.5 million MMBtus of natural gas per month. During the past 12 months, the Company hedged between 47% and 77% of the quantity of its anticipated monthly natural gas purchases. At September 30, 2010, the Company has hedged portions of its anticipated monthly purchases of natural gas over the next 9 months, ranging from 49% to 55% of its anticipated monthly natural gas purchases.

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 some sales contracts denominated in non-functional currency. To reduce the risk of fluctuations in cash flows due to changes in the exchange rate between functional versus non-functional currency, the Company will hedge some portion of the forecasted foreign currency expenditures and/or receipts. The fair value of foreign exchange contracts designated as cash flow hedging instruments as of September 30, 2010 was immaterial.

The Company is using 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 debentures. 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 the Company decided to issue the debt to the date when the debt will actually be issued. At September 30, 2010, AOCI included \$25 million of after-tax gains related to treasury-lock agreements and interest rate swaps. The Company will recognize the \$25 million of gains in its consolidated statement of earnings over the terms of the hedged items or when it is probable the hedged transactions will not occur.

The following table sets forth the fair value of derivatives designated as hedging instruments as of September 30, 2010 and June 30, 2010.

	September 30, 2010		June 30, 2010	
	Assets	Liabilities	Assets	Liabilities
	(In millions)		(In millions)	
Interest Contracts	\$—	\$—	\$0	\$0
Commodity Contracts	0	3	2	2
Total	\$0	\$3	\$2	\$2

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 statement of earnings for the three months ended September 30, 2010 and 2009.

Consolidated Statement of Earnings Location		Three months ended September 30, 2010 2009 (In millions)	
Effective amounts recognized in earnings			
FX Contracts	Other (income) expense – net	\$0	\$(1)
Interest Contracts	Other (income) expense – net	0	–
Commodity Contracts	Cost of products sold	65	(42)
	Net sales and other operating income	6	–
Ineffective amount recognized in earnings	Cost of products sold	17	(8)
Total amount recognized in earnings		\$88	\$(51)

The following tables set forth the changes in AOCI related to derivatives gains (losses) for the three months ended September 30, 2010 and 2009.

	Three months ended September 30, 2010 (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

	Three months ended September 30, 2009 (In millions)
Balance at June 30, 2009	\$ (13)
Unrealized gains (losses)	(23)
Losses reclassified to earnings	43
Tax effect	(18)
Balance at September 30, 2009	\$ (11)

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Marketable Securities and Cash Equivalents

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In millions)				
September 30, 2010				
United States government obligations				
Maturity less than 1 year	\$511	\$—	\$—	\$511
Maturity 1 to 5 years	72	1	—	73
Government-sponsored enterprise obligations				
Maturity 1 to 5 years	112	3	—	115
Maturity 5 to 10 years	93	5	—	98
Maturity greater than 10 years	223	10	—	233
Corporate debt securities				
Maturity less than 1 year	1	—	—	1
Maturity 1 to 5 years	39	1	—	40
Other debt securities				
Maturity less than 1 year	420	—	—	420
Maturity 1 to 5 years	2	—	—	2
Maturity 5 to 10 years	6	—	—	6
Equity securities				
Available-for-sale	160	76	(9)	227
Trading	22	—	—	22
	\$1,661	\$96	\$(9)	\$1,748

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In millions)				
June 30, 2010				
United States government obligations				
Maturity less than 1 year	\$395	\$—	\$—	\$395
Maturity 1 to 5 years	33	1	—	34
Government-sponsored enterprise obligations				
Maturity 1 to 5 years	111	3	—	114
Maturity 5 to 10 years	122	4	—	126
Maturity greater than 10 years	232	9	—	241
Corporate debt securities				
Maturity less than 1 year	10	—	—	10
Maturity 1 to 5 years	46	2	—	48

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

Other debt securities				
Maturity less than 1 year	659	–	–	659
Maturity 1 to 5 years	2	–	–	2
Maturity 5 to 10 years	6	–	–	6
Equity securities				
Available-for-sale	54	48	(15)	87
Trading	20	–	–	20
	\$1,690	\$67	\$(15)	\$1,742

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 5. Marketable Securities and Cash Equivalents (Continued)

None of the \$9 million in unrealized losses at September 30, 2010 arose within the last 12 months. The market value of the investments that have been in an unrealized loss position for 12 months and longer is \$25 million. The \$9 million in unrealized losses associated with available-for-sale equity securities is related to the Company's investment in one security. The Company does not intend to sell its impaired equity security, and, based upon its evaluation, the Company does not believe it is likely that the Company will be required to sell the investment before recovery of its amortized cost bases.

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, 2010, 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.

The Company also has outstanding \$1.75 billion principal amount of Equity Units (the Units). The Units are a combination of (a) debt and (b) forward purchase contracts for the holder to purchase the Company's common stock. The forward purchase contracts issued in connection with the Units will be settled for the Company's common stock no later than June 1, 2011. Until settlement of the forward purchase contracts, the shares of stock underlying each forward purchase contract are not outstanding. The forward purchase contracts will only be included in the computation of diluted earnings per share to the extent they are dilutive. As of September 30, 2010, the forward purchase contracts were not considered dilutive and therefore were not included in the computation of diluted earnings per share.

At September 30, 2010, the fair value of the Company's long-term debt exceeded the carrying value by \$1.0 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.

For further information on the Notes and Units, 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, 2010.

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, 2010, was 26.0%, compared to 30.7% for the quarter ended September 30, 2009. The decrease in the Company's effective tax rate is 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 questions regarding 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 accurately predict or provide assurance as to the ultimate outcome of these ongoing or future examinations.

In December 2009, the Company's wholly-owned subsidiary, ADM do Brasil Ltda. ("ADM do Brasil"), received a tax assessment in the amount of \$490 million (subject to interest and variation in currency exchange rates) consisting of tax, penalty, and interest, from the Brazilian Federal Revenue Service ("BFRS") challenging the tax deductibility of commodity hedging losses incurred by ADM do Brasil in 2004. Commodity hedging transactions 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. In June 2010, ADM do Brasil was notified by the BFRS that tax years 2005, 2006, and 2007 would also be audited, but as yet, no additional assessments have been received for these years. If the BFRS were to challenge commodity hedging deductions in all tax years still open to assessment (2005-2010), the Company estimates it could receive additional claims of approximately \$170 million (as of September 30, 2010 and subject to interest and variation in currency exchange rates).

In January 2010, ADM do Brasil filed an appeal with the BFRS. If ADM do Brasil is 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 significant additional payments of, and expense for, income tax and the associated interest and penalties.

The Company has evaluated its tax position regarding these hedging transactions and concluded, based in part 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. The Company intends to vigorously defend its position against the current assessment and any similar assessments that may be issued for years subsequent to 2004.

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 September 30, 2010 2009 (In millions)	
Net earnings including noncontrolling interests	\$342	\$497
Unrealized gain on investments	22	15
Deferred gain on hedging activities	26	2
Pension liability adjustment	(13)	(8)
Foreign currency translation adjustment	489	149
Comprehensive income	866	655
Less: Comprehensive income (loss) attributable to noncontrolling interests	(3)	1
Comprehensive income attributable to controlling interests	\$869	\$654

Note 9. Other (Income) Expense - Net

	Three Months Ended September 30, 2010 2009 (In millions)	
Interest expense	\$117	\$98
Investment income	(24)	(30)
Net gain on marketable securities transactions	(2)	(1)
Equity in earnings of unconsolidated affiliates	(125)	(152)
Unrealized losses on interest rate swaps	31	—
Other – net	(32)	(13)
	\$(35)	\$(98)

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

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

For detailed information regarding the Company's reportable segments, see Note 15 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended June 30, 2010.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 10. Segment Information (Continued)

	Three Months Ended September 30, 2010 2009 (In millions)	
Sales to external customers		
Oilseeds Processing	\$6,460	\$6,358
Corn Processing	2,178	1,916
Agricultural Services	6,534	5,322
Other	1,627	1,325
Total	\$16,799	\$14,921
Intersegment sales		
Oilseeds Processing	\$17	\$19
Corn Processing	8	9
Agricultural Services	460	445
Other	36	37
Total	\$521	\$510
Net sales		
Oilseeds Processing	\$6,477	\$6,377
Corn Processing	2,186	1,925
Agricultural Services	6,994	5,767
Other	1,663	1,362
Intersegment elimination	(521)	(510)
Total	\$16,799	\$14,921
Segment operating profit		
Oilseeds Processing	\$308	\$284
Corn Processing	341	188
Agricultural Services	132	175
Other	(16)	127
Total segment operating profit	765	774
Corporate	(303)	(57)
Earnings before income taxes	\$462	\$717

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 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 activities related to the origination, merchandising, crushing, and further processing of oilseeds such as soybeans, cottonseed, sunflower seeds, canola, rapeseed, peanuts, flaxseed, and palm into vegetable oils and protein meals. The Oilseeds Processing segment principally produces and markets processed oilseed products as ingredients for the food, feed, energy, and other industrial products industries. Crude vegetable oil is sold "as is" or is 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 oil is used to produce biodiesel or is 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 needs. 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 utilizes a network of grain elevators, port facilities, and transportation assets to buy, store, clean, and transport agricultural commodities, as adjuncts to its processing assets. In South America, the Oilseeds Processing segment also operates fertilizer blending facilities. This segment also includes the Company's share of the results of its equity method investment in Wilmar International Limited (WIL) and its Golden Peanut Company LLC, 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, primarily in the United States, related to its production of ingredients used in the food and beverage industry including syrup, starch, glucose, dextrose, and sweeteners. Dextrose is also used by the Company as a feedstock for its bioproducts operations. Corn gluten feed and meal, as well as distillers' grains, is produced for use as animal feed ingredients. Corn germ, a by-product of the wet milling process, is further processed as an oilseed into vegetable oil and protein meal.

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 to beverage grade or for industrial use as ethanol. In gasoline, ethanol increases octane and is used as an extender and oxygenate. Amino acids, such as lysine and threonine, are vital compounds used in swine feeds to produce leaner animals and in poultry feeds to enhance the speed and efficiency of poultry production. The Corn Processing segment also produces, by fermentation, astaxanthin, a product used in aquaculture to enhance flesh coloration. The Corn Processing segment produces 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, and investments in renewable plastics. This segment also includes the Company's share of the results of its equity method 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 the Company's extensive grain elevator and 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 agricultural processing operations and customers. Agricultural Services' transportation network capabilities include ground, rail, river, and ocean freight services. The Agricultural Services segment also includes activities related to procuring, processing, and distributing edible beans, and the processing and distributing of formula feeds and animal health and nutrition products. In addition, the Agricultural Services segment includes the activities of Alfred C. Toepfer International, a global merchant of agricultural commodities and processed products, and the Company's share of the results of its Kalama Export Company joint venture.

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, private equity fund investments, futures commission merchant activities, and the Company's share of the results of its equity method investment in Gruma S.A.B de C.V.

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

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, 2010.

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. Therefore, changes in 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 60 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 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 will 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, return on fixed capital investment, return on equity, 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, 2010 Compared to Three Months Ended September 30, 2009

Net earnings attributable to controlling interests decreased \$151 million to \$345 million due principally to changes in LIFO inventory valuations caused by increasing agricultural commodity prices partially offset by lower income taxes. Earnings before income taxes for the three months ended September 30, 2010, include a LIFO charge of \$123 million, compared to a LIFO credit of \$76 million in the prior year. Segment operating profit for the three months ended September 30, 2010 was \$765 million compared to \$774 million for the three months ended September 30, 2009.

Income taxes decreased \$100 million due to lower earnings before income taxes and a lower effective income tax rate, which resulted from changes in the geographic mix of 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. Prices for certain agricultural commodities were significantly higher this quarter compared to the year ago quarter in response to a change in the supply outlook, including concerns of some regional imbalances. Poor weather in certain key growing regions and government actions to restrict grain exports impacted the Company's results this quarter. The large harvest in North America is being completed earlier than in the prior year leading to replenishing of the commodity supply chain earlier this year. The large North American harvest along with crop supply dislocations is resulting in improved merchandising, handling, and processing opportunities. Global demand for agricultural commodities is generally strong. The uncertainties related to the global crop outlook, coupled with strong demand, led to generally more volatile commodity market pricing. Global protein meal demand continues to be impacted by growing demand in Asia; however customers remain short-term buyers, generally reluctant to commit to purchases significantly in advance of requirements. Biodiesel markets continued to develop in Europe and South America in response to increasing government mandates and underpin demand for refined and crude vegetable oils. Corn sweetener sales volumes continue to be higher due to strong export demand. Ethanol blending economics were favorable, and along with higher average selling prices for ethanol, led to improved ethanol margins.

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

Analysis of Statements of Earnings

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

	Three Months Ended September 30,		Change
	2010	2009	
	(In millions)		
Oilseeds Processing			
Crushing & Origination	\$4,456	\$4,504	\$(48)
Refining, Packaging, Biodiesel & Other	1,951	1,814	137
Asia	53	40	13
Total Oilseeds Processing	6,460	6,358	102
Corn Processing			
Sweeteners & Starches	874	886	(12)
Bioproducts	1,304	1,030	274
Total Corn Processing	2,178	1,916	262
Agricultural Services			
Merchandising & Handling	6,486	5,281	1,205
Transportation	48	41	7
Total Agricultural Services	6,534	5,322	1,212
Other			
Wheat, Cocoa & Gruma	1,601	1,302	299
Financial	26	23	3
Total Other	1,627	1,325	302
Total	\$16,799	\$14,921	\$1,878

Net sales and other operating income increased 13% to \$16.8 billion as generally higher sales volumes were partially offset by lower average selling prices including the effects of changing foreign currency rates. Corn Processing sales increased 14% to \$2.2 billion due principally to higher sales volumes and average selling prices of ethanol. Agricultural Services sales increased 23% to \$6.5 billion, due to higher sales volumes partially offset by lower average selling prices. Other sales increased 23% to \$1.6 billion primarily due to higher sales volumes of cocoa and cocoa products partially offset by lower average selling prices for wheat flour.

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

Cost of products sold increased 15% to \$16.0 billion due principally to higher sales volumes of agricultural commodities and changes in LIFO inventory valuations. Manufacturing expenses increased \$144 million primarily due to higher processing volumes, higher energy prices, and higher depreciation, in part due to the Company's new greenfield operations coming on-line over the last year. Manufacturing expenses also included \$32 million related to the start up of new plants this quarter compared to \$10 million in the prior year quarter.

Selling, general and administrative expenses increased 8% to \$381 million due principally to higher employee and benefit-related costs.

Other income – net decreased \$63 million primarily due to unrealized losses on interest rate swaps of \$31 million, decreased equity earnings of unconsolidated affiliates of \$27 million and higher interest expense, partially offset by changes in income and expense related to the elimination of after-tax mandatorily redeemable interests in consolidated subsidiaries.

Operating profit by segment for the quarter is as follows:

	Three Months Ended September 30,		
	2010	2009	Change
	(In millions)		
Oilseeds Processing			
Crushing & Origination	\$ 176	\$ 135	\$ 41
Refining, Packaging, Biodiesel & Other	76	70	6
Asia	56	79	(23)
Total Oilseeds Processing	308	284	24
Corn Processing			
Sweeteners and Starches	146	194	(48)
Bioproducts	195	(6)	201
Total Corn Processing	341	188	153
Agricultural Services			
Merchandising & Handling	103	157	(54)
Transportation	29	18	11
Total Agricultural Services	132	175	(43)
Other			
Wheat, Cocoa & Gruma	26	107	(81)
Financial	(42)	20	(62)
Total Other	(16)	127	(143)
Total Segment Operating Profit	765	774	(9)
Corporate	(303)	(57)	(246)
Earnings Before Income Taxes	\$ 462	\$ 717	\$ (255)

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

Corporate results for the quarter are as follows:

	Three Months Ended September 30,		
	2010	2009	Change
	(In millions)		
LIFO credit (charge)	\$ (123)	\$ 76	\$ (199)
Unallocated interest expense - net	(89)	(65)	(24)
Unallocated corporate costs	(73)	(69)	(4)
Unrealized losses on interest rate swaps	(31)	—	(31)
Other	13	1	12
Total Corporate	\$ (303)	\$ (57)	\$ (246)

Oilseeds Processing operating profit increased \$24 million to \$308 million. Crushing and Origination results increased \$41 million to \$176 million as crushing volumes increased more than 6%. Margins improved overall, enhanced in North America by good positioning and in South America by origination. Fertilizer results in South America improved in advance of the planting season. European softseed margins improved principally due to higher vegetable oil demand. Refining, Packaging, Biodiesel and Other results increased \$6 million to \$76 million due principally to strong biodiesel demand in South America resulting in higher sales volumes and gross margins. Asia results decreased \$23 million due principally to decreased earnings related to the Company's investment in WIL.

Corn Processing operating profits increased \$153 million to \$341 million. Sweeteners and Starches operating profits decreased \$48 million to \$146 million due principally to lower average sweetener selling prices partially offset by lower net corn costs and higher sales volumes. Sales volumes increased due to strong export shipments and improved domestic demand for industrial starches. Bioproducts operating profit improved \$201 million primarily due to increased ethanol margins, higher ethanol sales volumes and strong lysine margins. Bioproducts margins were enhanced by a favorable corn ownership position. Bioproducts results 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 decreased \$43 million to \$132 million. Merchandising and handling results were lower than the year-ago quarter due to negative impacts early in the quarter from shifts in crop supply caused by weather conditions and government actions in the Black Sea region. Merchandising and handling margins were positively impacted by an early U.S. harvest and strong export demand for agricultural commodities. Merchandising and handling results this quarter include 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. Transportation results increased \$11 million to \$29 million primarily due to higher barge freight rates and higher barge utilization levels, in part due to the earlier U.S. harvest.

Other operating profit decreased to an operating loss of \$16 million. Wheat, Cocoa & Gruma operating profit decreased \$81 million due primarily to unrealized mark-to-market losses of \$59 million related to certain cocoa forward purchase and sales commitments accounted for as derivatives and lower equity earnings from the Company's investee, Gruma S.A.B. de C.V. Partially offsetting these losses were improved wheat milling results and an increase in sales volumes of cocoa and cocoa products. Financial operating profit decreased \$62 million primarily due to higher captive insurance loss provisions principally related to the Company's Destrehan, Louisiana export facility

insurance claim.

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

Corporate results decreased \$246 million. The effects of changing commodity prices on LIFO inventory valuations resulted in a charge of \$123 million compared to a credit of \$76 million for the prior year quarter. Corporate unallocated interest expense increased \$55 million primarily due to lower interest expense capitalized on major construction projects and \$31 million of unrealized losses on interest rate swaps entered into in connection with a debt remarketing planned for 2011.

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 domestic and international markets.

At September 30, 2010, the Company had \$1.4 billion of cash, cash equivalents, and short-term marketable securities and a current ratio, defined as current assets divided by current liabilities, of 1.8 to 1. Included in working capital is \$5.8 billion of readily marketable commodity inventories. Cash used in operating activities was \$871 million for the quarter compared to cash provided by operating activities of \$2.0 billion the same quarter last year. Working capital requirements increased in the current year principally related to increasing agricultural commodity market prices whereas in the prior year commodity prices generally declined. Cash used in investing activities was \$502 million for the quarter compared to \$429 million the same quarter last year. Cash provided by financing activities was \$1.2 billion for the quarter compared to cash used in financing activities of \$228 million the same quarter last year. Net short-term borrowings, principally commercial paper, increased primarily as a result of increased working capital requirements.

At September 30, 2010, the Company's capital resources included net worth of \$15.4 billion and lines of credit totaling \$6.1 billion, of which \$4.6 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 31% at September 30, 2010 and 32% at June 30, 2010. This ratio is a measure of the Company's long-term liquidity and is an indicator of financial flexibility. Of the Company's total lines of credit, \$4.2 billion support a commercial paper borrowing facility, against which there were \$1.2 billion of borrowings at September 30, 2010. In October 2010, the Company renewed one of its existing credit facilities used to support commercial paper borrowings, and increased the Company's overall commercial paper borrowing capacity by \$400 million.

Contractual Obligations and Commercial Commitments

The Company's purchase obligations as of September 30, 2010 were \$18.5 billion. As of September 30, 2010, the Company expects to make payments related to purchase obligations of \$17.5 billion within the next twelve months, principally related to obligations to purchase agricultural commodity inventories. There were no other material changes in the Company's contractual obligations and off balance sheet arrangements during the three months ended September 30, 2010.

Critical Accounting Policies

There were no material changes in the Company's critical accounting policies during the three months ended September 30, 2010.

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, 2010 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, 2010.

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. A sensitivity analysis has been prepared to estimate the Company's exposure to market risk of its daily net commodity position. The Company's daily net commodity position consists of merchandisable commodity inventories, related purchase and sale contracts, and exchange-traded futures and exchange-traded and over-the-counter option contracts, including those contracts used to hedge portions of production requirements. The fair value of such daily net commodity position is a summation of the fair values calculated for each commodity by valuing each net position based on quoted futures prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10% percent adverse change in such prices. Actual results may differ.

Long/(Short)	Three months ended September 30, 2010		Year ended June 30, 2010	
	Fair Value	Market Risk	Fair Value	Market Risk
	(In millions)			
Highest position	\$ 1,377	\$ 138	\$ 429	\$ 43
Lowest position	156	16	(667)	(67)
Average position	812	81	(190)	(19)

The change in fair value of the average position was principally the result of an increase in quantities underlying the daily net commodity position and, to a lesser extent, increased commodity prices.

ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2010, 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

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, 2010.

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, 2010 to July 31, 2010	188	\$ 26.625	188	96,222,936
August 1, 2010 to August 31, 2010	1,045,780	29.764	1,043,756	95,179,180
September 1, 2010 to September 30, 2010	16,001	32.923	94	95,179,086
Total	1,061,969	\$ 29.811	1,044,038	95,179,086

(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.
 - (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/ S. R. Mills
S. R. Mills
Executive Vice President and
Chief Financial Officer

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

Dated: November 8, 2010
