

ARCHER DANIELS MIDLAND CO

Form 10-Q

November 01, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from _____ to _____

Commission file number 1-44

ARCHER-DANIELS-MIDLAND COMPANY

(Exact name of registrant as specified in its charter)

Delaware

41-0129150

(State or other jurisdiction of
incorporation or organization)

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

4666 Faries Parkway Box 1470

Decatur, Illinois

62525

(Address of principal executive offices)

(Zip Code)

(217) 424-5200

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting Company

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

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

Common Stock, no par value – 657,970,080 shares
(October 31, 2013)

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Archer-Daniels-Midland Company

Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In millions, except per share amounts)			
Net sales and other operating income	\$21,393	\$21,808	\$65,661	\$65,638
Cost of products sold	20,237	21,002	62,942	63,011
Gross Profit	1,156	806	2,719	2,627
Selling, general, and administrative expenses	429	390	1,317	1,186
Asset impairment, exit, and restructuring costs	23	146	23	231
Interest expense	105	106	318	338
Equity in earnings of unconsolidated affiliates	(63)	) (113)	) (262)	) (334)
Interest income	(12)	) (30)	) (68)	) (80)
Other (income) expense – net	(35)	) 12	(10)	) 7
Earnings Before Income Taxes	709	295	1,401	1,279
Income taxes	228	111	424	397
Net Earnings Including Noncontrolling Interests	481	184	977	882
Less: Net earnings (losses) attributable to noncontrolling interests	5	2	9	17
Net Earnings Attributable to Controlling Interests	\$476	\$182	\$968	\$865
Average number of shares outstanding – basic	661	660	661	660
Average number of shares outstanding – diluted	664	661	663	662
Basic and diluted earnings per common share	\$0.72	\$0.28	\$1.46	\$1.31
Dividends per common share	\$0.190	\$0.175	\$0.570	\$0.525

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended September 30, 2013		2012		Nine Months Ended September 30, 2013		2012	
	(In millions)							
Net earnings including noncontrolling interests	\$481		\$184		\$977		\$882	
Other comprehensive income (loss):								
Foreign currency translation adjustment	225		145		(1	)	101	
Tax effect	—		(7	)	2		53	
Net of tax amount	225		138		1		154	
Pension and other postretirement benefit liabilities adjustment	10		16		45		(560)
Tax effect	(4	)	(7	)	(16	)	198	
Net of tax amount	6		9		29		(362)
Deferred gain (loss) on hedging activities	16		54		18		87	
Tax effect	(7	)	(18	)	(7	)	(31)
Net of tax effect	9		36		11		56	
Unrealized gain (loss) on investments	3		(11	)	2		(36)
Tax effect	(3	)	3		—		13	
Net of tax effect	—		(8	)	2		(23)
Other comprehensive income (loss)	240		175		43		(175)
Comprehensive income including noncontrolling interests	721		359		1,020		707	
Less: Comprehensive income attributable to noncontrolling interests	5		4		—		13	
Comprehensive income attributable to controlling interests	\$716		\$355		\$1,020		\$694	

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Balance Sheets

	(Unaudited) September 30, 2013 (In millions)	December 31, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$3,252	\$1,714
Short-term marketable securities	242	576
Segregated cash and investments	3,992	3,638
Trade receivables	3,447	3,450
Inventories	9,278	13,836
Other current assets	5,879	6,548
Total Current Assets	26,090	29,762
Investments and Other Assets		
Investments in and advances to affiliates	3,183	3,170
Long-term marketable securities	685	717
Goodwill	552	551
Other assets	813	813
Total Investments and Other Assets	5,233	5,251
Property, Plant, and Equipment		
Land	406	378
Buildings	4,797	4,807
Machinery and equipment	17,464	16,984
Construction in progress	770	1,004
	23,437	23,173
Accumulated depreciation	(13,312)	(13,050)
Net Property, Plant, and Equipment	10,125	10,123
Total Assets	\$41,448	\$45,136
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt	\$364	\$2,816
Trade payables	2,942	4,787
Accrued expenses and other payables	9,291	9,122
Current maturities of long-term debt	1,156	268
Total Current Liabilities	13,753	16,993
Long-Term Liabilities		
Long-term debt	5,364	6,456
Deferred income taxes	1,282	1,267
Other	1,483	1,289
Total Long-Term Liabilities	8,129	9,012

Shareholders' Equity		
Common stock	6,108	6,134
Reinvested earnings	13,828	13,236
Accumulated other comprehensive income (loss)	(398)	(450)
Noncontrolling interests	28	211
Total Shareholders' Equity	19,566	19,131
Total Liabilities and Shareholders' Equity	\$41,448	\$45,136

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
	(In millions)	
Operating Activities		
Net earnings including noncontrolling interests	\$977	\$882
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	681	651
Asset impairment charges	23	176
Deferred income taxes	4	119
Equity in earnings of affiliates, net of dividends	(152)	(221)
Stock compensation expense	30	36
Pension and postretirement accruals (contributions), net	7	(19)
Deferred cash flow hedges	18	80
Other – net	(142)	99
Changes in operating assets and liabilities, net of businesses acquired		
Segregated cash and investments	(360)	(317)
Trade receivables	92	2,187
Inventories	4,788	(1,207)
Other current assets	615	(3,157)
Trade payables	(2,154)	(465)
Accrued expenses and other payables	442	1,493
Total Operating Activities	4,869	337
Investing Activities		
Purchases of property, plant, and equipment	(659)	(877)
Proceeds from sales of property, plant, and equipment	36	32
Net assets of businesses acquired	(35)	(56)
Purchases of marketable securities	(530)	(874)
Proceeds from sales of marketable securities	826	1,008
Distributions from affiliates	150	22
Other – net	38	(5)
Total Investing Activities	(174)	(750)
Financing Activities		
Long-term debt borrowings	23	9
Long-term debt payments	(265)	(1,597)
Net borrowings (payments) under lines of credit agreements	(2,489)	2,820
Debt exchange premiums	—	(12)
Purchases of treasury stock	(95)	(100)
Cash dividends	(376)	(346)
Other – net	45	10
Total Financing Activities	(3,157)	784

Increase in cash and cash equivalents	1,538	371
Cash and cash equivalents beginning of period	1,714	864
Cash and cash equivalents end of period	\$3,252	\$1,235

See notes to consolidated financial statements.

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Archer-Daniels-Midland-Company

Consolidated Statement of Shareholders' Equity
(Unaudited)

	Common Stock		Reinvested Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount				
	(In millions)					
Balance December 31, 2012	659	\$6,134	\$13,236	\$(450)	) \$211	\$19,131
Comprehensive income						
Net earnings			968		9	
Other comprehensive income				52	(9))
Total comprehensive income						1,020
Cash dividends paid- \$0.57 per share			(376)	)		(376)
Treasury stock purchases	(3)	(95)	)			(95)
Stock compensation expense		30				30
Noncontrolling interests associated with mandatorily redeemable instruments					(180)	) (180)
Other	2	39			(3)	) 36
Balance September 30, 2013	658	\$6,108	\$13,828	\$(398)	) \$28	\$19,566

See notes to consolidated financial statements.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's transition report on Form 10-KT for the six months ended December 31, 2012.

During 2013, the noncontrolling interest of certain of the Company's less than wholly-owned subsidiaries was subject to a mandatorily redeemable put option. As a result, the Company reclassified \$180 million of noncontrolling interest in shareholders' equity to long-term liabilities.

Adoption of New Accounting Standards

Effective January 1, 2013, the Company adopted the amended guidance of Accounting Standards Codification (ASC) Topic 220, Comprehensive Income, which requires the Company to present, either on the face of the consolidated statement of earnings or in the notes, the effect on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income. The adoption of this amended guidance requires expanded disclosures in the Company's consolidated financial statements but does not impact results (see Note 11).

Effective July 17, 2013, the Company adopted the amended guidance of ASC Topic 815, Derivatives and Hedging (Topic 815), which permits the Company to use the Overnight Index Swap as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the U.S. treasury interest rates and the London Interbank Offered Rate. The amended guidance also removes the restriction on using different benchmark rates for similar hedges. The adoption of this amended guidance did not have an impact on current period results and is not expected to have any material impact on the Company's financial results.

Last-in, First-out (LIFO) Inventories

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

Note 2. Pending Accounting Standards

Effective January 1, 2014, the Company will be required to adopt the amended guidance of ASC Topic 740, Income Taxes, which requires the Company to present an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting

date under the tax law of the applicable jurisdiction or if the Company does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented as a liability in the financial statements and should not be combined with deferred tax assets. The Company does not expect any material impact on its financial results as a result of the adoption of this amended guidance.

Effective January 1, 2014, the Company will be required to adopt the amended guidance of ASC Topic 830, Foreign Currency Matters (Topic 830), which requires the Company to transfer currency translation adjustments from other comprehensive income into net income in certain circumstances. The amended guidance aims to resolve diversity in practice as to whether ASC Topic 810, Consolidation or Topic 830 applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity, or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business. The Company will be required to apply the amended guidance prospectively. If the Company disposes all or part of a qualifying foreign entity, it will be required to release the portion of cumulative translation adjustment applicable to the disposed entity.

Archer-Daniels-Midland Company

Notes to Consolidated Financial Statements (Continued)
(Unaudited)

Note 2. Pending Accounting Standards (Continued)

Effective January 1, 2014, the Company will be required to adopt the amended guidance of ASC Topic 405, Liabilities, which addresses the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements, for which the total amount under the arrangement is fixed at the reporting date. The amended guidance aims to resolve diversity in practice among companies that are subject to joint and several liabilities. The Company will be required to apply the amended guidance retrospectively to all prior periods presented. The Company does not expect any material impact on its financial results as a result of the adoption of this amended guidance.

Note 3. Acquisitions

During the nine months ended September 30, 2013, the Company acquired two businesses for a total cost of \$35 million and recorded a preliminary allocation of the purchase price related to these acquisitions.

The net cash purchase price for the acquisitions of \$35 million was preliminarily allocated to working capital, property, plant, and equipment, and other long-term assets for \$10 million, \$10 million, and \$15 million, respectively.

Note 4. Fair Value Measurements

The following tables set forth, by level, the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2013 and December 31, 2012.

Fair Value Measurements at September 30, 2013

	Quoted Prices in Active Markets for Identical Assets (Level 1) (In millions)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Inventories carried at market	\$—	\$3,654	\$1,272	\$4,926
Unrealized derivative gains:				
Commodity contracts	1,364	748	262	2,374
Foreign exchange contracts	—	233	—	233
Interest rate contracts	—	1	—	1
Marketable securities	2,557	17	—	2,574
Deferred receivables consideration	—	487	—	487
Total Assets	\$3,921	\$5,140	\$1,534	\$10,595
Liabilities:				
Unrealized derivative losses:				
Commodity contracts	\$1,667	\$708		