

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

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

**FORM 10-Q**

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

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

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-44

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

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**41-0129150**

(I. R. S. Employer  
Identification No.)

**4666 Faries Parkway Box 1470**

**Decatur, Illinois**

(Address of principal executive offices)

**62525**

(Zip Code)

**(217) 424-5200**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐

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

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

date.

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

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

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

See notes to consolidated financial statements.

## Archer-Daniels-Midland Company

## Consolidated Balance Sheets

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

|   |                  |                  |
|---|------------------|------------------|
| Accumulated other comprehensive income            | 389              | 181              |
| Total Shareholders' Equity                        | 11,820           | 11,253           |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 29,392</b> | <b>\$ 25,118</b> |

See notes to consolidated financial statements.

## Archer-Daniels-Midland Company

Consolidated Statements of Cash Flows  
(Unaudited)

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

See notes to consolidated financial statements.

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**Archer-Daniels-Midland Company**

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

**Note 1. Basis of Presentation**

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

*Last-in, First-out (LIFO) Inventories*

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

**Note 2. New Accounting Standards**

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

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

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**Archer-Daniels-Midland Company****Notes to Consolidated Financial Statements (Continued)**  
**(Unaudited)****Note 2. New Accounting Standards (Continued)**

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

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

**Note 3. Long-Term Debt**

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

**Note 4. Comprehensive Income**

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

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



**Archer-Daniels-Midland Company****Notes to Consolidated Financial Statements (Continued)**  
**(Unaudited)****Note 5. Other Income - Net**

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

**Note 6. Segment Information**

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

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

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

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

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

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**Archer-Daniels-Midland Company**

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

**Note 6. Segment Information (Continued)**

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

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

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

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

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## Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)  
(Unaudited)

## Note 6. Segment Information (Continued)

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

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

### *Company Overview*

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

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

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

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

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

### *Operating Performance Indicators*

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

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

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

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

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

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

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

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

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

### *Analysis of Statements of Earnings*

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

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

|  | <b>Three Months Ended<br/>September 30,</b> |                 |                 |
|--|---|-----------------|-----------------|
|  | <b>2007</b>                                 | <b>2006</b>     | <b>Change</b>   |
|  | (In millions)                               |                 |                 |
| <b>Oilseeds Processing</b>             |   |                 |                 |
| Crushing & Origination                 | \$ 2,808                                    | \$ 1,916        | \$ 892          |
| Refining, Packaging, Biodiesel & Other | 1,767                                       | 1,296           | 471             |
| Asia                                   | 35  | 26              | 9               |
| <b>Total Oilseeds Processing</b>       | <b>4,610</b>                                | <b>3,238</b>    | <b>1,372</b>    |
| <b>Corn Processing</b>                 |   |                 |                 |
| Sweeteners and Starches                | 834   | 629             | 205             |
| Bioproducts                            | 687   | 722             | (35)            |
| <b>Total Corn Processing</b>           | <b>1,521</b>                                | <b>1,351</b>    | <b>170</b>      |
| <b>Agricultural Services</b>           |   |                 |                 |
| Merchandising & Handling               | 5,480                                       | 3,914           | 1,566           |
| Transportation                         | 60  | 61              | (1)             |
| <b>Total Agricultural Services</b>     | <b>5,540</b>                                | <b>3,975</b>    | <b>1,565</b>    |
| <b>Other</b>                           |   |                 |                 |
| Wheat, Cocoa, and Malt                 | 1,133                                       | 859             | 274             |
| Financial                              | 24  | 24              | —               |
| <b>Total Other</b>                     | <b>1,157</b>                                | <b>883</b>      | <b>274</b>      |
| <b>Total</b>                           | <b>\$ 12,828</b>                            | <b>\$ 9,447</b> | <b>\$ 3,381</b> |

Oilseeds Processing sales increased 42% to \$4.6 billion primarily due to higher average selling prices and volumes for vegetable oil and higher average selling prices for soybean meal. Good demand for vegetable oil and soybean meal supported higher prices and volumes. Higher average selling prices of South American oilseed exports and fertilizer also contributed to the increase. Corn Processing sales increased 13% to \$1.5 billion principally due to higher average selling prices in Sweeteners and Starches, partially offset by lower sales volumes and lower average selling prices for ethanol. Higher sales prices for Sweeteners and Starches reflect higher industry capacity utilization. Bioproducts sales decreased principally due to lower ethanol sales volumes and prices as a result of ethanol industry capacity currently exceeding customer demand levels. Agricultural Services sales increased 39% to \$5.5 billion primarily due to higher commodity prices and, to a lesser extent, increased sales volumes. Commodity market prices of corn, soybeans, and wheat increased approximately 44%, 36% and 26%, respectively, from market price levels of a year ago. Other sales increased 31% to \$1.2 billion primarily due to increased average selling prices of wheat flour and cocoa products.

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

Cost of products sold increased 39% to \$11.9 billion primarily due to higher agricultural commodity prices and increased sales volumes. Manufacturing costs increased \$52 million primarily due to increased employee-related costs, and higher plant maintenance and depreciation costs.

Selling, general and administrative expenses increased \$44 million to \$354 million due principally to employee-related costs including \$23 million related to an organizational realignment.

Other income increased \$51 million primarily due to a \$28 million increase in equity in earnings of affiliates, an \$11 million increase in realized securities gains, and a \$9 million decrease in interest expense. The increase in equity in earnings of affiliates is primarily due to increased valuations of the Company's private equity fund investments. Interest expense decreased primarily due to lower average interest rates partially offset by higher average borrowings, and increased capitalization of interest to construction projects.

Operating profit by segment for the quarter is as follows:

|  | Three Months Ended<br>September 30, |        |               | Change |
|--|-------------------------------------|--------|---------------|--------|
|  | 2007                                | 2006   | (In millions) |        |
| Oilseeds Processing                    |                                     |        |               |        |
| Crushing & Origination                 | \$ 131                              | \$ 104 | \$            | 27     |
| Refining, Packaging, Biodiesel & Other | 62                                  | 49     |               | 13     |
| Asia                                   | 16                                  | 17     |               | (1)    |
| Total Oilseeds Processing              | 209                                 | 170    |               | 39     |
| Corn Processing                        |                                     |        |               |        |
| Sweeteners and Starches                | 164                                 | 119    |               | 45     |
| Bioproducts                            | 89                                  | 170    |               | (81)   |
| Total Corn Processing                  | 253                                 | 289    |               | (36)   |
| Agricultural Services                  |                                     |        |               |        |
| Merchandising & Handling               | 185                                 | 65     |               | 120    |
| Transportation                         | 44                                  | 50     |               | (6)    |
| Total Agricultural Services            | 229                                 | 115    |               | 114    |
| Other                                  |                                     |        |               |        |
| Wheat, Cocoa, and Malt                 | 38                                  | 43     |               | (5)    |
| Financial                              | 68                                  | 31     |               | 37     |
| Total Other                            | 106                                 | 74     |               | 32     |
| Total Segment Operating Profit         | 797                                 | 648    |               | 149    |
| Corporate                              | (150)                               | (72)   |               | (78)   |
| Earnings Before Income Taxes           | \$ 647                              | \$ 576 | \$            | 71     |

Oilseeds Processing operating profits increased 23% to \$209 million. Crushing and Origination operating profits increased 26% to \$131 million principally due to improved crushing margins in North America and improved origination results in South American, partially offset by lower crushing margins in Europe. North American crushing margins improved due to abundant oilseed supplies in the United States and good demand for vegetable oil and

soybean meal. Improved capacity utilization also favorably impacted North American crushing margins. South American origination results improved principally due to increased origination and export volumes and increased fertilizer margins. The improvement in fertilizer margins is primarily due to higher average sales prices and improved demand resulting from seasonal planting activities combined with stable raw material costs. Crushing margins in Europe declined principally due to higher oilseed costs as a result of agricultural commodity market concerns regarding future European rapeseed availability. Refining, Packaging, Biodiesel, and Other operating profits increased \$13 million to \$62 million principally due to improved refining volumes and operating margins resulting from good demand for vegetable oil.

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

Corn Processing operating profits declined 12% to \$253 million primarily due to higher net corn costs and lower ethanol selling prices and volumes, partially offset by higher average selling prices of Sweeteners and Starches products and favorable risk management results. Net corn costs have increased approximately 50% from the prior year quarter due to corn prices increasing in connection with other agricultural commodity prices as a result of weather-related supply and demand factors. Agricultural commodity market concerns regarding the expected decline in the ending 2006 corn crop carryover has also contributed to the increase in corn costs. Sweeteners and Starches operating profits improved 38% to \$164 million primarily due to higher average sales prices due principally to increased industry capacity utilization. This increase was partially offset by higher net corn costs. Bioproducts operating profit declined 48% to \$89 million primarily as a result of higher net corn costs and, to a lesser extent, lower ethanol sales volumes and lower ethanol average selling prices. The lower ethanol sales volumes and average selling prices is principally due to current excess ethanol industry capacity.

Agricultural Services operating profits increased \$114 million to \$229 million principally due to improved Merchandising and Handling operating results. Merchandising and Handling operating results improved as volatile agricultural commodity market conditions, the acceleration of the North American harvest, and global wheat shortages created favorable operating conditions. Transportation operating results declined principally due to a reduction in barge shipping volumes.

Other operating profits increased \$32 million to \$106 million principally due to improved results from financial activities. Financial operating profits increased \$37 million to \$68 million principally due to increased valuations of the Company's private equity fund investments and gains on sales of equity securities held by the Company's futures commission merchant business. Wheat, Cocoa, and Malt operating profits declined \$5 million principally due to lower Cocoa Processing operating results. This decrease is principally due to higher inventory carrying costs, and weaker North American chocolate demand negatively impacting processing margins.

Corporate expense increased \$78 million to \$150 million principally due to an \$83 million charge, compared to a \$17 million charge in the prior year, related to the effect of changing commodity prices on LIFO inventory valuations, a \$23 million charge related to organizational realignment costs, and increased minority interest expense. These increases were partially offset by a \$23 million increase in investment income.

Income taxes increased due principally to higher pretax earnings. The Company's effective tax rate for the quarter is 31.8% as compared to 30% in the prior year's quarter. The increase in the Company's effective tax rate is primarily due to changes in the geographic mix of pretax earnings.

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

***Liquidity and Capital Resources***

The Company's objective is to have sufficient liquidity, balance sheet strength, and financial flexibility to fund the operating and capital requirements of a capital intensive agricultural-based commodity business.

At September 30, 2007, the Company continued to show substantial liquidity with working capital of \$7.5 billion and a current ratio, defined as current assets divided by current liabilities, of 1.65 to 1. Included in working capital is \$1.2 billion of cash, cash equivalents, and short-term marketable securities as well as \$5.4 billion of readily marketable commodity inventories. Working capital increased \$238 million during the quarter principally due to increased prices and quantities of agricultural commodity inventories. Capital resources remained strong as reflected by the increase in the Company's net worth from \$11.3 billion to \$11.8 billion. The Company's ratio of long-term debt to total capital (the sum of the Company's long-term debt and shareholders' equity) was 29% at September 30, 2007 compared to 30% at June 30, 2007. This ratio is a measure of the Company's long-term liquidity and is an indicator of financial flexibility.

***Contractual Obligations and Commercial Commitments***

During the three months ended September 30, 2007, the Company's inventory purchase obligations increased \$4.1 billion to \$15.9 billion. This increase was principally related to increased obligations to purchase agricultural commodities. As of September 30, 2007, the Company expects to make payments related to inventory purchase obligations of \$15.0 billion within the next twelve months. There were no other material changes in the Company's contractual obligations and off balance sheet arrangements during the three months ended September 30, 2007.

***Critical Accounting Policies***

There were no material changes in the Company's critical accounting policies during the three months ended September 30, 2007.

**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 prices as they relate to the Company's net commodity position; marketable equity security prices; market prices of limited partnerships' investments; foreign currency exchange rates; and interest rates. Significant changes in market risk sensitive instruments and positions for the quarter ended September 30, 2007 are described below. There were no material changes during the quarter in the Company's potential loss arising from changes in market prices of limited partnerships' investments, marketable equity securities, 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, 2007.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)***Commodities*

The availability and price of agricultural commodities are subject to wide fluctuations due to unpredictable factors such as weather, plantings, global government farm programs and policies, changes in global demand resulting from population growth and changes in standards of living, and global production of similar and competitive crops. A sensitivity analysis has been prepared to estimate the Company's exposure to market risk of its commodity position. The Company's daily net commodity position consists of inventories, related purchase and sale contracts, and exchange-traded futures contracts, including those to hedge portions of production requirements. The fair value of such position is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical ten percent adverse change in such prices. Actual results may differ.

|                                | <b>September 30, 2007</b> |                    | <b>June 30, 2007</b> |                    |
|--------------------------------|---------------------------|--------------------|----------------------|--------------------|
|                                | <b>Fair Value</b>         | <b>Market Risk</b> | <b>Fair Value</b>    | <b>Market Risk</b> |
|                                | (in millions)             |                    |                      |                    |
| Highest position - long        | \$ 1,260                  | \$ 126             | \$ 703               | \$ 70              |
| Lowest position - long (short) | 467                       | 47                 | (565)                | (57)               |
| Average position - long        | 1,049                     | 105                | 180                  | 18                 |

The increase in fair value of the average position was principally the result of an increase in quantities underlying the daily net commodity position.

**ITEM 4. CONTROLS AND PROCEDURES**

As of September 30, 2007, 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*****Environmental Matters***

The Company is involved in approximately twenty administrative and judicial proceedings in which it has been identified as a potentially responsible party (PRP) under the federal Superfund law and its state analogs for the study and cleanup of sites contaminated by material discharged into the environment. In all of these matters there are numerous PRPs. Due to various factors, such as the required level of remediation and participation in the cleanup effort by others, the Company's future cleanup costs at these sites cannot be reasonably estimated. In management's opinion, these proceedings will not, either individually or in the aggregate, have a material adverse affect on the Company's financial condition or results of operations.

**ITEM 1A.****RISK FACTORS**

There were no significant changes in the Company's risk factors during the three months ended September 30, 2007.

**ITEM 2.****UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*****Issuer Purchases of Equity Securities***

| <b>Period</b>                           | <b>Total Number of Shares Purchased (1)</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Program (2)</b> | <b>Number of Shares Remaining that May be Purchased Under the Program (2)</b> |
|---|---|-------------------------------------|---|---|
| July 1, 2007 to July 31, 2007           | 13,851                                      | \$ 35.44                            | 289   | 77,501,366  |
| August 1, 2007 to August 31, 2007       | 17,372                                      | 33.51                               | 98  | 77,501,268  |
| September 1, 2007 to September 30, 2007 | 1,840,443                                   | 32.63                               | 1,837,098   | 75,664,170  |
| <b>Total</b>                            | <b>1,871,666</b>                            | <b>\$ 32.65</b>                     | <b>1,837,485</b>  | <b>75,664,170</b>   |

- (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 4, 2004, 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, 2005 and ending December 31, 2009.

**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 February 6, 2007 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.
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## **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/ D. J. Schmalz  
D. J. Schmalz  
Senior Vice President and  
Chief Financial Officer

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

Dated: November 8, 2007

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