

FEDERAL AGRICULTURAL MORTGAGE CORP
Form 10-K/A
December 21, 2006

As filed with the Securities and Exchange Commission on
December 20, 2006
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 2 to Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005.

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 0-17440

FEDERAL AGRICULTURAL MORTGAGE CORPORATION
(Exact name of registrant as specified in its charter)

Federally chartered instrumentality
of the United States
(State or other jurisdiction of
incorporation or organization)

52-1578738
(I.R.S. employer identification
number)

1133 21st Street, N.W., Suite 600,
Washington, D.C.
(Address of principal executive offices)

20036
(Zip code)

(202) 872-7700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Exchange on Which Registered</u>
Class A voting common stock	New York Stock Exchange
Class C non-voting common stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Class B voting common stock

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 C.F.R. §229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market values of the Class A voting common stock and Class C non-voting common stock held by non-affiliates of the registrant were \$16,904,792 and \$214,324,765, respectively, as of June 30, 2005, based upon the closing prices for the respective classes on June 30, 2005 reported by the New York Stock Exchange. For purposes of this information, the outstanding shares of Class C non-voting common stock owned by directors and executive officers of the registrant were deemed to be held by affiliates. The aggregate market value of the Class B voting common stock is not ascertainable due to the absence of publicly available quotations or prices for the Class B voting common stock as a result of the limited market for, and infrequency of trades in, Class B voting common stock and the fact that any such trades are privately negotiated transactions.

As of March 1, 2006, the registrant had outstanding 1,030,780 shares of Class A voting common stock, 500,301 shares of Class B voting common stock and 9,596,336 shares of Class C non-voting common stock.

**FEDERAL AGRICULTURAL MORTGAGE CORPORATION
FISCAL YEAR 2005 FORM 10-K/A
AMENDMENT NO. 2**

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A (“Amendment 2”) to the Annual Report on Form 10-K of the Federal Agricultural Mortgage Corporation (“Farmer Mac”) for the fiscal year ended December 31, 2005 (“2005 Form 10-K”), initially filed with the Securities and Exchange Commission on March 16, 2006 (the “Original Filing”), as amended by Amendment No. 1 on Form 10-K/A filed with the Securities and Exchange Commission on November 9, 2006 (“Amendment 1”), is being filed solely to add the name of Deloitte & Touche LLP, Farmer Mac’s independent registered public accounting firm, to the attestation report prepared by Deloitte & Touche LLP on management’s assessment of Farmer Mac’s internal control over financial reporting. The corrected attestation report, which is being filed under Item 9A (Controls and Procedures) in this Amendment 2, was previously filed under Item 8 (Financial Statements and Supplementary Data) of Amendment 1.

Except as described above, no other changes have been made to the 2005 Form 10-K, as amended by Amendment 1, and this Amendment 2 does not amend, update or change the financial statements or disclosures in the 2005 Form 10-K, as amended by Amendment 1. Therefore, this Amendment 2 does not reflect events occurring after the filing of the Original Filing or Amendment 1 or amend or update those disclosures, or related exhibits, affected by subsequent events. Accordingly, this Amendment 2 should be read in conjunction with Farmer Mac’s other filings with the SEC subsequent to the filing of the Original Filing and Amendment 1.

Item 9A. Controls and Procedures

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING (AS REVISED)

The management of Farmer Mac is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed under the supervision of Farmer Mac's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Farmer Mac's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All control systems have inherent limitations so that no evaluation of controls can provide absolute assurance that all control issues are detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

With the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, Farmer Mac's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2005. In making this assessment, the Corporation's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control^{3/4}Integrated Framework*. Based on its initial evaluation under the COSO criteria, management believed that the Corporation's internal control over financial reporting as of December 31, 2005 was effective. Subsequently in October 2006, management concluded that the Corporation did not maintain effective controls over the accounting for financial derivatives as defined by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"). On October 4, 2006, the Corporation's Board of Directors authorized management to restate the Corporation's financial results from 2001 to eliminate the use of hedge accounting under SFAS 133. Accordingly, management has concluded that the ineffective controls over the accounting for financial derivatives constituted a material weakness as of December 31, 2005. Solely as a result of this material weakness, management has revised its earlier assessment and now has concluded that Farmer Mac's internal control over financial reporting was not effective as of December 31, 2005.

Farmer Mac's independent registered public accounting firm, Deloitte & Touche LLP, has audited management's assessment of the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2005, as stated in their report appearing below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Federal Agricultural Mortgage Corporation
Washington, DC

We have audited management's assessment, included in the accompanying *Management's Report on Internal Control Over Financial Reporting (as revised)*, that the Federal Agricultural Mortgage Corporation and subsidiary ("Farmer Mac") did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of the material weakness identified in management's assessment based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Farmer Mac's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Farmer Mac's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated March 16, 2006, we expressed an unqualified opinion on management's assessment that Farmer Mac maintained effective internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting. As described in the following paragraph, Farmer Mac subsequently identified a material misstatement related to its accounting treatment for derivative transactions under Statement of Financial Accounting Standards No. 133, *Derivative Instruments and Hedging Activities*, ("SFAS 133"), which caused the consolidated financial statements to be restated. Management subsequently revised its assessment due to the identification of a material weakness, described in the following paragraph, in connection with the financial statement restatement. Accordingly, our opinion on the effectiveness of Farmer Mac's internal control over financial reporting as of December 31, 2005, expressed herein, is different from that expressed in our previous report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's revised assessment: Farmer Mac did not maintain effective controls over the application of SFAS 133. This material weakness resulted in the restatement of Farmer Mac's previously issued consolidated financial statements for the fiscal year ended December 31, 2005, as more fully described in Note 15 to the consolidated financial statements. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2005, of Farmer Mac and this report does not affect our report on such financial statements.

In our opinion, management's revised assessment that Farmer Mac did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Farmer Mac has not maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005, of Farmer Mac and our report dated March 16, 2006 (November 9, 2006 as to the effects of the restatement described in Note 15 to the Consolidated Financial Statements) expressed an unqualified opinion on those consolidated financial statements and includes an explanatory paragraph relating to Farmer Mac's restatement as described in Note 15.

Deloitte & Touche LLP
McLean, Virginia

March 16, 2006 (November 9, 2006 as to the effects of the material weakness described in Management's Report on Internal Control Over Financial Reporting (as revised))

Management's Evaluation of Disclosure Controls and Procedures. Farmer Mac maintains disclosure controls and procedures designed to ensure that information required to be disclosed in the Corporation's periodic filings under the Securities Exchange Act of 1934 (the "Exchange Act"), including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Corporation's management on a timely basis to allow decisions regarding required disclosure. Management, including Farmer Mac's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Corporation's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2005. Based on management's reassessment, the Chief Executive Officer and the Chief Financial Officer have concluded that Farmer Mac's disclosure controls and procedures were not effective as of December 31, 2005 because of the material weakness in internal control over financial reporting related to the accounting for financial derivatives as defined by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* described in Management's Report on Internal Controls over Financial Reporting (as revised) set forth above.

Changes in Internal Control Over Financial Reporting. There was no change in Farmer Mac's internal control over financial reporting during the quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, Farmer Mac's internal control over financial reporting.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

/s/ Henry D. Edelman
By: Henry D. Edelman
President and
Chief Executive Officer

December 20, 2006
Date