Bunge LTD
Form 10-Q
August 09, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

OR

o **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 001-16625

BUNGE LIMITED

(Exact name of registrant as specified in its charter)

Bermuda	**98-0231912**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
50 Main Street, White Plains, New York	**10606**
(Address of principal executive offices)	(Zip Code)

(914) 684-2800
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 ý No o

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 ý Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No ý

As of August 2, 2006, the number of common shares issued and outstanding of the registrant was:

Common shares, par value $.01: 119,669,529

BUNGE LIMITED

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BUNGE LIMITED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(United States Dollars in Millions, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Net sales	$ 5,980	$ 5,872	$ 11,581	$ 11,323
Cost of goods sold	(5,692)	(5,445)	(11,009)	(10,511)
Gross profit	**288**	**427**	**572**	**812**
Selling, general and administrative expenses	(218)	(243)	(445)	(439)
Interest income	30	26	58	49
Interest expense	(67)	(50)	(128)	(107)
Foreign exchange (losses) gains	(15)	23	28	7
Other income (expense) net	3	(3)	4	5
Income from operations before income tax	**21**	**180**	**89**	**327**
Income tax benefit (expense)	3	(52)	(8)	(96)
Income from operations after tax	**24**	**128**	**81**	**231**
Minority interest	(8)	(22)	(19)	(37)
Equity in earnings of affiliates	14	7	26	17
Net income	**$ 30**	**$ 113**	**$ 88**	**$ 211**
Earnings per common share basic (Note 15):				
Net income per share	$ 0.25	$ 1.02	$ 0.74	$ 1.90
Earnings per common share diluted (Note 15):				
Net income per share	$ 0.25	$ 0.94	$ 0.73	$ 1.76

The accompanying notes are an integral part of these condensed consolidated financial statements.

BUNGE LIMITED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(United States Dollars in Millions, except share data)

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 279	$ 354
Trade accounts receivable (less allowance of $207 and $180)	1,690	1,702
Inventories (Note 3)	3,300	2,769
Deferred income taxes	108	102
Other current assets (Note 5)	1,790	1,637
Total current assets	7,167	6,564
Property, plant and equipment, net	3,103	2,900
Goodwill (Note 6)	188	176
Other intangible assets	126	132
Investments in affiliates	623	585
Deferred income taxes	564	462
Other non-current assets	653	627
Total assets	$ 12,424	$ 11,446
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 709	$ 411
Current portion of long-term debt	87	178
Trade accounts payable	1,943	1,803
Deferred income taxes	35	38
Other current liabilities (Note 7)	1,111	1,187
Total current liabilities	3,885	3,617
Long-term debt	2,872	2,557
Deferred income taxes	145	145
Other non-current liabilities	618	576
Commitments and contingencies (Note 12)		
Minority interest in subsidiaries	364	325
Shareholders' equity:		
Common shares, par value $.01; authorized 240,000,000 shares; issued and outstanding: 2006 119,652,029 shares, 2005 119,184,696 shares	1	1
Additional paid-in capital	2,657	2,630
Retained earnings	1,960	1,907
Accumulated other comprehensive loss	(78)	(312)
Total shareholders' equity	4,540	4,226
Total liabilities and shareholders' equity	$ 12,424	$ 11,446

The accompanying notes are an integral part of these condensed consolidated financial statements.

BUNGE LIMITED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(United States Dollars in Millions)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
OPERATING ACTIVITIES		
Net income	$ 88	$ 211
Adjustments to reconcile net income to cash used for operating activities:		
Foreign exchange gain on debt	(114)	(100)
Impairment of assets	20	
Bad debt expense	21	20
Depreciation, depletion and amortization	157	131
Decrease in allowance for recoverable taxes	(6)	(27)
Deferred income taxes	(87)	(35)
Minority interest	19	37
Equity in earnings of affiliates	(26)	(17)
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Trade accounts receivable	72	132
Inventories	(412)	(840)
Prepaid commodity purchase contracts	(31)	(89)
Advances to suppliers	101	220
Trade accounts payable	47	18
Advances on sales	(80)	(29)
Accrued liabilities	(36)	(64)
Other net	(133)	83
Net cash used for operating activities	(400)	(349)
INVESTING ACTIVITIES		
Payments made for capital expenditures	(181)	(212)
Investments in affiliates	(52)	(1)
Business acquisitions (net of cash acquired) and payments for intangible assets	(6)	(24)
Return of capital from affiliate	13	8
Related party loan repayments	6	14
Proceeds from sale of investments	11	
Proceeds from disposal of property, plant and equipment	4	5
Net cash used for investing activities	(205)	(210)
FINANCING ACTIVITIES		
Net change in short-term debt	278	15
Proceeds from long-term debt	452	794
Repayment of long-term debt	(172)	(215)
Proceeds from sale of common shares	9	9
Dividends paid to shareholders	(36)	(30)
Dividends paid to minority interest	(16)	(37)
Net cash provided by financing activities	515	536

	Six Months Ended June 30,	
Effect of exchange rate changes on cash and cash equivalents	15	5
Net decrease in cash and cash equivalents	(75)	(18)
Cash and cash equivalents, beginning of period	354	432
Cash and cash equivalents, end of period	$ 279	$ 414

The accompanying notes are an integral part of these condensed consolidated financial statements.

BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Bunge Limited and its subsidiaries (Bunge) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended (Exchange Act). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included. The consolidated balance sheet at December 31, 2005 has been derived from Bunge's audited financial statements at that date. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the year ending December 31, 2006. The financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2005 included in Bunge's 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC).

Effective January 1, 2006, Bunge adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment* (SFAS No. 123R). See Note 14 of the notes to the condensed consolidated financial statements.

Reclassifications Certain earnings on investments in affiliates were reclassified from other income (expense) net to equity earnings in affiliates in the condensed consolidated statements of income. In addition, certain product lines were reclassified from the agribusiness segment to the edible oil products segment. As a result, amounts in Bunge's condensed consolidated statements of income and segment results the three and six months ended June 30, 2005 have been reclassified to conform to the current period presentation.

2. NEW ACCOUNTING STANDARDS

In July 2006, the Financial Accounting Standards Board (FASB) issued two related standards that address accounting for income taxes: FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), and FASB Staff Position (FSP) FAS 13-2, *Accounting for a Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* (FSP FAS 13-2). Among other things, FIN 48 requires applying a "more likely than not" threshold to the recognition and derecognition of tax positions, while FSP FAS 13-2 requires a recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows relating to income taxes generated by the leveraged lease. The new guidance will be effective for Bunge on January 1, 2007. Bunge is currently evaluating FIN 48 and FSP FAS 13-2 to determine the potential impact, if any, these would have on its consolidated financial statements. Prior periods will not be restated as a result of this required accounting change.

In April 2006, the FASB issued FSP No. FIN 46(R)-6, *Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R),* which addresses certain implementation issues related to FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)). FSP FIN No. 46(R)-6 is to be applied prospectively by the company to all entities with which the company first becomes involved and to all entities previously required to be analyzed under FIN 46(R) when a consideration event has occurred beginning the first day of the first reporting period beginning after June 2006. Retrospective application to the date of the initial application is permitted but not required, however, if elected, it must be completed no later than the end of the first annual reporting period ending after July 15, 2006. Bunge has elected to apply FSP FIN No. 46(R)-6 prospectively and has determined there to be no material impact to Bunge's consolidated financial statements as a result of this application.

BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. NEW ACCOUNTING STANDARDS (continued)

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140* (SFAS No. 156)*,* which is effective for fiscal years beginning after September 15, 2006. SFAS No. 156 was issued to simplify the accounting for servicing rights and to reduce the volatility that results from using different measurement attributes. Bunge is currently evaluating SFAS No. 156 to determine the potential impact, if any, it would have on its consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (SFAS No. 155), which is effective for fiscal years beginning after September 15, 2006. SFAS No. 155 was issued to clarify the application of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) to beneficial interests in securitized financial assets and to improve the consistency of accounting for similar financial instruments, regardless of the form of the instruments. Bunge is currently evaluating SFAS No. 155 to determine the potential impact, if any, it would have on its consolidated financial statements.

3. INVENTORIES

Inventories consist of the following:

(US$ in millions)	**June 30, 2006**	**December 31, 2005**
Agribusiness Readily marketable inventories at market value[1]	$ 2,130	$ 1,534
Fertilizer	579	421
Edible oils	246	233
Milling	68	73
Other[2]	277	508
Total	$ 3,300	$ 2,769

(1) Readily marketable inventories are agricultural commodities inventories that are readily convertible to cash because of their commodity characteristics, widely available markets and international pricing mechanisms.

(2) Other consists of agribusiness inventories, other than readily marketable inventories, carried at lower of cost or market.

4. INVESTMENTS IN AFFILIATES

During the six months ended June 30, 2006, Bunge made investments in its unconsolidated affiliates, which consisted primarily of a $16 million cash acquisition of 25% of the outstanding shares of a company engaged in the production of edible oil products in Russia and a $24 million investment in Bunge's existing Brazilian port terminal joint ventures. Bunge accounts for these investments under the equity method.

BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. OTHER CURRENT ASSETS

Other current assets consist of the following:

(US$ in millions)	June 30, 2006	December 31, 2005
Prepaid commodity purchase contracts	$ 128	$ 93
Secured advances to suppliers	586	635
Unrealized gain on derivative contracts	330	196
Recoverable taxes	228	216
Marketable securities	8	9
Other	510	488
Total	$ 1,790	$ 1,637

6. GOODWILL

At June 30, 2006, the changes in the carrying value of goodwill by segment are as follows:

(US$ in millions)	Agribusiness	Edible Oil Products	Milling Products	Total
Balance, December 31, 2005	$ 155	$ 13	$ 8	$ 176
Acquired goodwill[1]	6			6
Foreign exchange translation	12	1		13
Tax benefit on goodwill amortization[2]	(7)			(7)
Balance, June 30, 2006	$ 166	$ 14	$ 8	$ 188

(1) In the three months ended June 30, 2006, Bunge completed its purchase price allocation for its 2005 acquisition in Rizhao, China. Bunge paid $15 million in cash for a 61% ownership interest in a company that owns and operates an integrated soybean crushing and refining plant from the Sanwei Group Ltd. Bunge recognized $6 million as the excess of the purchase price over the historical book value, which it allocated to goodwill in its agribusiness segment.

(2) Bunge's Brazilian subsidiary's tax deductible goodwill is in excess of its book goodwill. For financial reporting purposes, the tax benefits attributable to the excess tax goodwill are first used to reduce recorded goodwill and then to reduce intangible assets prior to recognizing any income tax benefit in the condensed consolidated statements of income.

7. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

(US$ in millions)	June 30, 2006	December 31, 2005
Accrued liabilities	$ 582	$ 669
Unrealized loss on derivative contracts	287	264
Advances on sales	121	202
Other	121	52

(US$ in millions)	June 30, 2006	December 31, 2005
Total	$ 1,111	$ 1,187

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BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. IMPAIRMENT AND RESTRUCTURING CHARGES

Impairment In the six months ended June 30, 2006, Bunge recorded a pretax non-cash impairment charge of $18 million and $2 million in its agribusiness and edible oil products segments, respectively, relating to write-downs of three less efficient oilseed processing, refining and bottling facilities in Brazil. Declining results of operations at these facilities, which resulted from adverse operating conditions in the Brazilian agribusiness industry, competition from Argentina and the strength of the Brazilian currency, led management to permanently close these three facilities. The fair values of land and equipment at these three facilities were determined with the assistance of a third-party valuation. Bunge has recorded these impairment charges in cost of goods sold in the condensed consolidated statements of income for the six months ended June 30, 2006.

Restructuring In the six months ended June 30, 2006, Bunge recorded restructuring charges of $4 million related to its South American agribusiness and fertilizer operations. These charges consisted of termination benefit costs of $1 million and $2 million in the agribusiness and fertilizer segments, respectively, and environmental costs of $1 million in the agribusiness segment. In the agribusiness segment, termination costs for the six months ended June 30, 2006 related to termination benefit obligations associated with approximately 400 plant employees and the environmental expense related to the closure of the three oilseed processing, refining and bottling facilities noted above. In the fertilizer segment, termination costs for the six months ended June 30, 2006 related to the termination of approximately 100 administrative employees in connection with Bunge's cost reduction programs. These restructuring costs are associated with Bunge's 2005 corporate restructuring program which was designed to streamline costs and rationalize the corporate structure in these segments. Funding for these costs is provided by cash flows from operations. All termination benefit obligations were paid as of June 30, 2006. The environmental costs are accrued in other non-current liabilities in the condensed consolidated balance sheet at June 30, 2006. The restructuring and environmental costs for the agribusiness segment were recorded in cost of goods sold and the restructuring costs for the fertilizer segment were recorded in selling, general and administrative expense in the condensed consolidated statement of income for the six months ended June 30, 2006.

9. LONG-TERM DEBT AND FINANCIAL INSTRUMENTS

The interest rate swaps used by Bunge as derivative hedging instruments have been recorded at fair value in other liabilities in the condensed consolidated balance sheet with changes in fair value recorded currently in earnings. Additionally, the carrying amount of the associated debt is adjusted through earnings for changes in the fair value due to changes in interest rates. Ineffectiveness, as defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), is recognized to the extent that these two adjustments do not offset. As of June 30, 2006, Bunge recognized no ineffectiveness related to its interest rate swap hedging instruments. The derivatives Bunge entered into for hedge purposes are assumed to be perfectly effective under the shortcut method of SFAS No. 133. The differential between the fixed and variable rates to be paid or received on changes in interest rates is recorded as an adjustment to interest expense. The interest rate differential on the swaps settles in cash every six months until expiration.

During the three months ended June 30, 2006, Bunge entered into various interest rate swap agreements with a notional value amount of $200 million maturing in 2013 for the purpose of managing its interest rate exposure associated with the $200 million aggregate principal amount of 5.875% senior notes due 2013. Under the terms of the interest rate swap agreements, Bunge will make payments based on six-month LIBOR and will receive payments based on fixed interest rates. Bunge accounts for interest rate swap agreements as fair value hedges in accordance with SFAS No. 133.

BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

9. LONG-TERM DEBT AND FINANCIAL INSTRUMENTS (continued)

The following table summarizes Bunge's outstanding interest rate swap agreements accounted for as fair value hedges as of June 30, 2006.

(US$ in millions)	Maturity 2008	2013	2014	2015	Total	Fair Value Loss June 30, 2006
Receive fixed/pay variable notional amount	$ 500	$ 200	$ 500	$ 400	$ 1,600	$ (85)
Weighted average variable rate payable[1]	5.994%	5.538%	6.360%	5.918%		
Weighted average fixed rate receivable	4.375%	5.875%	5.35%	5.10%		

(1) Interest is payable in arrears based on six-month LIBOR plus a spread.

Bunge recognized approximately $5 million and $9 million of interest expense in the condensed consolidated statement of income in the three months and six months ended June 30, 2006, respectively, relating to its outstanding swap agreements.

Certain of Bunge's operations are subject to risk from exchange rate fluctuations in connection with anticipated sales in foreign currencies. To minimize this risk, during the six months ended June 30, 2006, a combination of foreign exchange contracts and zero cost collars were purchased and designated as cash flow hedges in accordance with SFAS No. 133. Accordingly, changes in fair values of outstanding cash flow hedge derivatives that are highly effective are recorded in other comprehensive income, until net income is affected by the variability of cash flows of the hedged transaction. In most cases, amounts recorded in other comprehensive income will be released to net income some time after the maturity of the related derivative. Results of hedges related to sales in foreign currencies are recorded in net sales in the condensed consolidated statement of income for the three and six months ended June 30, 2006.

As of June 30, 2006, approximately $300 million of anticipated foreign currency denominated sales have been hedged with the underlying derivative contracts settling at various dates beginning in July 2006 through December 2007. At June 30, 2006, the fair value of contracts expected to settle within the next 18 months, which is recorded in other current assets, approximated $7 million. The change in the fair value of the contracts designated as cash flow hedges is recorded as a component of other comprehensive income and was approximately $5 million, net of income taxes, as of June 30, 2006. The change in the fair value will be reclassified into earnings when the anticipated sales occur with approximately $3 million, net of tax, expected to be released to earnings in 2006. The ineffective portion of these hedges was not material. Bunge assesses, both at the inception of the hedge and on an on-going basis, whether the derivatives that are used in hedge transactions are highly effective in offsetting changes in cash flow hedged items.

10. RELATED PARTY TRANSACTIONS

Bunge purchased soybeans, related soybean commodity products and other commodity products from its unconsolidated joint ventures (primarily The Solae Company and its other North American joint ventures), which totaled $76 million and $118 million for the three months ended June 30, 2006 and 2005, respectively, and $146 million and $197 million for the six months ended June 30, 2006 and 2005, respectively. Bunge also sold soybean commodity products and other commodity products to these joint ventures, which totaled $21 million and $27 million for the three months ended June 30, 2006 and 2005, respectively, and $53 million and $38 million for the six months ended June 30, 2006 and 2005, respectively. Bunge believes these transactions were recorded at values similar to those with third parties.

BUNGE LIMITED AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

11. EMPLOYEE BENEFIT PLANS

(US$ in millions)	Pension Benefits Three Months Ended June 30, 2006	Pension Benefits Three Months Ended June 30, 2005	Pension Benefits Six Months Ended June 30, 2006	Pension Benefits Six Months Ended June 30, 2005
	(Unaudited)			
Service cost	$ 3	$ 2	$ 6	$ 4
Interest cost	5	4	10	8
Expected return on plan assets	(5)	(4)	(10)	(8)
Recognized prior service cost	1	1	1	1
Recognized net loss			1	1
Net periodic benefit cost	$ 4	$ 3	$ 8	$ 6

(US$ in millions)	Postretirement Benefits Three Months Ended June 30, 2006	Postretirement Benefits Three Months Ended June 30, 2005	Postretirement Benefits Six Months Ended June 30, 2006	Postretirement Benefits Six Months Ended June 30, 2005
	(Unaudited)			
Service cost	$	$	$	$
Interest cost	1	1	1	1