REALTY INCOME CORP
Form 424B5
March 09, 2011

Table of Contents

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount To be Registered(1)	Proposed Maximum Offering Price Per Security	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(2)
Common Stock, par value $1.00 per share	8,625,000	$34.81	$300,236,250.00	$34,857.43

(1) Includes 1,125,000 shares of Common Stock, par value $1.00 per share, that may be purchased by the underwriters upon the exercise of the underwriters' overallotment option.

(2) Calculated in accordance with Rule 456(b) and 457(r) of the Securities Act.

Filed Pursuant to Rule 424(b)(5)
Registration No. 158169

PROSPECTUS SUPPLEMENT
(To prospectus dated March 24, 2009)

7,500,000 Shares

Common Stock

All of the 7,500,000 shares are being sold by us. We currently pay regular monthly distributions to holders of our common stock, which is listed on the New York Stock Exchange, or NYSE, under the symbol "O." On March 8, 2011, the last reported sale price of our common stock on the NYSE was $35.25 per share.

Realty Income Corporation, The Monthly Dividend Company®, is a Maryland corporation organized to operate as an equity real estate investment trust, or REIT. We are a fully integrated, self-administered real estate company with in-house acquisition, leasing, legal, credit research, real estate research, portfolio management and capital markets expertise. As of December 31, 2010, we owned a diversified portfolio of 2,496 properties located in 49 states with over 21.2 million square feet of leasable space leased to 122 different retail and other commercial enterprises doing business in 32 separate industries.

Investing in our common stock involves risks. See "Risk Factors" beginning on page S-7 of this prospectus supplement.

	Per Share	Total
Public offering price	$34.81	$261,075,000
Underwriting discount	$1.67	$12,525,000
Proceeds, before expenses, to Realty Income Corporation	$33.14	$248,550,000

The underwriters may also purchase up to an additional 1,125,000 shares of common stock from us to cover overallotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The shares of common stock will be ready for delivery on or about March 14, 2011.

Joint Book-Running Managers

BofA Merrill Lynch **Wells Fargo Securities**

Morgan Stanley **RBC Capital Markets** **Raymond James** **UBS Investment Bank**

BB&T Capital Markets **Citi** **Credit Suisse** **J.P. Morgan**

Janney Montgomery Scott **Morgan Keegan** **Stifel Nicolaus Weisel**

BNY Mellon Capital Markets, LLC

The date of this prospectus supplement is March 9, 2011.

Table of Contents

TABLE OF CONTENTS
Prospectus Supplement

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus and, if applicable, any free writing prospectus we may provide you in connection with this offering. We have not, and the underwriters have not, authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities or soliciting an offer to buy these securities in any jurisdiction where the offer or sale of these securities is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference herein or therein and, if applicable, any free writing prospectus we may provide you in connection with this offering is accurate only as of those documents' respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

This document is in two parts. The first part is the prospectus supplement, which adds to and updates information contained in the accompanying prospectus. The second part, the prospectus, provides more general information, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. To the extent there is a conflict between the information contained in this prospectus supplement and the information

Table of Contents

contained in the accompanying prospectus, you should rely on the information in this prospectus supplement.

Before purchasing any securities, you should carefully read both this prospectus supplement and the accompanying prospectus, together with the incorporated documents described under the heading "Incorporation by Reference" in this prospectus supplement and the accompanying prospectus, and any free writing prospectus we may provide to you in connection with this offering.

No action has been or will be taken in any jurisdiction by us or by any underwriter that would permit a public offering of these securities or possession or distribution of this prospectus supplement, the accompanying prospectus or any related free writing prospectus where action for that purpose is required, other than in the United States. Unless otherwise expressly stated or the context otherwise requires, references to "dollars" and "$" in this prospectus supplement, the accompanying prospectus and any related free writing prospectus are to United States dollars.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary does not contain all the information that may be important to you. You should read the entire prospectus supplement and the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference herein and therein, including the financial statements and related notes, and, if applicable, any free writing prospectus we may provide you in connection with this offering before making an investment decision. Unless this prospectus supplement otherwise indicates or the context otherwise requires, the terms "Realty Income," "our," "us" and "we" as used in this prospectus supplement refer to Realty Income Corporation and its subsidiaries on a consolidated basis. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement relating to our properties excludes properties owned by our wholly-owned subsidiary Crest Net Lease, Inc., which we refer to as Crest.

In this prospectus supplement, we sometimes refer to our 7.375% Monthly Income Class D Cumulative Redeemable Preferred Stock and our 6.75% Monthly Income Class E Cumulative Redeemable Preferred Stock as the Class D preferred stock and the Class E preferred stock, respectively.

Realty Income

We are The Monthly Dividend Company®. We are organized to operate as an equity real estate investment trust, commonly referred to as a REIT. Our primary business objective is to generate dependable monthly cash distributions from a consistent and predictable level of funds from operations, or FFO, per share. Additionally, we seek to increase distributions to common stockholders and FFO per share through both active portfolio management and the acquisition of additional properties.

We are a fully integrated, self-administered real estate company with in-house acquisition, leasing, legal, credit research, real estate research, portfolio management and capital markets expertise. As of December 31, 2010, we owned a diversified portfolio of 2,496 properties located in 49 states, with over 21.2 million square feet of leasable space leased to 122 different retail and other commercial enterprises doing business in 32 separate industries. Of the 2,496 properties in the portfolio at that date, 2,485, or 99.6%, were single-tenant properties, and the remaining 11 were multi-tenant, distribution and office properties. At December 31, 2010, of the 2,485 single-tenant properties, 2,402 were leased with a weighted average remaining lease term (excluding extension options) of approximately 11.4 years.

Our principal executive offices are located at 600 La Terraza Boulevard, Escondido, California 92025-3873 and our telephone number is (760) 741-2111.

Recent Developments

Increases in Monthly Cash Distributions to Common Stockholders

We have continued our 42-year policy of paying distributions monthly. Monthly distributions per share increased in April 2010 by $0.0003125 to $0.1433125, in July 2010 by $0.0003125 to $0.143625, in October 2010 by $0.0003125 to $0.1439375 and in January 2011 by $0.0003125 to $0.14425. The increase in January 2011 was our 53rd consecutive quarterly increase, which was the 60th increase in the amount of our dividend since our listing on the NYSE in 1994. In 2010, we paid three monthly cash distributions per share in the amount of $0.143, three in the amount of $0.1433125, three in the amount of $0.143625 and three in the amount of $0.1439375 per share, totaling $1.721625. In December 2010, January 2011 and February 2011, we declared distributions of $0.14425 per share, which were paid on January 18, 2011 and February 15, 2011 and will be paid on March 15, 2011, respectively.

The distribution payable on our common stock on March 15, 2011 will be paid to stockholders of record of our common stock as of the close of business on March 1, 2011. Purchasers of shares of

Table of Contents

common stock in this offering will not be entitled to receive the March 15, 2011 distribution on those shares.

The monthly distribution payable in March 2011 of $0.14425 per share represents an annualized distribution of $1.731 per share, and an annualized distribution yield of approximately 4.9% based on the last reported sale price of our common stock on the NYSE of $35.25 on March 8, 2011. Although we expect to continue our policy of paying monthly distributions in cash, we cannot guarantee that we will maintain our current level of cash distributions, that we will continue our pattern of increasing cash distributions per share, or what our actual cash distribution yield will be in any future period.

Acquisitions During 2011

In January 2011, we acquired 13 properties in eight states for approximately $18.4 million, under long-term, net lease agreements. We funded the purchase price with cash on hand.

Proposed Acquisitions

In March 2011, we signed definitive purchase agreements to acquire up to 33 single-tenant, retail, distribution, office and manufacturing properties under long-term, net-lease agreements for approximately $544 million. While our acquisition of these properties is subject to a number of conditions, it is anticipated that the majority of the properties will close during the first half of 2011. If the transaction is completed as planned, we currently have sufficient liquidity from cash on hand and availability under our revolving credit facility to fund the transaction. However, as described under "Use of Proceeds" in this prospectus supplement, we plan to fund a substantial portion of the purchase price of these acquisitions with net proceeds from the sale of our common stock in this offering.

The properties to be acquired are located in 17 different states and consist of over 3.8 million square feet of leasable space. The majority of the lease revenue from these single-tenant properties is generated from investment grade tenants, or their operating subsidiaries, in 11 different industries. The single-tenant distribution properties representing approximately 34% of the total lease revenue from these properties include properties leased to: Aviall Services, Inc., Caterpillar Inc., FedEx Corporation, and International Paper Company or their subsidiaries. The single-tenant retail properties representing approximately 33% of the total lease revenue include properties leased to: American Multi-Cinema, Inc., Cinemark USA, Inc., Regal Cinemas, Inc., and Walgreen Co. or their subsidiaries. The single-tenant office properties representing approximately 25% of the total lease revenue include properties leased to: Fiserv, Inc., Novus International, Inc., Solae, LLC and T-Mobile USA, Inc. or their subsidiaries. The single-tenant manufacturing properties representing approximately 8% of the total lease revenue include properties leased to: Coca-Cola Enterprises, Inc. and MeadWestvaco Corporation or their subsidiaries. The average remaining lease term of the properties is over 11 years, which is consistent with the average remaining lease term of Realty Income's existing portfolio of approximately 2,500 net leased properties.

This approximately $544 million portfolio of properties currently secures approximately $291 million of existing mortgage debt. We would anticipate paying off approximately $223 million of the mortgage debt at, or shortly after, acquiring the properties. We anticipate paying off the remaining $68 million as soon as prepayment penalties and other costs make it economically feasible to do so. It is our intention to continue our policy of owning our properties free from mortgage indebtedness. None of the approximately 2,500 net leased properties we currently own has any mortgage debt.

As noted above, this transaction is subject to a number of conditions. There is the possibility that we may not acquire some or any of these properties, that the closing of some or all of these properties will be delayed or that the terms of the actual transaction may differ, perhaps substantially, from those described in this prospectus supplement. The percentages of total lease revenue referred to above are

Table of Contents

based on annualized lease revenue for recent periods. In the case of properties leased to subsidiaries of the parent companies named above, the parent companies generally have guaranteed the leases.

Acquisitions During 2010

During 2010, we invested $713.5 million in 186 new properties with an initial weighted average contractual lease rate of 7.9%. These 186 properties are located in 14 states, contain over 2.2 million leasable square feet, and are 100% leased with an average lease term of 15.7 years. The 186 new properties we acquired are net-leased to commercial enterprises in the following 13 industries: apparel stores, automotive collision services, automotive service, crafts and novelties, consumer electronics, convenience stores, drug stores, grocery stores, health and fitness, office supplies, restaurants, sporting goods and wine and spirits. There were no acquisitions by Crest in 2010.

The initial weighted average contractual lease rate is computed as estimated contractual net operating income (in a net-leased property that is equal to the aggregate base rent) for the first year of each lease, divided by the estimated total cost of the properties. Since it is possible that a tenant could default on the payment of contractual rent, we cannot assure you that the actual return on the funds invested will remain at the percentages listed above.

$425 Million Acquisition Credit Facility

In December 2010, we entered into a new $425 million revolving acquisition credit facility that replaced our previous $355 million acquisition credit facility that was scheduled to expire in May 2011. The initial term of the new credit facility expires in March 2014 and includes two, one-year extension options. Under the new credit facility, our current investment grade credit ratings provide for financing at the London Interbank Offered Rate, commonly referred to as LIBOR, plus 185 basis points with a facility commitment fee of 35 basis points, for all-in drawn pricing of 220 basis points over LIBOR. However, the credit ratings assigned to us (and, therefore, the interest rate under the new credit facility) could change based upon, among other things, our results of operations and financial condition, and these ratings are subject to ongoing evaluation by credit rating agencies and we cannot assure you that any rating will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. The borrowing rate is not subject to a LIBOR floor. We also have other interest rate options available to us under the new credit facility. For additional information regarding our new credit facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 4 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by reference in the accompanying prospectus.

Issuance of Common Stock

In December 2010, we issued 7,360,000 shares of common stock at a public offering price of $33.70 per share. The proceeds of approximately $235.7 million were used to repay borrowings of $179.8 million under our acquisition credit facility and to fund property acquisitions during December 2010. The remaining net proceeds were used for general corporate purposes and working capital.

In September 2010, we issued 6,198,500 shares of common stock at a public offering price of $33.40 per share. The net proceeds of approximately $196.9 million were used to repay borrowings of $49.7 million under our acquisition credit facility and to fund $126.5 million of property acquisitions during October 2010. The remaining net proceeds were used for general corporate purposes and working capital.

Table of Contents

Net Income Available to Common Stockholders

Net income available to common stockholders was $106.5 million in 2010, a decrease of $343,000 as compared to $106.9 million in 2009. On a diluted per common share basis, net income was $1.01 in 2010 as compared to $1.03 in 2009.

The calculation to determine net income available to common stockholders includes gains from the sale of properties. The amount of gains varies from period to period based on the timing of property sales and can significantly impact net income available to common stockholders.

The gain from the sale of properties during 2010 was $8.7 million, as compared to $8.1 million during 2009.

Funds from Operations Available to Common Stockholders (FFO)

In 2010, our FFO increased by $3.3 million, or 1.7%, to $193.7 million versus $190.4 million in 2009. On a diluted per common share basis, FFO was $1.83 in 2010 compared to $1.84 in 2009, a decrease of $0.01, or 0.5%.

For information on how we define FFO (which is a non-GAAP financial measure), as well as a reconciliation of net income available to common stockholders to FFO, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations Available to Common Stockholders (FFO)" in our Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by reference in the accompanying prospectus.

Adjusted Funds from Operations Available to Common Stockholders (AFFO)

In 2010, our AFFO increased by $4.6 million, or 2.4%, to $197.3 million versus $192.7 million in 2009. On a diluted per common share basis, AFFO was $1.86 in 2010 and 2009.

For information on how we define AFFO (which is a non-GAAP financial measure), as well as a reconciliation of net income available to common stockholders to AFFO, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Adjusted Funds From Operations Available to Common Stockholders (AFFO)" in our Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by reference in the accompanying prospectus.

Table of Contents

The Offering

We are selling all of the shares of common stock offered by this prospectus supplement and no shares are being sold by our stockholders. For a description of our common stock, see "Description of Common Stock" and "Restrictions on Ownership and Transfers of Stock" in the accompanying prospectus.

Issuer	Realty Income Corporation
Common Stock we are offering	7,500,000 shares of common stock, plus up to an additional 1,125,000 shares if the underwriters exercise their overallotment option in full.
Shares to be outstanding after this offering(1)	125,701,155
Use of Proceeds	We intend to use the net proceeds from this sale of common stock to fund a substantial portion of the property acquisitions aggregating approximately $544 million as described above under " Recent Developments Proposed Acquisitions." These acquisitions include up to 33 single-tenant properties in 17 states and it is anticipated that the acquisitions of a majority of the properties will close during the first half of 2011. However, our acquisition of these properties is subject to a number of conditions and it is possible that we will not acquire some or all of these properties, that the closing of some or all of these properties will be delayed or that the terms of the actual transaction will differ, perhaps substantially, from those described in this prospectus supplement. Any remaining net proceeds will be used for general corporate purposes and working capital, which may include additional acquisitions.
Restrictions on Ownership and Transfer	Our charter contains restrictions on the ownership and transfer of our common stock intended to assist us in maintaining our status as a REIT for United States federal and/or state income tax purposes. For example, our charter restricts any person from acquiring actual or constructive ownership of more than 9.8% (in value or number of shares, whichever is more restrictive) of our outstanding shares of common stock, as more fully described in the section entitled "Restrictions on Ownership and Transfers of Stock" in the accompanying prospectus.
NYSE Symbol	"O"

Table of Contents

Risk Factors	An investment in our common stock involves various risks and prospective investors should carefully consider the matters discussed under "Risk Factors" in this prospectus supplement, as well as the other risks described in this prospectus supplement, the accompanying prospectus and the documents incorporated and deemed to be incorporated by reference herein and therein, before making a decision to invest in the common stock.

(1) Based on shares outstanding as of March 7, 2011. Does not include, as of March 7, 2011:

(a) 2,454 shares of common stock issuable upon the exercise of outstanding options;

(b) 2,260,669 additional shares of common stock reserved for issuance under our stock incentive plans; or

(c) Up to 1,125,000 shares of common stock issuable upon exercise of the underwriters' overallotment option.

Our board of directors has authorized and we have declared a monthly distribution of $0.14425 per share of common stock payable on March 15, 2011 to stockholders of record of our common stock as of the close of business on March 1, 2011. Purchasers of shares of common stock in this offering will not be entitled to receive the March 15, 2011 distribution on those shares.

As of March 7, 2011, we had 5,100,000 shares of Class D preferred stock and 8,800,000 shares of Class E preferred stock outstanding. In the event that we liquidate, dissolve or wind up Realty Income, the holders of this preferred stock will have the right to receive $25.00 per share, plus accrued and unpaid dividends, before any payment is made to the holders of our common stock. In addition, this preferred stock ranks senior to our common stock with respect to the payment of dividends and distributions. See the descriptions of the Class D preferred stock and Class E preferred stock contained in their respective Registration Statements on Form 8-A (File No. 001-13374), including any subsequently filed amendments and reports filed for the purpose of updating the descriptions, which are incorporated by reference into the accompanying prospectus.

Table of Contents

RISK FACTORS

In evaluating an investment in our common stock, you should carefully consider the following risk factors and the risk factors described under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by reference in the accompanying prospectus, in addition to the other risks and uncertainties described in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference therein and, if applicable, any free writing prospectus we may provide you in connection with this offering. As used under the captions "Risk Factors" in this prospectus supplement and in our Annual Report on Form 10-K for the year ended December 31, 2010, references to our capital stock include both our common stock, including the common stock offered by this prospectus supplement, and any class or series of our preferred stock, and references to our stockholders include holders of our common stock and any class or series of our preferred stock, in each case unless otherwise expressly stated or the context otherwise requires.

Our business operations may not generate the cash needed to make distributions on our capital stock or to service our indebtedness.

Our ability to make distributions on our common stock and preferred stock and payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make distributions on our common stock and preferred stock, to pay our indebtedness, or to fund our other liquidity needs.

We are subject to risks associated with debt and capital stock financing.

We intend to incur additional indebtedness in the future, including borrowings under our $425 million acquisition credit facility. At March 7, 2011, there were no borrowings outstanding under our $425 million credit facility, and we had a total of $1.6 billion of outstanding unsecured senior debt securities. To the extent that new indebtedness is added to our current debt levels, the related risks that we now face would increase. As a result, we are and will be subject to risks associated with debt financing, including the risk that our cash flow could be insufficient to meet required payments on our debt. We also face variable interest rate risk as the interest rate on our $425 million credit facility is variable and could therefore increase over time. We also face the risk that we may be unable to refinance or repay our debt as it comes due. Given the recent disruptions in the financial markets and the ongoing financial crisis in Europe (which relates primarily to concerns that certain European countries may be unable to repay their national debt), we also face the risk that one or more of the participants in our credit facility may not be able to lend us money.

In addition, our $425 million credit facility contains provisions that could limit or, in certain cases, prohibit the payment of distributions on our common stock and preferred stock. In particular, our $425 million acquisition credit facility provides that, if an event of default (as defined in the credit facility) exists, neither we nor any of our subsidiaries may make any distributions on (except distributions payable in shares of a given class of our stock to the shareholders of that class), or repurchase or redeem, among other things, any shares of our common stock or preferred stock, during any period of four consecutive fiscal quarters in an aggregate amount in excess of the greater of:

- the sum of (a) 95% of our adjusted funds from operations (as defined in the credit facility) for that period plus (b) the aggregate amount of cash distributions on our preferred stock for that period, and

- the minimum amount of cash distributions required to be made to our shareholders in order to maintain our status as a REIT for federal income tax purposes,

Table of Contents

except that we may repurchase or redeem our preferred stock with the net proceeds from the issuance of our common stock or preferred stock. The $425 million credit facility further provides that, in the event of a failure to pay principal, interest or any other amount payable thereunder when due or upon the occurrence of certain events of bankruptcy, insolvency or reorganization with respect to us or with respect to any of our subsidiaries that has guaranteed amounts payable under the credit facility or that meets a significance test set forth in the credit facility, we and our subsidiaries may not pay any distributions on (except distributions payable in shares of a given class of our stock to the shareholders of that class), or repurchase or redeem, among other things, any shares of our common stock or preferred stock. If any event of default under our $425 million credit facility were to occur, it would likely have a material adverse effect on the market price of our outstanding common and preferred stock and on the market value of our debt securities, could limit the amount of distributions payable on our common stock and preferred stock or prevent us from paying those distributions altogether, and may adversely affect our ability to qualify, or prevent us from qualifying, as a REIT.

Our indebtedness could also have other important consequences to holders of our common and preferred stock, including:

- Increasing our vulnerability to general adverse economic and industry conditions;
- Limiting our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements;
- Requiring the use of a substantial portion of our cash flow from operations for the payment of principal and interest on our indebtedness, thereby reducing our ability to use our cash flow to fund working capital, capital expenditures and general corporate requirements;
- Limiting our flexibility in planning for, or reacting to, changes in our business and our industry; and
- Putting us at a disadvantage compared to our competitors with less indebtedness.

The market price of our common stock could be substantially affected by various factors.

The market price of our common stock will depend on many factors, which may change from time to time, including:

- Prevailing interest rates, increases in which may have an adverse effect on the market price of our common stock;
- The market for similar securities issued by other REITs;
- General economic and financial market conditions;
- The financial condition, performance and prospects of us, our tenants and our competitors;
- Changes in financial estimates or recommendations by securities analysts with respect to us, our competitors or our industry;
- Changes in our credit ratings; and
- Actual or anticipated variations in quarterly operating results.

In addition, over the last three years, prices of common stock in the U.S. trading markets have been experiencing extreme price fluctuations, and the market price of our common stock has also fluctuated significantly during this period. As a result of these and other factors, investors who purchase our common stock in this offering may experience a decrease, which could be substantial and rapid, in the market price of our common stock, including decreases unrelated to our operating performance or prospects.

Table of Contents

Negative market conditions or adverse events affecting our existing or potential tenants, or the industries in which they operate, could have an adverse impact on our ability to attract new tenants, re-lease space, collect rent or renew leases, which could adversely affect our cash flow from operations and inhibit growth.

Cash flow from operations depends in part on the ability to lease space to tenants on economically favorable terms. We could be adversely affected by various facts and events over which we have limited or no control, such as:

- Lack of demand in areas where our properties are located;
- Inability to retain existing tenants and attract new tenants;
- Oversupply of space and changes in market rental rates;
- Declines in our tenants' creditworthiness and ability to pay rent, which may be affected by their operations, the current economic situation and competition within their industries from other operators;
- Defaults by and bankruptcies of tenants, failure of tenants to pay rent on a timely basis, or failure of tenants to comply with their contractual obligations; and
- Economic or physical decline of the areas where the properties are located.

At any time, any tenant may experience a downturn in its business that may weaken its operating results or overall financial condition. As a result, a tenant may delay lease commencement, fail to make rental payments when due, decline to extend a lease upon its expiration, become insolvent or declare bankruptcy. Any tenant bankruptcy or insolvency, leasing delay or failure to make rental payments when due could result in the termination of the tenant's lease and material losses to us.

If tenants do not renew their leases as they expire, we may not be able to rent or sell the properties. Furthermore, leases that are renewed, and some new leases for properties that are re-leased, may have terms that are less economically favorable than expiring lease terms, or may require us to incur significant costs, such as renovations, tenant improvements or lease transaction costs. Negative market conditions may cause us to sell vacant properties for less than their carrying value, which could result in impairments. Any of these events could adversely affect cash flow from operations and our ability to make distributions to shareholders and service indebtedness. A significant portion of the costs of owning property, such as real estate taxes, insurance and maintenance, are not necessarily reduced when circumstances cause a decrease in rental revenue from the properties. In a weakened financial condition, tenants may not be able to pay these costs of ownership and we may be unable to recover these operating expenses from them.

Further, the occurrence of a tenant bankruptcy or insolvency could diminish the income we receive from the tenant's lease or leases. In addition, a bankruptcy court might authorize the tenant to terminate its leases with us. If that happens, our claim against the bankrupt tenant for unpaid future rent would be subject to statutory limitations that most likely would be substantially less than the remaining rent we are owed under the leases. In addition, any claim we have for unpaid past rent, if any, may not be paid in full. As a result, tenant bankruptcies may have a material adverse effect on our results of operations. Any of these events could adversely affect cash flow from operations and our ability to make distributions to stockholders and service indebtedness.

Eighty-four of our properties were available for lease or sale at December 31, 2010, of which all but one were single-tenant properties. At December 31, 2010, 32 of our properties under lease were unoccupied and available for sublease by the tenants, all of which were current with their rent and other obligations. During 2010, each of our tenants accounted for less than 10% of our rental revenue.

For the fourth quarter of 2010, our tenants in the restaurant and convenience store industries accounted for approximately 19.1% and 17.4%, respectively, of our rental revenue. A downturn in

either of these industries, whether nationwide or limited to specific sectors of the United States, could adversely affect tenants in these industries, which in turn could have a material adverse effect on our financial position, results of operations and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions on our common stock and preferred stock. Individually, each of the other industries in our property portfolio accounted for less than 10% of our rental revenue for the fourth quarter of 2010. Nevertheless, downturns in these other industries could also adversely affect our tenants, which in turn could also have a material adverse affect on our financial position, results of operations and our ability to pay the principal of and interest on our debt securities and other indebtedness and to make distributions on our common and preferred stock. In addition, we may in the future make additional investments in the restaurant industry and convenience store industry, which would increase these industries' percentages of our rental revenues, thereby increasing the effect that such a downturn in these industries would have on us.

In addition, a substantial number of our properties are leased to middle-market retail and other commercial enterprises that generally have more limited financial and other resources than certain upper-market retail and other commercial enterprises, and therefore, they are more likely to be adversely affected by a downturn in their respective businesses or in the regional or national economy.

Furthermore, we may make selected acquisitions of properties that fall outside our historical focus on freestanding, single-tenant, net-lease retail locations in the United States. We may be exposed to a variety of new risks by expanding into new property types and/or new jurisdictions outside the United States and properties leased to tenants engaged in non-retail businesses. For example, the proposed acquisitions described above under "Prospectus Supplement Summary Recent Developments Proposed Acquisitions" include distribution properties, office properties and manufacturing properties leased to tenants in a range of non-retail businesses. These risks may include a limited knowledge and understanding of the industry in which the tenant operates, limited experience in managing certain types of new properties, new types of real estate locations and lease structures, and new laws and culture of any non-U.S. jurisdiction.

Increases in market interest rates may adversely affect the price of our common stock.

One of the factors that influence the price of our common stock in public trading markets is the annual yield from distributions on our common stock as compared to yields on other financial instruments. Thus, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the market price of our common stock.

Our charter contains restrictions upon ownership of our common stock.

Our charter contains restrictions on ownership and transfer of our common stock intended to assist us in maintaining our status as a REIT for United States federal and/or state income tax purposes. For example, our charter restricts any person from acquiring actual or constructive ownership of more than 9.8% (in value or number of shares, whichever is more restrictive) of our outstanding common stock. See "Restrictions on Ownership and Transfers of Stock" in the accompanying prospectus. These restrictions could have anti-takeover effects and could reduce the possibility that a third party will attempt to acquire control of Realty Income, which could adversely affect the market price of our common stock.

We could issue preferred stock without stockholder approval.

Our charter authorizes our board of directors to issue up to 20,000,000 shares of preferred stock, including convertible preferred stock, without stockholder approval. The board of directors may establish the preferences, rights and other terms of any preferred stock we may issue, including the right to vote and the right to convert into common stock any shares issued. The issuance of preferred

Table of Contents

stock could delay or prevent a tender offer or a change of control even if a tender offer or a change of control were in our stockholders' interests, which could adversely affect the market price of our common stock. As of March 7, 2011, we had 5,100,000 shares of Class D preferred stock and 8,800,000 shares of Class E preferred stock outstanding. See "General Description of Preferred Stock" in the accompanying prospectus and the descriptions of the Class D preferred stock and Class E preferred stock contained in their respective Registration Statements on Form 8-A (File No. 001-13374), including any subsequently filed amendments and reports filed for the purpose of updating the descriptions, which are incorporated by reference into the accompanying prospectus.

Disruptions in the financial markets could affect our ability to obtain financing on reasonable terms and have other adverse effects on us and the market price of our common stock.

Over the last three years, the United States stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks and debt securities to fluctuate substantially and the spreads on prospective debt financings to widen considerably. More recently, the financial crisis in Europe (which relates primarily to concerns that certain European countries may be unable to pay their national debt) has had a similar, although less pronounced, effect. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in certain cases have resulted in the unavailability of certain types of financing. More recently, unrest in certain Middle Eastern countries and the resultant increase in petroleum prices has added to the uncertainty in the capital markets. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional financing at reasonable terms, which may negatively affect our ability to make acquisitions. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of financing or difficulties in obtaining financing. These events in the stock and credit markets may make it more difficult or costly for us to raise capital through the issuance of our common stock or preferred stock or debt securities. These disruptions in the financial markets may have a material adverse effect on the market value of our common stock, preferred stock and debt securities, the income we receive from our properties and the lease rates we charge for our properties, as well as other unknown adverse effects on us or the economy in general.

Table of Contents

USE OF PROCEEDS

We intend to use the net proceeds from this sale of common stock to fund a substantial portion of the property acquisitions aggregating approximately $544 million as described above under "Prospectus Supplement Summary Recent Developments Proposed Acquisitions." These acquisitions include up to 33 single-tenant properties in 17 states and it is anticipated that the acquisitions of a majority of the properties will close during the first half of 2011. However, our acquisition of these properties is subject to a number of conditions and it is possible that we will not acquire some or all of these properties, that the closing of some or all of these properties will be delayed or that the terms of the actual transaction will differ, perhaps substantially, from those described in this prospectus supplement. Any remaining net proceeds will be used for general corporate purposes and working capital, which may include additional acquisitions.

We estimate the net proceeds from the sale of common stock offered by this prospectus supplement will be approximately $248.3 million, or approximately $285.5 million if the underwriters' overallotment option is exercised in full, in each case after deducting the estimated underwriting discount and estimated expenses payable by us.

Pending application of the net proceeds for the purposes described above, we intend to temporarily invest the net proceeds in short-term government securities, short-term money market funds or bank certificates of deposit.

Some or all of the underwriters and/or their affiliates have provided and in the future may provide investment banking, commercial banking and/or other financial services, including the provision of credit facilities, to us in the ordinary course of business for which they have received and may in the future receive compensation. In particular, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC are the joint book-running managers of this offering, and Wells Fargo Securities, LLC is also the sole lead arranger and sole lead bookrunner under our $425 million credit facility, Wells Fargo Bank, N.A., an affiliate of Wells Fargo Securities, LLC, is administrative agent and a lender under our $425 million credit facility, Bank of America, N.A., an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, is a co-syndication agent and a lender under our $425 million credit facility and The Bank of New York Mellon, an affiliate of BNY Mellon Capital Markets, LLC (which is one of the underwriters), is documentation agent and a lender under our $425 million credit facility. In addition, affiliates of some of the other underwriters participating in this offering are lenders under our $425 million credit facility. As of March 7, 2011, there were no borrowings outstanding under our $425 million acquisition credit facility. However, if we were to incur borrowings under this credit facility in the future and use net proceeds from this offering to repay any of those borrowings, lenders affiliated with some of the underwriters of this offering would receive a portion of the net proceeds from this offering through the repayment of borrowings under that facility. In addition, as described above under "Prospectus Supplement Summary Recent Developments Proposed Acquisitions," the $544 million portfolio of properties that we plan to acquire serves as collateral for approximately $291 million of mortgage loans, some of which loans were made by Wells Fargo Bank, N.A. As noted above, we plan to repay those loans at or after the acquisition of that portfolio. Accordingly, if we were to use proceeds from this offering to repay all or a portion of the mortgage loans made by Wells Fargo Bank, N.A., then this lender, which is an affiliate of Wells Fargo Securities, LLC, would receive a portion of the net proceeds of this offering through the repayment of those loans.

Table of Contents

PRICE RANGE OF COMMON STOCK AND DISTRIBUTION HISTORY

On March 8, 2011, the last reported sales price per share of our common stock on the NYSE was $35.25. The table below sets forth for the periods indicated the high and low sales prices per share of our common stock, as reported by the NYSE, and distributions declared per share of our common stock.

	Price Per Share of Common Stock		Distributions Declared
	High	Low	Per Share(1)
2009			
First Quarter	$ 23.41	$ 14.26	$ 0.425563
Second Quarter	23.23	17.90	0.426500
Third Quarter	28.20	19.83	0.427438
Fourth Quarter	27.53	22.17	0.428375
2010			
First Quarter	31.18	25.30	0.429313
Second Quarter	34.53	28.42	0.430250
Third Quarter	34.79	29.12	0.431188
Fourth Quarter	35.97	32.92	0.432125
2011			
First Quarter, through March 8	36.12	33.40	0.288500(2)

(1) Common stock cash distributions currently are declared monthly by us, based on financial results for the prior months.

(2) Our board of directors has authorized and we have declared a monthly distribution of $0.14425 per share of common stock payable on March 15, 2011 to stockholders of record of our common stock as of the close of business on March 1, 2011. Purchasers of shares of common stock in this offering will not be entitled to receive the March 15, 2011 distribution on those shares. The March 15, 2011, common stock dividend is reflected in the forgoing table in distributions declared per share for the first quarter of 2011.

Future distributions will be at the discretion of our board of directors and will depend on, among other things, our results of operations, funds from operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986, as amended, our debt service requirements and any other factors our board of directors deems relevant. In addition, our $425 million credit facility contains provisions that could limit or, in certain cases, prohibit the payment of distributions on our common stock and preferred stock. In particular, our $425 million acquisition credit facility provides that, if an event of default (as defined in the credit facility) exists, neither we nor any of our subsidiaries may make any distributions on (except distributions payable in shares of a given class of our stock to the shareholders of that class), or repurchase or redeem, among other things, any shares of our common stock or preferred stock, during any period of four consecutive fiscal quarters in an aggregate amount in excess of the greater of:

- the sum of (a) 95% of our adjusted funds from operations (as defined in the credit facility) for that period plus (b) the aggregate amount of cash distributions on our preferred stock for that period, and

- the minimum amount of cash distributions required to be made to our shareholders in order to maintain our status as a REIT for federal income tax purposes,

except that we may repurchase or redeem our preferred stock with the net proceeds from the issuance of our common stock or preferred stock. The $425 million credit facility further provides that, in the

Table of Contents

event of a failure to pay principal, interest or any other amount payable thereunder when due or upon the occurrence of certain events of bankruptcy, insolvency or reorganization with respect to us or with respect to any of our subsidiaries that has guaranteed amounts payable under the credit facility or that meets a significance test set forth in the credit facility, we and our subsidiaries may not pay any distributions on (except distributions payable in shares of a given class of our stock to the shareholders of that class), or repurchase or redeem, among other things, any shares of our common stock or preferred stock.

Accordingly, although we expect to continue our policy of paying monthly distributions in cash on our common stock, we cannot guarantee that we will maintain the current level of cash distributions, that we will continue our pattern of increasing cash distributions per share, or what our actual distribution yield will be for any future period.

Table of Contents

PROPERTY PORTFOLIO INFORMATION

At December 31, 2010, we owned a diversified portfolio:

- Of 2,496 properties;
- With an occupancy rate of 96.6%, or 2,412 properties occupied and only 84 properties available for lease;
- Leased to 122 different retail and other commercial enterprises doing business in 32 separate industries;
- Located in 49 states;
- With over 21.2 million square feet of leasable space; and
- With an average leasable space per property of approximately 8,500 square feet.

In addition to our real estate portfolio, our subsidiary, Crest, had an inventory of three properties located in three states at December 31, 2010. These properties are valued at $3.0 million and are classified as held for investment. No Crest properties were classified as held for sale at December 31, 2010.

At December 31, 2010, of our 2,496 properties, 2,402 were leased under net-lease agreements. A net lease typically requires the tenant to be responsible for minimum monthly rent and property operating expenses including property taxes, insurance and maintenance. In addition, our tenants are typically responsible for future rent increases based on increases in the consumer price index (typically subject to ceilings), additional rent calculated as a percentage of the tenants' gross sales above a specified level, or fixed increases.

Our net-lease agreements generally:

- Are for initial terms of 15 to 20 years;
- Require the tenant to pay minimum monthly rents and property operating expenses (taxes, insurance and maintenance); and
- Provide for future rent increases based on increases in the consumer price index (typically subject to ceilings), additional rent calculated as a percentage of the tenants' gross sales above a specified level, or fixed increases. Where leases provide for rent increases based on increases in the consumer price index, generally these increases become part of the new permanent base rent. Where leases provide for percentage rent, this additional rent is typically payable only if the tenants' gross sales, for a given period (usually one year), exceed a specified level and is then typically calculated as a percentage of only the amount of gross sales in excess of that level.

Table of Contents

Industry Diversification

The following table sets forth certain information regarding Realty Income's property portfolio (excluding properties owned by Crest) classified according to the business of the respective tenants, expressed as a percentage of our total rental revenue:

Item 1A.

RISK FACTORS (Continued)

In addition, changes to regulations may require the Company to modify existing processing facilities and/or processes which could significantly increase operating costs and negatively impact operating results.

The Company is exposed to potential business disruption, including but not limited to transportation services, and other serious adverse impacts resulting from acts of terrorism or war, natural disasters and severe weather conditions, and accidents which could adversely affect the Company’s operating results.

The assets and operations of the Company are subject to damage and disruption from various events which include, but are not limited to, acts of terrorism or war, natural disasters and severe weather conditions, accidents, explosions, and fires.

The potential effects of the conditions cited above include, but are not limited to, extensive property damage, extended business interruption, personal injuries, and damage to the environment. The Company’s operations also rely on dependable and efficient transportation services. A disruption in transportation services could result in problems supplying materials to the Company’s facilities and impair the Company’s ability to deliver products to its customers in a timely manner.

The Company’s business is capital intensive in nature and the Company relies on cash generated from its operations and external financing to fund its growth and ongoing capital needs. Limitations on access to external financing could adversely affect the Company’s operating results.

The Company requires significant capital to operate its current business and fund its growth strategy. The Company’s working capital requirements are directly affected by the price of agricultural commodities, which may fluctuate significantly and change quickly. The Company also requires substantial capital to maintain and upgrade its extensive network of storage facilities, processing plants, refineries, mills, ports, transportation assets and other facilities to keep pace with competitive developments, technological advances, regulations and changing safety standards in the industry. Moreover, the expansion of the Company’s business and pursuit of acquisitions or other business opportunities may require significant amounts of capital. If the Company is unable to generate sufficient cash flows or raise adequate external financing, it may restrict the Company’s current operations and its growth opportunities which could adversely affect the Company’s operating results.

The Company’s risk management strategies may not be effective.

The Company’s business is affected by fluctuations in agricultural commodity prices, transportation costs, energy prices, interest rates, and foreign currency exchange rates. The Company engages in hedging strategies to manage these risks. However, these hedging strategies may not be successful in mitigating the Company’s exposure to these fluctuations. See “Item 7A. Quantitative and Qualitative Disclosures About Market Risk.”

Item 1B. UNRESOLVED STAFF COMMENTS

The Company has no unresolved staff comments.

Item 2. PROPERTIES

The Company owns or leases the following processing plants and procurement facilities:

	Processing Plants			Procurement Facilities		
	United States	International	Total	United States	International	Total
Owned	127	108	235	182	109	291
Leased	1	3	4	15	24	39
	128	111	239	197	133	330

The Company's operations are such that most products are efficiently processed near the source of raw materials. Consequently, the Company has many plants strategically located in agricultural commodity producing areas. The annual volume of commodities processed will vary depending upon availability of raw materials and demand for finished products.

To enhance the efficiency of transporting large quantities of raw materials and finished products between the Company's procurement facilities and processing plants and also the final delivery of products to our customers around the world, the Company owns or leases approximately 1,700 barges, 23,500 rail cars, 700 trucks, and 1,600 trailers.

Oilseeds Processing

	Processing Plants			Procurement Facilities		
	United States	International	Total	United States	International	Total
Owned	48	64	112	15	86	101
Leased	-	-	-	-	15	15
	48	64	112	15	101	116

The Company operates twenty-three domestic and twenty-one international oilseed crushing plants with a daily processing capacity of approximately 93,000 metric tons (3.4 million bushels). The domestic plants are located in Georgia, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Carolina, Tennessee, and Texas. The international plants are located in Bolivia, Brazil, Canada, England, Germany, India, Mexico, the Netherlands, Poland, and Ukraine.

The Company operates thirteen domestic oilseed refineries in Georgia, Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, North Dakota, and Tennessee, as well as eighteen international refineries in Bolivia, Brazil, Canada, England, Germany, India, the Netherlands, and Poland. The Company packages oils at ten international plants located in Bolivia, Brazil, England, Germany, India, Peru, and Poland. The Company operates one domestic and six international biodiesel plants located in North Dakota, Brazil, Germany, and India. In addition, the Company operates three fertilizer blending plants in Brazil.

The Oilseeds Processing segment operates fifteen domestic country grain elevators as adjuncts to its processing plants. These elevators, with an aggregate storage capacity of eight million bushels, are located in Illinois, Missouri, North Carolina, and Ohio.

This segment also operates 101 international elevators, including port facilities, in Bolivia, Brazil, Canada, Germany, the Netherlands, Paraguay, and Poland. These facilities have a storage capacity of approximately 120 million bushels.

Item 2. PROPERTIES (Continued)

The Company operates two soy protein specialty plants in Illinois and one plant in the Netherlands. Lecithin products are produced at six domestic and four international plants in Illinois, Iowa, Nebraska, Canada, Germany, and the Netherlands. The Company produces soy-based foods at a plant in North Dakota and produces vitamin E, sterols, and isoflavones at plants in Illinois. The Company also operates a specialty oils and fats plant in France that produces various value-added products for the pharmaceutical, cosmetic and food industries.

Corn Processing

	Processing Plants			Procurement Facilities		
	United States	International	Total	United States	International	Total
Owned	13	-	13	5	-	5

The Company operates five wet corn milling plants and two dry corn milling plants with a daily grind capacity of approximately 50,000 metric tons (2.0 million bushels). The Company also operates corn germ extraction plants, sweeteners and starches production facilities, and bioproducts production facilities in Illinois, Iowa, Minnesota, Nebraska, North Carolina, and North Dakota. The Corn Processing segment also operates five domestic grain terminal elevators as adjuncts to its processing plants. These elevators, with an aggregate storage capacity of thirteen million bushels, are located in Minnesota.

Agricultural Services

	Processing Plants			Procurement Facilities		
	United States	International	Total	United States	International	Total
Owned	29	5	34	162	17	179
Leased	1	2	3	15	7	22
	30	7	37	177	24	201

The Company operates 154 domestic terminal, sub-terminal, country, and river elevators covering the major grain producing states, including 58 country elevators, 88 sub-terminal, terminal and river loading facilities, and eight grain export elevators in Florida, Louisiana, Ohio, and Texas. Elevators are located in Arkansas, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, Ohio, Oklahoma, Tennessee, and Texas. These elevators have an aggregate storage capacity of approximately 400 million bushels. The Company has six grain export elevators in Argentina, Mexico, St. Vincent and Ukraine that have an aggregate storage capacity of approximately 30 million bushels. The Company has eleven country elevators located in the Dominican Republic, Romania, and Ukraine. In addition, the Company has seven river elevators located in Romania and Ukraine.

The Company operates 23 domestic edible bean procurement facilities with an aggregate storage capacity of approximately eleven million bushels, located in Colorado, Idaho, Michigan, Minnesota, North Dakota, and Wyoming.

The Company operates a rice mill located in California, an animal feed facility in Illinois, and an edible bean plant in North Dakota. The Company also operates 27 domestic and seven international formula feed and animal health and nutrition plants. The domestic plants are located in Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, Ohio, Pennsylvania, Texas, Washington, and Wisconsin. The international plants are located in Canada, China, Puerto Rico, and Trinidad & Tobago.

Item 2. PROPERTIES (Continued)

Other

	Processing Plants			Procurement Facilities		
	United States	International	Total	United States	International	Total
Owned	37	39	76	-	6	6
Leased	-	1	1	-	2	2
	37	40	77	-	8	8

The Company operates 23 domestic wheat flour mills, a domestic bulgur plant, two domestic corn flour mills, two domestic milo mills, and 20 international flour mills with a total daily milling capacity of approximately 27,000 metric tons (1.0 million bushels). The Company also operates six bakery mix plants. These plants and related properties are located in California, Illinois, Indiana, Kansas, Minnesota, Missouri, Nebraska, New York, North Carolina, Oklahoma, Pennsylvania, Tennessee, Texas, Washington, Barbados, Belize, Canada, England, Grenada, and Jamaica. The Company operates two formula feed plants as adjuncts to the wheat flour mills in Belize and Grenada, a rice milling plant in Jamaica, and a starch and gluten plant in Iowa and one in Canada. The Company also operates a honey drying operation in Wisconsin.

The Company operates four domestic and thirteen international chocolate and cocoa bean processing plants with a total daily production capacity of approximately 3,000 metric tons. The domestic plants are located in Massachusetts, New Jersey, Pennsylvania, and Wisconsin, and the international plants are located in Belgium, Brazil, Canada, England, Germany, Ghana, Ivory Coast, the Netherlands, and Singapore. The Company operates eight cocoa bean procurement and handling facilities/port sites in Brazil, Indonesia, and Ivory Coast.

Item 3. LEGAL PROCEEDINGS

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Market Prices and Dividends

The Company's common stock is listed and traded on the New York Stock Exchange and the Frankfurt Stock Exchange. The following table sets forth, for the periods indicated, the high and low market prices of the common stock as reported on the New York Stock Exchange and common stock cash dividends declared per share.

	Market Price High	Market Price Low	Cash Dividends Per Share
Fiscal 2009-Quarter Ended			
June 30	$ 29.40	$ 23.13	$ 0.140
March 31	29.50	24.08	0.140
December 31	29.08	13.53	0.130
September 30	33.91	19.70	0.130
Fiscal 2008-Quarter Ended			
June 30	$ 48.95	$ 31.65	$ 0.130
March 31	47.18	38.11	0.130
December 31	47.33	32.43	0.115
September 30	37.02	31.28	0.115

The number of registered shareholders of the Company's common stock at June 30, 2009, was 16,877. The Company expects to continue its policy of paying regular cash dividends, although there is no assurance as to future dividends because they are dependent on future earnings, capital requirements, and financial condition.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)

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 to be Purchased Under the Program (2)
April 1, 2009 to April 30, 2009	28	$ 28.206	28	71,346,655
May 1, 2009 to May 31, 2009	10,043	24.923	106	71,346,549
June 1, 2009 to June 30, 2009	29	26.910	29	71,346,520
Total	10,100	$ 24.937	163	71,346,520

(1) Total shares purchased represents those shares purchased as part of the Company's publicly announced share repurchase program described below and shares received as payment of the exercise price for stock option exercises. During the three-month period ended June 30, 2009, the Company received 9,937 shares as payment of the exercise price for stock option exercises.

(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 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)

Performance Graph

The graph below compares five-year returns of the Company's common stock with those of the S&P 500 Index and the S&P Consumer Staples Index. The graph assumes all dividends have been reinvested and assumes an initial investment of $100 on June 30, 2004. Information in the graph is presented on a June 30 fiscal year basis.

Graph produced by Research Data Group, Inc.

Item 6. SELECTED FINANCIAL DATA

Selected Financial Data
(In millions, except ratio and per share data)

	2009	2008	2007	2006	2005
Net sales and other operating income	$ 69,207	$ 69,816	$ 44,018	$ 36,596	$ 35,943
Depreciation	730	721	701	657	665
Net earnings	1,707	1,802	2,162	1,312	1,044
Basic earnings per common share	2.66	2.80	3.32	2.01	1.60
Diluted earnings per common share	2.65	2.79	3.30	2.00	1.59
Cash dividends	347	316	281	242	209
Per common share	0.54	0.49	0.43	0.37	0.32
Working capital	$ 10,523	$ 10,834	$ 7,254	$ 5,661	$ 4,344
Current ratio	2.2	1.7	1.9	1.9	1.8
Inventories	7,782	10,160	6,060	4,677	3,907
Net property, plant, and equipment	7,950	7,125	6,010	5,293	5,184
Gross additions to property, plant, and equipment	2,059	1,789	1,404	841	647
Total assets	31,585	37,056	25,118	21,269	18,598
Long-term debt	7,800	7,690	4,752	4,050	3,530
Shareholders' equity	13,499	13,490	11,253	9,807	8,435
Per common share	21.03	20.95	17.50	14.95	12.96
Weighted average shares outstanding-basic	643	644	651	654	654
Weighted average shares outstanding-diluted	644	646	656	656	656

Significant items affecting the comparability of the financial data shown above are as follows.

- Net earnings for 2009 include a non-cash charge of $275 million ($171 million after tax, equal to $0.27 per share) related to currency derivative losses of the Company's equity investee, Gruma S.A.B. de C.V. and a $158 million income tax charge (equal to $0.24 per share) related to the reorganization of the holding company structure in which the Company holds a portion of its equity investment in Wilmar International Limited. For further information concerning these two significant items see Notes 6 and 12 in Item 8, Financial Statements and Supplementary Data (Item 8).

- Net earnings for 2007 include a gain of $440 million ($286 million after tax, equal to $0.44 per share) related to the exchange of the Company's interests in certain Asian joint ventures for shares of Wilmar International Limited, realized securities gains of $357 million ($225 million after tax, equal to $0.34 per share) related to the Company's sale of equity securities of Tyson Foods Inc. and Overseas Shipholding Group Inc. and a $209 million gain ($132 million after tax, equal to $0.20 per share) related to the sale of businesses.

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Net earnings for 2005 include a gain of $159 million ($119 million after tax, equal to $0.18 per share) related to the sale of the Company’s interest in Tate & Lyle PLC.

Item 7. 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 are aggregated and classified as Other.

The Oilseeds Processing segment includes activities related to the origination and crushing of oilseeds such as soybeans, cottonseed, sunflower seeds, canola, rapeseed, peanuts, and flaxseed into vegetable oils and protein meals principally for the food and feed industries. In addition, oilseeds and oilseed products may be processed 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 protein 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 unconsolidated affiliate in Asia, Wilmar International Limited.

The Corn Processing segment includes activities related to the production of sweeteners, starches, dextrose, and syrups primarily 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, rice, and barley, and resells these commodities primarily as food and feed ingredients for the agricultural processing industry. In addition, the Agricultural Services segment includes activities related to edible bean procurement, rice milling, formula feed, and animal health and nutrition. Agricultural Services’ grain sourcing and transportation network also 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 merchant of agricultural commodities and processed products.

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, cocoa into chocolate and cocoa products, barley into malt, and sugarcane into sugar and ethanol. Other also includes financial activities related to banking, captive insurance, private equity fund investments, and futures commission merchant activities.

Operating Performance Indicators

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 and minimal impact on the gross profit of underlying transactions. As a result, changes in gross profit of these businesses do not necessarily correspond to the changes in net sales and other operating income amounts.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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 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, British pound, and Canadian dollar, 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. The impact of these currency exchange rate changes, where significant, is discussed below.

The Company measures the performance of its business segments using key operating statistics such as segment operating profit, return on fixed capital investment, return on net assets, and return on equity. 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 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."

2009 Compared to 2008

As an agricultural commodity-based business, the Company is subject to a variety of market factors which affect the Company's operating results. Net corn costs increased significantly in 2009 compared to 2008, negatively impacting ethanol margins, and, to a lesser extent, sweeteners and starches margins as the higher net corn costs were only partially offset by increased selling prices for sweeteners and starches. Additionally, lower demand for gasoline, decreased gasoline prices and excess ethanol industry capacity negatively impacted ethanol margins. Demand for agricultural commodities, freight, and other products was weaker during 2009 in line with the downturn in the global economy. Results were negatively impacted by decreased equity earnings in unconsolidated affiliates including significant non-cash charges related to currency derivative losses incurred by the Company's equity investee, Gruma S.A.B. de C.V., and losses from the Company's managed fund investments.

Earnings before income taxes for 2009 include a credit of $517 million from the effect of changing commodity prices on LIFO inventory valuation reserves, compared to a charge of $569 million in 2008.

Income taxes for 2009 include charges of $158 million resulting from the restructuring of a holding company in which the Company holds a portion of its equity investment in Wilmar International Limited.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Analysis of Statements of Earnings

Net sales and other operating income decreased 1% to $69.2 billion due to foreign exchange translation impacts and decreased sales volumes partially offset by higher average selling prices. Net sales and other operating income increased $3.0 billion due to higher average selling prices primarily related to higher underlying commodity costs, decreased $2.0 billion due to foreign exchange translation impacts, and decreased $1.6 billion due to lower sales volumes and other.

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

	2009	2008	Change
	(In millions)		
Oilseeds Processing			
Crushing & Origination	$15,579	$14,477	$1,102
Refining, Packaging, Biodiesel & Other	8,760	8,588	172
Asia	179	214	(35)
Total Oilseeds Processing	24,518	23,279	1,239
Corn Processing			
Sweeteners & Starches	3,785	3,546	239
Bioproducts	3,938	3,591	347
Total Corn Processing	7,723	7,137	586
Agricultural Services			
Merchandising & Handling	31,342	33,749	(2,407)
Transportation	242	219	23
Total Agricultural Services	31,584	33,968	(2,384)
Other			
Wheat, Cocoa, Malt & Sugar	5,272	5,335	(63)
Financial	110	97	13
Total Other	5,382	5,432	(50)
Total	$69,207	$69,816	$(609)

Oilseeds Processing sales increased 5% to $24.5 billion due principally to increased sales volumes of merchandised oilseeds and biodiesel partially offset by lower sales volumes of vegetable oil and protein meal. Corn Processing sales increased 8% to $7.7 billion due principally to higher sales volumes of ethanol and higher average selling prices of sweeteners and starches, partially offset by lower average selling prices of ethanol. Agricultural Services sales decreased 7% to $31.6 billion due principally to lower sales volumes of grain. Other sales decreased 1% to $5.4 billion primarily due to the sale of the Company's malting business during the first quarter of fiscal year 2009 and lower average selling prices of wheat flour. Partially offsetting these decreases were higher average selling prices of cocoa products and increased chocolate sales volumes.

Cost of products sold decreased 1% to $65.1 billion, in line with the decrease in net sales and other operating income. Cost of products sold decreased $856 million due principally to decreased sales volumes, decreased LIFO inventory valuations and approximately $1.9 billion from the impact of foreign currency translation, partially offset by increased agricultural commodity costs. Manufacturing expenses decreased $215 million primarily due to decreased energy and fuel costs.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Selling, general and administrative expenses of $1.4 billion were comparable to 2008. Decreased employee-related costs and favorable impacts from foreign currency translation were offset by increases in provisions for doubtful accounts.

Other (income) expense – net decreased $344 million primarily due to decreased results from equity earnings of unconsolidated affiliates of $270 million, and decreased investment income. Equity earnings in unconsolidated affiliates included $275 million of foreign exchange derivative losses incurred by the Company's equity investee, Gruma S.A.B. de C.V.

Operating profit by segment is as follows:

	2009	2008	Change
	(In millions)		
Oilseeds Processing			
Crushing & Origination	$ 767	$ 727	$ 40
Refining, Packaging, Biodiesel & Other	265	181	84
Asia	248	132	116
Total Oilseeds Processing	1,280	1,040	240
Corn Processing			
Sweeteners & Starches	500	557	(57)
Bioproducts	(315)	404	(719)
Total Corn Processing	185	961	(776)
Agricultural Services			
Merchandising & Handling	832	873	(41)
Transportation	162	144	18
Total Agricultural Services	994	1,017	(23)
Other			
Wheat, Cocoa, Malt & Sugar	51	217	(166)
Financial	(57)	206	(263)
Total Other	(6)	423	(429)
Total Segment Operating Profit	2,453	3,441	(988)
Corporate	81	(817)	898
Earnings Before Income Taxes	$ 2,534	$ 2,624	$ (90)

Oilseeds Processing operating profit increased 23% to $1.3 billion. Crushing and origination results increased $40 million. Improved global crushing margins were partially offset by lower fertilizer sales volumes and margins and lower North American crushing volumes due to decreased demand for vegetable oil and protein meal. Refining, packaging, biodiesel and other results increased $84 million due principally to higher biodiesel sales volumes in South America and increased average margins for value-added products. 2008 results for refining, packaging, biodiesel and other included asset abandonment charges of $27 million. Asia results increased $116 million due principally to the Company's share in improved operating results of Wilmar International Limited.

Corn Processing operating profits decreased 81% to $185 million. Sweeteners and starches decreased $57 million due to the impact of higher net corn costs partially offset by higher average sweetener and starches selling prices. Bioproducts operating profit decreased $719 million for the year as ethanol and lysine margins declined significantly due to higher corn costs and lower average selling prices. Ethanol margins were also impacted by lower demand for gasoline, decreased gasoline prices, and excess ethanol industry capacity.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Agricultural Services operating profits decreased 2% to $994 million. Merchandising and handling profit decreased $41 million. Merchandising margins moderated as demand for commodities slowed following the downturn in the global economy. Transportation results increased $18 million due to higher barge freight rates.

Other operating profits decreased 101% to a loss of $6 million. Wheat, cocoa, malt, and sugar processing operating profit decreased $166 million for the year primarily due to equity losses from the Company's investment in Gruma, partially offset by improved cocoa and wheat processing margins. Financial operating profit decreased $263 million due to losses on managed fund investments compared to gains for the year ended June 30, 2008, increased captive insurance loss provisions and decreased interest income and lower marketable security gains of the Company's brokerage service business.

Corporate results increased $898 million to $81 million, primarily due to the effects of changing commodity prices on LIFO inventory valuations which resulted in credits of $517 million for the year ended June 30, 2009, compared to $569 million of LIFO charges for the year ended June 30, 2008. Unallocated interest expense increased $238 million primarily due to higher long-term debt interest expense and decreased interest income. Corporate interest income decreased due to lower short-term interest rates and lower working capital requirements of the operating segments.

The Company's effective tax rate during 2009 was 32.6% compared to 31.3% during 2008. Income taxes increased $5 million. Lower pre-tax earnings and positive impacts from favorable changes in geographic mix of earnings, currency translation impacts in South America, lower tax rates in certain foreign jurisdictions, and return to provision adjustments, were offset by charges of $158 million resulting from the restructuring of a holding company in which the Company holds a portion of its equity investment in Wilmar International Limited.

2008 Compared to 2007

As an agricultural commodity-based business, the Company is subject to a variety of market factors which affect the Company's operating results. Strong demand for agricultural commodities and processed products challenged the global supply chain and provided exceptional margin opportunities in 2008. Strong global demand for protein meal and vegetable oil and strong fertilizer demand in South America positively impacted Oilseeds Processing results. The market price of corn rose due to increased demand, resulting in higher raw material costs for Corn Processing which were only partially passed on in the form of increased selling prices for sweeteners and starches. Average ethanol selling prices decreased due to additional supply entering the market. Large North American crops combined with global wheat shortages created favorable conditions in agricultural merchandising and handling operations. Increased commodity costs resulted in larger LIFO inventory valuation reserves.

Earnings before income taxes decreased due principally to gains totaling $1.0 billion before income tax on business disposals recorded in 2007 including $440 million related to the exchange of the Company's interest in certain Asian joint ventures for shares of Wilmar International Limited (the Wilmar gain), a $357 million realized securities gain from sales of the Company's equity securities of Tyson Foods, Inc. and Overseas Shipholding Group, Inc., a gain of $153 million from the sale of the Company's interest in Agricore United, and a $53 million gain from the sale of the Company's Arkady food ingredient business.

Earnings before income taxes for 2008 include a charge of $569 million from the effect of changing commodity prices on LIFO inventory valuations, compared to a charge of $207 million in 2007. Earnings before income taxes for 2008 also include a $32 million charge related to abandonment and write-down of long-lived assets, a $38 million gain on sales of securities, and a $21 million gain on the disposal of long-lived assets. Earnings before income taxes for 2007 include charges of $46 million related to the repurchase of $400 million of the Company’s outstanding debentures and $21 million related to abandonment and write-down of long-lived assets.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Analysis of Statements of Earnings

Net sales and other operating income increased 59% to $69.8 billion. Increased selling prices of agricultural commodities and oilseed processing products and, to a lesser extent, corn processing products and wheat flour accounted for 85% of the increase and higher sales volumes, principally of agricultural commodities, ethanol, and biodiesel, also contributed to the increase in net sales. In addition, net sales and other operating income increased $1.83 billion, or 4%, due to currency rate fluctuations.

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

	2008	2007	Change
	(In millions)		
Oilseeds Processing			
Crushing & Origination	$14,477	$8,036	$6,441
Refining, Packaging, Biodiesel & Other	8,588	5,758	2,830
Asia	214	149	65
Total Oilseeds Processing	23,279	13,943	9,336
Corn Processing			
Sweeteners & Starches	3,546	2,761	785
Bioproducts	3,591	3,064	527
Total Corn Processing	7,137	5,825	1,312
Agricultural Services			
Merchandising & Handling	33,749	20,222	13,527
Transportation	219	197	22
Total Agricultural Services	33,968	20,419	13,549
Other			
Wheat, Cocoa & Malt	5,335	3,738	1,597
Financial	97	93	4
Total Other	5,432	3,831	1,601
Total	$69,816	$44,018	$25,798

Oilseeds Processing sales increased 67% to $23.3 billion due principally to increased average selling prices resulting primarily from increases in underlying commodity costs and from continuing strong demand for vegetable oil, biodiesel and protein meal. Sales volumes of vegetable oil, protein meal and biodiesel also increased. Corn Processing sales increased 23% to $7.1 billion. Good demand for sweeteners and starches resulted in higher average selling prices. Bioproducts sales increased primarily as a result of increased ethanol sales volumes partially offset by lower average ethanol selling prices. Increased ethanol sales volumes reflect higher gasoline prices, improved gasoline blending economics and additional demand, principally from newly-opened markets in the southeastern United States. Agricultural Services sales increased 66% to $34.0 billion primarily due to increased underlying commodity costs, and to a lesser extent, increased sales volumes. Sales in the Other segment increased 42% to $5.4 billion primarily due to higher average selling prices of wheat flour and, to a lesser extent, higher sales volumes and higher average selling prices of cocoa products.

Cost of products sold increased 62% to $66.0 billion primarily due to higher agricultural commodity costs, and, to a lesser extent, higher sales volumes. Manufacturing expenses increased $549 million primarily due to higher energy and transportation fuel costs, increased employee-related costs, higher storage and handling costs, increased production capacity, and the impact of foreign currency translation. In addition, cost of products sold increased $1.75 billion, or 4%, due to currency rate fluctuations.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Selling, general and administrative expenses increased $224 million to $1.4 billion primarily due to higher employee-related costs and higher outside service costs, including $44 million related to an organizational realignment and reorganization of the company's European headquarters, and $37 million due to the impact of currency rate fluctuations.

Other (income) expense – net decreased $911 million primarily due to gains totaling $1.0 billion on business disposals recorded in 2007 including $440 million related to the Wilmar gain, a $357 million realized securities gain from sales of the Company's equity securities of Tyson Foods, Inc. and Overseas Shipholding Group, Inc., a gain of $153 million from the sale of the Company's interest in Agricore United, and a $53 million gain from the sale of the Company's Arkady food ingredient business. Equity in earnings of unconsolidated affiliates increased $121 million in 2008, primarily related to improved operating results of the Company's investments in U.S. grain export, Asian oilseeds and peanut processing ventures. Other (income) expense - net also reflects $38 million in gains on sales of securities in 2008, $21 million in gains on disposals of long-lived assets in 2008, an increase from 2007 to 2008 of $11 million in charges related to abandonment and write-down of long-lived assets, and a charge of $46 million related to the repurchase of $400 million of the Company's outstanding debentures in 2007.

Operating profit by segment is as follows:

	2008	2007	Change
	(In millions)		
Oilseeds Processing			
Crushing & Origination	$ 727	$ 414	$ 313
Refining, Packaging, Biodiesel & Other	181	202	(21)
Asia	132	523	(391)
Total Oilseeds Processing	1,040	1,139	(99)
Corn Processing			
Sweeteners & Starches	557	510	47
Bioproducts	404	595	(191)
Total Corn Processing	961	1,105	(144)
Agricultural Services			
Merchandising & Handling	873	382	491
Transportation	144	156	(12)
Total Agricultural Services	1,017	538	479
Other			
Wheat, Cocoa & Malt	217	209	8
Financial	206	170	36
Total Other	423	379	44
Total Segment Operating Profit	3,441	3,161	280
Corporate	(817)	(7)	(810)
Earnings Before Income Taxes	$ 2,624	$ 3,154	$ (530)

Oilseeds Processing operating profit decreased 9% to $1.0 billion. Excluding the $440 million Wilmar gain reflected in Asia results in 2007, Oilseeds Processing operating profit increased 49%, primarily due to strong global demand for protein meal, vegetable oil, and fertilizer. Crushing and Origination operating profits increased 76% to $727 million due principally to improved crushing margins in North and South America and improved fertilizer results in South America. Refining, Packaging, Biodiesel and Other operating profits decreased 10% to $181 million due principally to decreased biodiesel margins in Europe and asset impairment charges of $28 million in 2008, partially offset by improved global refining margins. 2007 operating profit for Refining, Packaging, Biodiesel and Other includes a $14 million gain on a business disposal. Excluding the Wilmar gain, Asia operating profits increased 59% to $132 million, principally reflecting the Company’s share of improved operating profits of Wilmar International Limited.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Corn Processing operating profits decreased 13% to $961 million, primarily due to higher net corn costs. Sweeteners and Starches operating profits increased 9% to $557 million due principally to higher average selling prices partially offset by higher net corn costs and increased manufacturing costs. Manufacturing cost increases reflect higher energy costs, higher repair and maintenance expenses, and higher costs for chemicals used in the manufacturing process. Bioproducts operating profits decreased 32% to $404 million primarily due to higher net corn costs, higher manufacturing expenses, and decreased average ethanol selling prices, partially offset by higher sales volumes for ethanol and, to a lesser extent, higher average lysine selling prices and higher lysine sales volumes.

Agricultural Services operating profits increased 89% to $1.0 billion. 2007 operating profits in Merchandising and Handling include a $153 million gain on the sale of the Company's interest in Agricore United. Excluding this gain, Merchandising and Handling operating profits increased 281% to $873 million. This increase was primarily due to enhanced merchandising and handling margins caused by volatile global grain and freight markets, favorable risk management results, and to a lesser extent, increased sales volumes. Transportation operating profits decreased 8% to $144 million primarily due to increased fuel costs.

Other operating profits increased 12% to $423 million. Wheat, Cocoa and Malt operating profits increased 4% to $217 million. 2007 operating profits for Wheat included a gain of $39 million from the sale of the Company's Arkady food ingredient business. Excluding the Arkady gain, Wheat, Cocoa and Malt operating profits improved 28%, primarily due to improved wheat and malt margins reflecting increased demand, partially offset by decreased cocoa processing margins reflecting higher raw material and operating costs and competitive pressures experienced in the North American chocolate market. Financial operating profits improved 21% to $206 million primarily due to improvements in the Company's futures commission merchant business.

Corporate expense increased $810 million to $817 million, primarily due to a $362 million increase in the charge related to the effects of changing commodity prices on LIFO inventory valuations, a $371 million decrease in realized securities gains primarily reflecting the $357 million gain recorded in 2007 from sales of the Company's equity securities of Tyson Foods, Inc. and Overseas Shipholding Group, Inc., a $51 million increase in corporate expenses due principally to reorganization and realignment costs, partially offset by a charge of $46 million recorded in 2007 related to the repurchase of $400 million of the Company's outstanding debentures.

Income taxes decreased primarily due to lower pretax earnings. The Company's effective tax rate during 2008 of 31.3% was comparable to the 2007 rate of 31.5%.

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.

At June 30, 2009, the Company had $1.6 billion of cash, cash equivalents, and short-term marketable securities and a current ratio, defined as current assets divided by current liabilities, of 2.2 to 1. Included in working capital is $5.5 billion of readily marketable commodity inventories. Cash generated from operations totaled $5.3 billion for the year compared to $3.2 billion cash used in operating activities last year. This change was primarily due to a decrease in working capital requirements related to lower agricultural commodity market prices. Cash used in investing activities of $1.9 billion was comparable to last year. Cash used in financing activities was $3.2 billion compared to cash generated by financing activities of $5.2 billion last year. In 2008, the Company issued $3.1 billion of long-term debt compared to $101 million in total net long-term borrowings in 2009. As a result of decreased working capital requirements, payments under line of credit agreements were $2.9 billion in 2009. In 2008, the Company increased its borrowings under line of credit agreements by $2.6 billion.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Capital resources remained strong as reflected in the Company's net worth of $13.5 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 37% at June 30, 2009 and 36% at June 30, 2008. This ratio is a measure of the Company's long-term liquidity and is an indicator of financial flexibility. At June 30, 2009, the Company had lines of credit totaling $6.6 billion, of which $6.5 billion was unused. Of the Company's total lines of credit, $4.2 billion support a commercial paper borrowing facility, against which there were no borrowings at June 30, 2009. Standard & Poor's, Moody's, and Fitch rate the Company's commercial paper as A-1, P-1, and F1, respectively, and rate the Company's long-term debt as A, A2, and A, respectively. In addition to the cash flow generated from operations, the Company has access to equity and debt capital from public and private sources in both domestic and international markets.

The Company has outstanding $1.15 billion principal amount of convertible senior notes. As of June 30, 2009, none of the conditions permitting conversion of the notes had been satisfied. The Company has purchased call options and warrants intended to reduce the potential shareholder dilution upon future conversion of the notes. As of June 30, 2009, the market price of the Company's common stock was not greater than the exercise price of the purchased call options or warrants related to the convertible senior notes.

In June 2008, the Company issued $1.75 billion of debentures as a component of Equity Units (see Note 8 in Item 8). The Equity Units are a combination of debt and forward contracts for the holder to purchase the Company's common stock. Each purchase contract obligates the holder to purchase from the Company, no later than June 1, 2011, for a price of $50 in cash, a certain number of shares, ranging from 1.0453 shares to 1.2544 shares, of the Company's common stock, based on a formula established in the contract.

Contractual Obligations and Off-Balance Sheet Arrangements

In the normal course of business, the Company enters into contracts and commitments which obligate the Company to make payments in the future. The following table sets forth the Company's significant future obligations by time period. Purchases include commodity-based contracts entered into in the normal course of business, which are further described in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," energy-related purchase contracts entered into in the normal course of business, and other purchase obligations related to the Company's normal business activities. The following table does not include unrecognized income tax benefits of $54 million as at June 30, 2009, due to uncertainty of the timing of deductibility. Where applicable, information included in the Company's consolidated financial statements and notes is cross-referenced in this table.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

			Payments Due by Period			
Contractual Obligations	Item 8 Note Reference	Total	Less than 1 Year	1 - 3 Years	3 – 5 Years	More than 5 Years
			(In millions)			
Purchases						
Inventories		$9,821	$9,536	$285	$–	$–
Energy		631	339	223	22	47
Other		468	124	212	130	2
Total purchases		10,920	9,999	720	152	49
Short-term debt	Note 8	356	356	–	–	–
Long-term debt	Note 8	7,901	47	499	1,481	5,874
Estimated interest payments		9,158	424	793	734	7,207
Operating leases	Note 13	1,274	224	440	337	273
Estimated pension and other postretirement plan payments (1)	Note 14	1,276	96	211	239	730
Total		$30,885	$11,146	$2,663	$2,943	$14,133

(1) Represents expected future benefit payments up to and including fiscal year 2019. The projected payments beyond fiscal year 2019 are not currently determinable.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

At June 30, 2009, the Company estimates it will spend approximately $1.7 billion over the next five years to complete currently approved capital projects and acquisitions which is not included in the table above. The Company is a limited partner in various private equity funds which invest primarily in emerging markets. At June 30, 2009, the Company's carrying value of these limited partnership investments was $83 million. The Company has potential future capital commitments related to these partnerships of $114 million and expects the majority of these additional capital commitments, if called for, to be funded by cash flows generated by the partnerships. The Company also has outstanding letters of credit and surety bonds of $398 million at June 30, 2009.

In addition, the Company has entered into agreements, primarily debt guarantee agreements related to equity-method investees, which could obligate the Company to make future payments. The Company's liability under these agreements arises only if the primary entity fails to perform its contractual obligation. The Company has collateral for a portion of these contingent obligations. At June 30, 2009, these contingent obligations totaled approximately $137 million. Amounts outstanding for the primary entity under these contingent obligations were $82 million at June 30, 2009.

Critical Accounting Policies

The process of preparing financial statements requires management to make estimates and judgments that affect the carrying values of the Company's assets and liabilities as well as the recognition of revenues and expenses. These estimates and judgments are based on the Company's historical experience and management's knowledge and understanding of current facts and circumstances. Certain of the Company's accounting policies are considered critical, as these policies are important to the depiction of the Company's financial statements and require significant or complex judgment by management. Management has discussed with the Company's Audit Committee the development, selection, disclosure, and application of these critical accounting policies. Following are the accounting policies management considers critical to the Company's financial statements.

Inventories and Derivatives

Certain of the Company's merchandisable agricultural commodity inventories, forward fixed-price purchase and sale contracts, and exchange-traded futures and exchange-traded and over-the-counter options contracts are valued at estimated market values. These merchandisable agricultural commodities are freely traded, have quoted market prices, and may be sold without significant additional processing. Management estimates market value based on exchange-quoted prices, adjusted for differences in local markets. Changes in the market values of these inventories and contracts are recognized in the statement of earnings as a component of cost of products sold. If management used different methods or factors to estimate market value, amounts reported as inventories and cost of products sold could differ materially. Additionally, if market conditions change subsequent to year-end, amounts reported in future periods as inventories and cost of products sold could differ materially.

The Company, from time to time, uses derivative contracts designated as cash flow hedges to fix the purchase price of anticipated volumes of commodities to be purchased and processed in a future month, to fix the purchase price of the Company's anticipated natural gas requirements for certain production facilities, and to fix the sales price of anticipated volumes of ethanol. The change in the market value of such derivative contracts has historically been, and is expected to continue to be, highly effective at offsetting changes in price movements of the hedged item. Gains and losses arising from open and closed hedging transactions are deferred in other comprehensive income, net of applicable income taxes, and recognized as a component of cost of products sold and net sales and other operating income in the statement of earnings when the hedged item is recognized. If it is determined that the derivative instruments used are no longer effective at offsetting changes in the price of the hedged item, then the changes in the market value of these exchange-traded futures and exchange-traded and over-the-counter option contracts would be recorded in the statement of earnings as a component of cost of products sold.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Employee Benefit Plans

The Company provides substantially all domestic employees and employees at certain international subsidiaries with pension benefits. Eligible domestic employees with five or more years of service prior to January 1, 2009 participate in a defined benefit pension plan. Eligible domestic employees hired on or after January 1, 2009 (and eligible salaried employees with less than five years of service prior to January 1, 2009) participate in a "cash balance" pension formula. The Company provides eligible domestic employees who retire under qualifying conditions with access to postretirement health care, at full cost to the retiree (certain employees are "grandfathered" into subsidized coverage). In order to measure the expense and funded status of these employee benefit plans, management makes several estimates and assumptions, including interest rates used to discount certain liabilities, rates of return on assets set aside to fund these plans, rates of compensation increases, employee turnover rates, anticipated mortality rates, and anticipated future health care costs. These estimates and assumptions are based on the Company's historical experience combined with management's knowledge and understanding of current facts and circumstances. Management also uses third-party actuaries to assist in measuring the expense and funded status of these employee benefit plans. If management used different estimates and assumptions regarding these plans, the funded status of the plans could vary significantly, and the Company could recognize different amounts of expense over future periods.

Income Taxes

The Company frequently faces challenges from domestic and foreign tax authorities regarding the amount of taxes due. These challenges include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various tax filing positions, the Company records reserves for estimates of potential additional tax owed by the Company. Deferred tax assets represent items to be used as tax deductions or credits in future tax returns, and the related tax benefit has already been recognized in the Company's income statement. Realization of certain deferred tax assets reflects the Company's tax planning strategies. Valuation allowances related to these deferred tax assets have been established to the extent the realization of the tax benefit is not probable. Based on management's evaluation of the Company's tax position, it is believed the amounts related to these tax exposures are appropriately accrued. To the extent the Company were to favorably resolve matters for which accruals have been established or be required to pay amounts in excess of the aforementioned reserves, the Company's effective tax rate in a given financial statement period may be impacted.

Undistributed earnings of the Company's foreign subsidiaries and affiliated corporate joint ventures accounted for on the equity method are considered to be permanently reinvested, and accordingly, no provision for U.S. income taxes has been provided thereon. If the Company were to receive distributions from any of these foreign subsidiaries or affiliates or determine the undistributed earnings of these foreign subsidiaries or affiliates to not be permanently reinvested, the Company could be subject to U.S. tax liabilities which have not been provided for in the consolidated financial statements.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Asset Abandonments and Write-Downs

The Company is principally engaged in the business of procuring, transporting, storing, processing, and merchandising agricultural commodities and products. This business is global in nature and is highly capital-intensive. Both the availability of the Company's raw materials and the demand for the Company's finished products are driven by factors such as weather, plantings, government 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. These aforementioned factors may cause a shift in the supply/demand dynamics for the Company's raw materials and finished products. Any such shift will cause management to evaluate the efficiency and cash flows of the Company's assets in terms of geographic location, size, and age of its factories. The Company, from time to time, will also invest in equipment, technology, and companies related to new, value-added products produced from agricultural commodities and products. These new products are not always successful from either a commercial production or marketing perspective. Management evaluates the Company's property, plant, and equipment for impairment whenever indicators of impairment exist. The Company evaluates goodwill and other intangible assets with indefinite lives for impairment annually. Assets are written down after consideration of the ability to utilize the assets for their intended purpose or to employ the assets in alternative uses or sell the assets to recover the carrying value. If management used different estimates and assumptions in its evaluation of these assets, then the Company could recognize different amounts of expense over future periods.

Valuation of Marketable Securities and Investments in Affiliates

The Company classifies the majority of its marketable securities as available-for-sale and carries these securities at fair value. The Company applies the equity method for investments in investees over which the Company has the ability to exercise significant influence. These investments in affiliates are carried at cost plus equity in undistributed earnings and are adjusted, where appropriate, for amortizable basis differences between the investment balance and the underlying net assets of the investee. For publicly traded securities, the fair value of the Company's investments is readily available based on quoted market prices. For non-publicly traded securities, management's assessment of fair value is based on valuation methodologies including discounted cash flows and estimates of sales proceeds. In the event of a decline in fair value of an investment below carrying value, management is required to determine if the decline in fair value is other than temporary. In evaluating the nature of a decline in the fair value of an investment, management considers the market conditions, trends of earnings, discounted cash flows, trading volumes, and other key measures of the investment as well as the Company's ability and intent to hold the investment. When such a decline in value is deemed to be other than temporary, an impairment loss is recognized in the current period operating results to the extent of the decline. See Notes 5 and 6 to the Company's consolidated financial statements for information regarding the Company's marketable securities and investments in affiliates. If management used different estimates and assumptions in its evaluation of these marketable securities, then the Company could recognize different amounts of expense over future periods.

Item 7A. 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 as described below.

Commodities

The availability and price of agricultural commodities are subject to wide fluctuations due to factors such as weather, plantings, government 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.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

To reduce price risk caused by market fluctuations, the Company generally follows a policy of using exchange-traded futures and exchange-traded and over-the-counter options contracts to minimize its net position of merchandisable agricultural commodity inventories and forward cash purchase and sales contracts. The Company will also use exchange-traded futures and exchange-traded and over-the-counter 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 contracts defaults, and volatility of freight markets. In addition, the Company from time-to-time enters into derivative contracts which are designated as hedges of specific volumes of commodities that will be purchased and processed, or sold, in a future month. The changes in the market value of such futures contracts have historically been, and are expected to continue to be, highly effective at offsetting changes in price movements of the hedged item. Gains and losses arising from open and closed hedging transactions are deferred in other comprehensive income, net of applicable taxes, and recognized as a component of cost of products sold or net sales and other operating income in the statement of earnings when the hedged item is recognized.

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 agricultural 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 at quoted futures prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in such prices. Actual results may differ.

	2009		2008	
Long/(Short)	Fair Value	Market Risk	Fair Value	Market Risk
	(In millions)			
Highest position	$ 845	$ 85	$ 1,260	$ 126
Lowest position	(1,342)	(134)	(915)	(92)
Average position	(392)	(39)	251	25

The change in fair value of the average position for 2009 compared to 2008 was principally a result of decreases in quantities underlying the daily net commodity position.

Currencies

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. In order to reduce the risks associated with foreign currency exchange rate fluctuations, except for amounts permanently invested as described below, the Company follows a policy of entering into currency exchange contracts to mitigate its foreign currency risk related to transactions denominated in a currency other than the functional currencies applicable to each of its various entities, primarily the Euro, British Pound, and Canadian Dollar. The instruments used are forward contracts, swaps with banks, exchange-traded futures contracts, and over-the-counter options. The changes in market value of such contracts have a high correlation to the price changes in the currency of the related transactions. The potential loss in fair value for such net currency position resulting from a hypothetical 10% adverse change in foreign currency exchange rates is not material.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

The amount the Company considers permanently invested in foreign subsidiaries and affiliates and translated into dollars using the year-end exchange rates is $6.6 billion at June 30, 2009, and $7.0 billion at June 30, 2008. This decrease is due to the depreciation of foreign currencies versus the U.S. dollar partially offset by an increase in retained earnings of the foreign subsidiaries and affiliates. The potential loss in fair value resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates is $664 million and $695 million for 2009 and 2008, respectively. Actual results may differ.

Interest

The fair value of the Company's long-term debt is estimated using quoted market prices, where available, and discounted future cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. Such fair value exceeded the long-term debt carrying value. Market risk is estimated as the potential increase in fair value resulting from a hypothetical .5% decrease in interest rates. Actual results may differ.

	2009	2008
	(In millions)	
Fair value of long-term debt	$8,103	$7,789
Excess of fair value over carrying value	303	99
Market risk	310	308

The increase in fair value of long-term debt in 2009 resulted principally from decreased interest rates.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Archer Daniels Midland Company

Consolidated Statements of Earnings

	Year Ended June 30		
	2009	2008	2007
	(In millions, except per share amounts)		
Net sales and other operating income	$ 69,207	$ 69,816	$ 44,018
Cost of products sold	65,118	65,974	40,781
Gross Profit	4,089	3,842	3,237
Selling, general and administrative expenses	1,412	1,419	1,195
Other (income) expense - net	143	(201)	(1,112)
Earnings Before Income Taxes	2,534	2,624	3,154
Income taxes	827	822	992
Net Earnings	$ 1,707	$ 1,802	$ 2,162
Average number of shares outstanding – basic	643	644	651
Average number of shares outstanding – diluted	644	646	656
Basic earnings per common share	$ 2.66	$ 2.80	$ 3.32
Diluted earnings per common share	$ 2.65	$ 2.79	$ 3.30

See notes to consolidated financial statements.

Archer Daniels Midland Company

Consolidated Balance Sheets

	June 30 2009	June 30 2008
	(In millions)	
Assets		
Current Assets		
Cash and cash equivalents	$1,055	$810
Short-term marketable securities	500	455
Segregated cash and investments	2,430	2,035
Receivables	7,311	11,483
Inventories	7,782	10,160
Other assets	330	512
Total Current Assets	19,408	25,455
Investments and Other Assets		
Investments in and advances to affiliates	2,459	2,773
Long-term marketable securities	626	590
Goodwill	532	506
Other assets	610	607
Total Investments and Other Assets	4,227	4,476
Property, Plant, and Equipment		
Land	240	238
Buildings	3,304	3,207
Machinery and equipment	13,052	12,410
Construction in progress	2,245	1,924
	18,841	17,779
Accumulated depreciation	(10,891)	(10,654)
Net Property, Plant, and Equipment	7,950	7,125
Total Assets	$31,585	$37,056
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt	$356	$3,123
Accounts payable	5,786	6,544
Accrued expenses	2,695	4,722
Current maturities of long-term debt	48	232
Total Current Liabilities	8,885	14,621
Long-Term Liabilities		
Long-term debt	7,800	7,690
Deferred income taxes	230	473
Other	1,171	782
Total Long-Term Liabilities	9,201	8,945
Shareholders' Equity		
Common stock	5,022	5,039

Reinvested earnings	8,832	7,494
Accumulated other comprehensive income (loss)	(355)	957
Total Shareholders' Equity	13,499	13,490
Total Liabilities and Shareholders' Equity	$31,585	$37,056

See notes to consolidated financial statements.

Archer Daniels Midland Company

Consolidated Statements of Cash Flows

	Year Ended June 30		
	2009	2008	2007
	(In millions)		
Operating Activities			
Net earnings	$1,707	$1,802	$2,162
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities			
Depreciation	730	721	701
Asset abandonments and impairments	13	32	21
Deferred income taxes	34	(128)	109
(Gain) loss on sales of marketable securities	4	(38)	(393)
(Gain) loss on exchange of unconsolidated affiliates	11	(8)	(440)
Gain on sale of businesses	(24)	(8)	(209)
Equity in (earnings) losses of affiliates, net of dividends	54	(283)	(193)
Stock compensation expense	34	27	18
Stock contributed to employee benefit plans	18	29	27
Pension and postretirement accruals (contributions), net	(161)	36	61
Other – net	(161)	384	61
Changes in operating assets and liabilities			
Segregated cash and investments	(426)	(614)	(191)
Receivables	3,680	(4,781)	(1,671)
Inventories	1,899	(3,736)	(1,213)
Other assets	152	(174)	(66)
Accounts payable and accrued expenses	(2,223)	3,535	1,519
Total Operating Activities	5,341	(3,204)	303
Investing Activities			
Purchases of property, plant, and equipment	(1,898)	(1,779)	(1,198)
Proceeds from sales of property, plant, and equipment	65	52	45
Proceeds from sale of businesses	258	11	385
Net assets of businesses acquired	(198)	(13)	(103)
Investments in and advances to affiliates	(15)	(32)	(53)
Distributions from affiliates, excluding dividends	11	54	97
Purchases of marketable securities	(2,402)	(1,405)	(892)
Proceeds from sales of marketable securities	2,312	1,222	1,367
Other – net	(4)	(5)	(3)
Total Investing Activities	(1,871)	(1,895)	(355)
Financing Activities			
Long-term debt borrowings	125	3,095	1,166
Long-term debt payments	(24)	(69)	(549)
Net borrowings (payments) under line of credit agreements	(2,890)	2,574	(110)
Purchases of treasury stock	(100)	(61)	(533)
Sale of stock warrants related to convertible note issuance	–	–	170
Purchase of call options related to convertible note issuance	–	–	(299)
Cash dividends	(347)	(316)	(281)

Other – net	11	23	38
Total Financing Activities	(3,225)	5,246	(398)
Increase (decrease) in cash and cash equivalents	245	147	(450)
Cash and cash equivalents – beginning of year	810	663	1,113
Cash and cash equivalents – end of year	$1,055	$810	$663

See notes to consolidated financial statements.

Archer Daniels Midland Company

Consolidated Statements of Shareholders' Equity

	Common Stock Shares	Common Stock Amount	Reinvested Earnings (In millions)	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance June 30, 2006	656	$5,511	$4,082	$ 214	$ 9,807
Comprehensive income					
Net earnings			2,162		
Other comprehensive income				172	
Total comprehensive income					2,334
SFAS No. 158 transition adjustment, net of tax				(205)	(205)
Cash dividends paid-$.43 per share			(281)		(281)
Treasury stock purchases	(15)	(533)			(533)
Purchase of call options, net of tax		(186)			(186)
Sale of stock warrants		170			170
Other	2	128	19		147
Balance June 30, 2007	643	5,090	5,982	181	11,253
Comprehensive income					
Net earnings			1,802		
Other comprehensive income				776	
Total comprehensive income					2,578
Cash dividends paid-$.49 per share			(316)		(316)
Treasury stock purchases	(2)	(61)			(61)
Forward contract component of Equity Units		(110)			(110)
Other	3	120	26		146
Balance June 30, 2008	644	5,039	7,494	957	13,490
Comprehensive income					
Net earnings			1,707		
Other comprehensive income				(1,312)	
Total comprehensive income					395
Cash dividends paid-$.54 per share			(347)		(347)
Treasury stock purchases	(4)	(100)			(100)
SFAS No. 158 measurement date adjustment net of tax			(21)		(21)

Other	2	83	(1)		82
Balance June 30, 2009	642	$5,022	$8,832	$ (355)	$ 13,499

See notes to consolidated financial statements.

Archer Daniels Midland Company

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of Business

The Company is principally engaged in procuring, transporting, storing, processing, and merchandising agricultural commodities and products.

Principles of Consolidation

The consolidated financial statements as of June 30, 2009, and for the three years then ended include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in affiliates are carried at cost plus equity in undistributed earnings since acquisition and are adjusted, where appropriate, for amortizable basis differences between the investment balance and the underlying net assets of the investee. Certain majority-owned subsidiaries whose fiscal periods differ from the Company's are consolidated using the most recent available financial statements which in each case are within 93 days of the Company's year end and are consistent from period to period. The Company evaluates and consolidates, where appropriate, its less than majority-owned investments pursuant to Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (FIN 46).

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in its consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain items in prior years' 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.

Cash Equivalents

The Company considers all non-segregated, highly-liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Segregated Cash and Investments

The Company segregates certain cash and investment balances in accordance with certain regulatory requirements, commodity exchange requirements, and insurance arrangements. These segregated balances represent deposits received from customers trading in exchange-traded commodity instruments, securities pledged to commodity exchange clearinghouses, and cash and securities pledged as security under certain insurance arrangements. Segregated cash and investments primarily consist of cash, United States government securities, and money-market funds.

Archer Daniels Midland Company

Notes to Consolidated Financial Statements (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Receivables

The Company records trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts, $103 million and $89 million at June 30, 2009 and 2008, respectively, to reflect any loss anticipated on the trade accounts receivable balances. The Company calculates this allowance based on its history of write-offs, level of past-due accounts, and its relationships with, and the economic status of, its customers.

Credit risk on trade receivables is minimized as a result of the large and diversified nature of the Company's worldwide customer base. The Company controls its exposure to counter party credit risk through credit analysis and approvals, credit limits, and monitoring procedures. Collateral is generally not required for the Company's trade receivables. Trade accounts receivable due from unconsolidated affiliates as of June 30, 2009 and 2008 was $301 million and $199 million, respectively.

Inventories

Inventories of certain merchandisable agricultural commodities, which include inventories acquired under deferred pricing contracts, are stated at market value. In addition, the Company values certain inventories using the lower of cost, determined by either the first-in, first-out (FIFO) or last-in, first-out (LIFO) methods, or market.

Marketable Securities

The Company classifies its marketable securities as available-for-sale, except for certain designated securities which are classified as trading securities. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of income taxes, reported as a component of other comprehensive income. Unrealized gains and losses related to trading securities are included in income on a current basis. The Company uses the specific identification method when securities are sold or reclassified out of accumulated other comprehensive income into earnings. The Company considers marketable securities maturing in less than one year as short-term. All other marketable securities are classified as long-term.

Property, Plant, and Equipment

Property, plant, and equipment is recorded at cost. Repair and maintenance costs are expensed as incurred. The Company generally uses the straight-line method in computing depreciation for financial reporting purposes and generally uses accelerated methods for income tax purposes. The annual provisions for depreciation have been computed principally in accordance with the following ranges of asset lives: buildings - 10 to 40 years; machinery and equipment - 3 to 30 years.

Asset Abandonments and Write-Downs

The Company recorded a $13 million, a $32 million, and a $21 million charge in cost of products sold during 2009, 2008, and 2007, respectively, principally related to the abandonment and write-down of certain long-lived assets. The majority of these assets were idle or related to underperforming product lines, and the decision to abandon or write-down was finalized after consideration of the ability to utilize the assets for their intended purpose, employ the assets in alternative uses, or sell the assets to recover the carrying value. After the write-downs, the carrying value of these assets is immaterial.

Archer Daniels Midland Company

Notes to Consolidated Financial Statements (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Net Sales

The Company follows a policy of recognizing sales revenue at the time of delivery of the product and when all of the following have occurred: a sales agreement is in place, pricing is fixed or determinable, and collection is reasonably assured. Freight costs and handling charges related to sales are recorded as a component of cost of products sold. Net sales to unconsolidated affiliates during 2009, 2008, and 2007 were $7.3 billion, $8.5 billion, and $3.7 billion, respectively.

Stock Compensation

The Company recognizes expense for its share-based compensation based on the fair value of the awards that are granted. The Company's share-based compensation plans provide for the granting of restricted stock and restricted stock units (Restricted Stock Awards), and stock options. The fair value of stock options is estimated at the date of grant using the Black-Scholes option valuation model which requires the input of highly subjective assumptions. Measured compensation cost, net of estimated forfeitures, is recognized ratably over the vesting period of the related share-based compensation award.

Research and Development

Costs associated with research and development are expensed as incurred. Such costs incurred were $50 million, $49 million, and $45 million for the years ended June 30, 2009, 2008, and 2007, respectively.

Per Share Data

Basic earnings per common share are determined by dividing net earnings by the weighted average number of common shares outstanding. In computing diluted earnings per share, the weighted average number of common shares outstanding is increased by common stock options outstanding with exercise prices lower than the average market price of common shares. During 2009, 2008, and 2007, diluted average shares outstanding included incremental shares related to outstanding common stock options of 1 million, 2 million, and 5 million, respectively.

New Accounting Standards

During December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations (SFAS 141(R)). SFAS 141(R) replaces SFAS 141, Business Combinations and will change the financial accounting and reporting of business combination transactions. SFAS 141(R) requires recognizing, with certain exceptions, 100 percent of the fair values of assets acquired, liabilities assumed, and noncontrolling interests in acquisitions of less than a 100 percent controlling interest when the acquisition constitutes a change in control of the acquired entity; measuring acquirer shares issued and contingent consideration arrangements in connection with a business combination at fair value on the acquisition date with subsequent changes in fair value reflected in earnings; and expensing as incurred acquisition-related transaction costs. In April 2009, the FASB issued FASB Staff Position (FSP) FAS 141(R)-1 which amends SFAS 141(R) by establishing a model to account for certain pre-acquisition contingencies. Under the FSP, an acquirer is required to recognize at fair value an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of that asset or liability can be determined during the measurement period. If the acquisition-date fair value cannot be determined, then the acquirer should follow the recognition criteria in SFAS No. 5, Accounting for Contingencies, and FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss – an interpretation of FASB Statement No. 5. The Company is required to adopt SFAS 141(R) and FSP FAS 141(R)-1 on July 1, 2009, and will apply them prospectively to business combinations completed on or after that date. The impact of the adoption of SFAS 141(R) and FSP FAS 141(R)-1 will depend on the nature of acquisitions completed after the date of adoption.

Archer Daniels Midland Company

Notes to Consolidated Financial Statements (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

During December 2007, the FASB issued SFAS No. 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends the consolidation procedures of Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51) for consistency with the requirements of SFAS 141(R). The Company is required to adopt SFAS 160 on July 1, 2009 and will apply it prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Company believes the adoption of SFAS 160 will not have a material impact on its consolidated financial statements.

During May 2008, the FASB issued FSP Accounting Principles Board (APB) Opinion 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 addresses the accounting for convertible debt securities that, upon conversion, may be settled by the issuer fully or partially in cash. Previously, most forms of convertible debt securities were treated solely as debt. Under this FSP, issuers of convertible debt securities within its scope must separate these securities into two accounting components; a debt component, representing the issuer's contractual obligation to pay principal and interest; and an equity component, representing the holder's option to convert the debt security into equity of the issuer or, if the issuer so elects, an equivalent amount of cash. The Company is required to adopt FSP APB 14-1 on July 1, 2009, in connection with its outstanding convertible debt and must apply it retrospectively to all past periods presented, even if the instrument has matured, been converted, or otherwise been extinguished as of the FSP's effective date. Upon adoption of FSP APB 14-1, the Company will record a debt discount equivalent to the fair value of the embedded equity conversion feature as of July 1, 2009, thereby reducing long term debt by $208 million and increasing shareholders' equity by $128 million. The debt discount will be amortized over the seven year term of the convertible debt using the effective interest rate method, increasing annual interest expense by approximately $13 million in fiscal year 2007, $37 million to $48 million in fiscal years 2008 to 2013 and $31 million in fiscal year 2014.

During June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method. The FSP clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and are considered to be participating securities. As such, the issuing entity is required to apply the two-class method of computing basic and diluted EPS. The Company is required to adopt FSP EITF 03-6-1 on July 1, 2009. The adoption of FSP EITF 03-6-1 will not have a material impact on the Company's consolidated financial statements.

During December 2008, the FASB issued FSP FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets – an amendment of FASB Statement No. 132(R) (FSP FAS 132(R)-1). FSP FAS 132(R)-1 expands the disclosure requirements of SFAS No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits (SFAS 132(R)). FSP FAS 132(R)-1 requires entities to disclose investment policies and strategies, major categories of plan assets, fair value measurements for each major category of plan assets segregated by fair value hierarchy level as defined in SFAS No. 157, Fair Value Measurements (SFAS 157), the effect of fair value measurements using Level 3 inputs on changes in plan assets for the period, and significant concentrations of risk within plan assets. The Company will be required to adopt FSP FAS 132(R)-1 on June 30, 2010. The adoption of this standard will require expanded disclosure 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)

Note 1. Summary of Significant Accounting Policies (Continued)

During April 2009, the FASB issued three FSPs that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP FAS 157-4, Determining Whether a Market Is Not Active and a Transaction Is Not Distressed (FSP FAS 157-4), clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2), establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down on debt securities through earnings versus other comprehensive income. FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1), expands the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to interim periods in addition to annual periods. The proposal also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. FSP FAS 107-1 and APB 28-1 requires the Company to expand disclosure in the notes to the Company's interim consolidated financial statements but will not impact financial results. The Company adopted these FSPs as of June 30, 2009.

During May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165). SFAS 165 establishes evaluation principles and disclosure requirements for subsequent events. Upon implementation of SFAS 165, an entity is required to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The Company has evaluated events occurring between the end of its most recent fiscal year and the date the financial statements were issued.

During June 2008, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. FIN 46(R) (SFAS 167). SFAS 167 changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. SFAS 167 will require a number of new disclosures including disclosures about the reporting entity's involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. The Company will be required to adopt SFAS 167 on July 1, 2010, and has not yet assessed the impact of the adoption of this standard on the Company's financial statements.

Note 2. Acquisitions

The Company's 2009, 2008, and 2007 acquisitions were accounted for as purchases in accordance with SFAS No. 141, Business Combinations. Accordingly, the tangible assets and liabilities have been adjusted to fair values with the remainder of the purchase price, if any, recorded as goodwill. The identifiable intangible assets acquired as part of these acquisitions are not material.

Archer Daniels Midland Company

Notes to Consolidated Financial Statements (Continued)

Note 2. Acquisitions (Continued)

2009 Acquisitions

During 2009, the Company acquired ten businesses for a total cost of $198 million and recorded a preliminary allocation of the purchase price related to these acquisitions. The purchase price allocations resulted in goodwill of $31 million. The purchase price of $198 million was allocated to current assets, property, plant and equipment, other long-term assets, and liabilities for $176 million, $82 million, $111 million, and $171 million, respectively.

2008 Acquisitions

During 2008, the Company acquired six businesses for a total cost of $15 million, paid for with $2 million in Company stock and $13 million in cash. The final purchase price allocations resulted in goodwill of $5 million. The purchase price of $15 million was allocated to current assets, property, plant and equipment, other long-term assets, and liabilities for $14 million, $10 million, $5 million, and $14 million, respectively.

2007 Acquisitions

During 2007, the Company acquired seven businesses for a total cost of $103 million. One of the acquisitions resulted in obtaining the remaining outstanding shares of an unconsolidated affiliate where the Company held a 50% interest.

The Company recorded goodwill of $5 million related to these acquisitions. The cash purchase price of $103 million plus the $100 million carrying value of the previously unconsolidated affiliate was allocated to current assets, property, plant, and equipment, current liabilities, and debt for $82 million, $206 million, $33 million, and $52 million, respectively.

Note 3. Fair Value Measurements

Effective July 1, 2008, the Company adopted SFAS 157, which establishes a framework for measuring fair value and clarifies the definition of fair value within that framework. SFAS 157 defines fair value as an exit price, which is the price that would be received for an asset or paid to transfer a liability in the Company’s principal or most advantageous market for the asset or liability, in an orderly transaction between market participants on the measurement date. The fair value hierarchy established in SFAS 157 generally requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity’s own assumptions based on market data and the entity’s judgments about the assumptions that market participants would use in pricing the asset or liability, and are to be developed based on the best information available in the circumstances. In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset in a Market That Is Not Active, which clarifies that when an active market does not exist it may be appropriate to use unobservable inputs to determine fair value. 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 SFAS 157. SFAS 157 establishes three levels within its 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.

Archer Daniels Midland Company

Notes to Consolidated Financial Statements (Continued)

Note 3. Fair Value Measurements (Continued)

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.

The following table sets forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2009. Pursuant to FSP FAS 157-2, Effective Date of FASB Statement No. 157, the Company has delayed the adoption of SFAS 157 for its nonfinancial assets and liabilities that are recognized on a nonrecurring basis, including goodwill, other intangible assets, and asset retirement obligations to July 1, 2009. 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 assets and liabilities within the fair value hierarchy levels.

	Fair Value Measurements at June 30, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In millions)			
Assets:				
Inventories carried at market	$ –	$ 4,081	$ 488	$ 4,569
Unrealized gains on derivative contracts	742	1,018	82	1,842
Marketable securities	921	606	-	1,527
Total Assets	$ 1,663	$ 5,705	$ 570	$ 7,938
Liabilities:				
Unrealized losses on derivative	$ 972	$ 1,124		

contracts