Bunge LTD
Form 10-Q
November 09, 2007

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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 September 30, 2007

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 November 2, 2007 the number of common shares issued and outstanding of the registrant was:

Common shares, par value $.01: 120,939,267

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 September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Net sales	$ 12,676	$ 6,965	$ 30,786	$ 18,591
Cost of goods sold	(11,769)	(6,480)	(29,047)	(17,534)
Gross profit	**907**	**485**	**1,739**	**1,057**
Selling, general and administrative expenses	(353)	(255)	(925)	(700)
Interest income	44	29	112	87
Interest expense	(102)	(66)	(251)	(194)
Foreign exchange gains	56	7	178	35
Other income (expense) net	(5)	3	(2)	7
Income from operations before income tax	**547**	**203**	**851**	**292**
Income tax expense	(145)	(25)	(221)	(33)
Income from operations after income tax	**402**	**178**	**630**	**259**
Minority interest	(57)	(19)	(104)	(38)
Equity in earnings of affiliates	6	10	7	36
Net income	**$ 351**	**$ 169**	**$ 533**	**$ 257**
Convertible preference share dividends	(8)		(25)	
Net income available to common shareholders	**$ 343**	**$ 169**	**$ 508**	**$ 257**
Earnings per common share basic (Note 13)	$ 2.84	$ 1.41	$ 4.21	$ 2.15
Earnings per common share diluted (Note 13)	$ 2.70	$ 1.40	$ 4.12	$ 2.13
Dividends per common share	$ 0.17	$ 0.16	$ 0.49	$ 0.46

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)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 845	$ 365
Trade accounts receivable (less allowance of $104 and $224)	2,697	1,879
Inventories (Note 3)	5,622	3,684
Deferred income taxes	142	149
Other current assets (Note 4)	4,454	2,316
Total current assets	13,760	8,393
Property, plant and equipment, net	3,967	3,446
Goodwill (Note 5)	251	236
Other intangible assets	112	99
Investments in affiliates	684	649
Deferred income taxes	939	714
Other non-current assets	1,113	810
Total assets	$ 20,826	$ 14,347
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 1,529	$ 454
Current portion of long-term debt	106	156
Trade accounts payable	3,614	2,328
Deferred income taxes	118	54
Other current liabilities (Note 6)	3,589	1,523
Total current liabilities	8,956	4,515
Long-term debt	3,480	2,874
Deferred income taxes	178	180
Other non-current liabilities	904	700
Commitments and contingencies (Note 11)		
Minority interest in subsidiaries	602	410
Shareholders' equity:		
Convertible preference shares, par value $.01; authorized, issued and outstanding: 2007 and 2006 6,900,000 (liquidation preference $100 per share)	690	690
Common shares, par value $.01; authorized 240,000,000 shares; issued and outstanding: 2007 120,909,442 shares, 2006 119,955,645	1	1
Additional paid-in capital	2,751	2,690
Retained earnings	2,753	2,350
Accumulated other comprehensive income (loss)	511	(63)
Total shareholders' equity	6,706	5,668

	September 30, 2007	December 31, 2006
Total liabilities and shareholders' equity	$ 20,826	$ 14,347

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)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
OPERATING ACTIVITIES		
Net income	$ 533	$ 257
Adjustments to reconcile net income to cash used for operating activities:		
Foreign exchange gain on debt	(167)	(93)
Impairment of assets	10	20
Bad debt expense	39	35
Depreciation, depletion and amortization	271	239
Stock-based compensation expense	31	7
Decrease in allowance for recoverable taxes		1
Deferred income taxes	(64)	(50)
Minority interest	104	38
Equity in earnings of affiliates	(7)	(36)
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Trade accounts receivable	(557)	(236)
Inventories	(1,571)	(551)
Prepaid commodity purchase contracts	(103)	(111)
Secured advances to suppliers	124	258
Trade accounts payable	908	113
Advances on sales	(79)	(54)
Unrealized gain on derivative contracts	(199)	(124)
Accrued liabilities	126	30
Other net	(41)	(291)
Net cash used for operating activities	(642)	(548)
INVESTING ACTIVITIES		
Payments made for capital expenditures	(382)	(315)
Investments in affiliates	(36)	(68)
Business acquisitions (net of cash acquired)	(31)	(29)
Related party repayments	1	19
Proceeds from disposal of property, plant and equipment	18	8
Return of capital from affiliate		13
Proceeds from sale of investments		11
Net cash used for investing activities	(430)	(361)
FINANCING ACTIVITIES		
Net change in short-term debt	1,018	339
Proceeds from long-term debt	1,576	761
Repayment of long-term debt	(1,041)	(213)
Proceeds from sale of common shares	23	11
Dividends paid to common shareholders	(59)	(54)
Dividends paid to convertible preference shareholders	(25)	
Dividends paid to minority interest	(8)	(16)
Other	28	

	Nine Months Ended September 30,	
Net cash provided by financing activities	1,512	828
Effect of exchange rate changes on cash and cash equivalents	40	14
Net increase (decrease) in cash and cash equivalents	480	(67)
Cash and cash equivalents, beginning of period	365	354
Cash and cash equivalents, end of period	$ 845	$ 287

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, 2006 has been derived from Bunge's audited financial statements at that date. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007. The financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2006 included in Bunge's 2006 Annual Report on Form 10-K as updated by Bunge's Current Report on Form 8-K filed with the Securities and Exchange Commission (SEC) on November 1, 2007.

Reclassifications Certain reclassifications were made to the prior period condensed consolidated financial statements to conform to the current period presentation.

2. NEW ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits an entity to measure certain financial assets and financial liabilities at fair value. Pursuant to SFAS No. 159, entities that elect the fair value alternative will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value alternative may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. The fair value alternative election is irrevocable, unless a new election date occurs. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (1) makes that choice in the first 120 days of that fiscal year, (2) has not yet issued financial statements and (3) elects to apply the provisions of SFAS No. 157, *Fair Value Measurements*. Bunge is evaluating the provisions of SFAS No. 159 to determine the potential impact, if any, SFAS No. 159 will have on its consolidated financial statements if adopted.

In 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) and SFAS No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140* (SFAS No. 156), which are effective for fiscal years beginning after September 15, 2006. SFAS No. 155 clarifies the application of SFAS No. 133 to beneficial interests in securitized financial assets and to improve consistency of accounting for similar financial instruments, regardless of the form of the instruments. SFAS No. 156 simplifies the accounting for servicing rights and reduces the volatility that results from using different measurement attributes. Bunge's adoption of these two standards did not have a material impact on its condensed consolidated financial statements.

BUNGE LIMITED AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. INVENTORIES

Inventories consist of the following:

(US$ in millions)		September 30, 2007		December 31, 2006
Agribusiness Readily marketable inventories at market value (1)	$	3,645	$	2,325
Fertilizer		789		352
Edible oils		357		242
Milling		164		131
Other (2)		667		634
Total	$	5,622	$	3,684

(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. OTHER CURRENT ASSETS

Other current assets consist of the following:

(US$ in millions)		September 30, 2007		December 31, 2006
Prepaid commodity purchase contracts	$	429	$	189
Secured advances to suppliers		345		419
Unrealized gain on derivative contracts		2,488		782
Recoverable taxes		300		296
Margin deposits		321		133
Marketable securities		19		3
Other		552		494
Total	$	4,454	$	2,316

BUNGE LIMITED AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. GOODWILL

At September 30, 2007, 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, 2006	$ 210	$ 18	$ 8	$ 236
Acquired goodwill (1)	8	(9)		(1)
Foreign exchange translation	29	1		30
Tax benefit on goodwill amortization (2)	(14)			(14)
Balance, September 30, 2007	$ 233	$ 10	$ 8	$ 251

(1) In the nine months ended September 30, 2007, as a result of certain product line reclassifications, Bunge reclassified goodwill from its edible oil products segment to its agribusiness segment (see Note 15 of the notes to the condensed consolidated financial statements).

(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.

6. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

(US$ in millions)	September 30, 2007	December 31, 2006
Accrued liabilities	$ 953	$ 630
Unrealized loss on derivative contracts	2,248	665
Advances on sales	257	178
Other	131	50
Total	$ 3,589	$ 1,523

7. LONG-TERM DEBT

In March 2007, Bunge completed the sale of $250 million aggregate principal amount of unsecured senior notes bearing interest at 5.90% per year that mature in April 2017 (senior notes due 2017). The senior notes due 2017 were issued by Bunge's indirect 100%-owned finance subsidiary, Bunge N.A. Finance L.P., and are fully and unconditionally guaranteed by Bunge Limited. Interest on the senior notes due 2017 is payable semi-annually in arrears in April and October of each year, commencing in October 2007. Bunge used the net proceeds of this offering of approximately $247 million, after deducting underwriters' commissions and offering expenses, to repay outstanding indebtedness.

BUNGE LIMITED AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. FINANCIAL INSTRUMENTS

Interest rate derivatives 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 September 30, 2007, 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 interest amounts to be paid or received on the interest rate swaps is recorded as an adjustment to interest expense. The interest rate differential on the swaps settles in cash every six months until expiration.

In the nine months ended September 30, 2007, Bunge entered into interest rate swap agreements with a notional amount of $250 million maturing in 2017 and a notional amount of $200 million maturing in 2013 for the purpose of managing its interest rate exposure associated with the senior notes due 2017 (see Note 7 of the notes to the condensed consolidated financial statements) and $200 million of the $300 million principal amount of senior notes due 2013, respectively. Under the terms of the interest rate swap agreements, Bunge makes payments based on six-month LIBOR and receives payments based on fixed interest rates. Bunge has accounted for the interest rate swap agreements as fair value hedges in accordance with SFAS No. 133.

In the three months ended September 30, 2007, Bunge terminated certain interest rate swap agreements with a notional amount of $500 million and $200 million maturing in 2008 and 2013, respectively. As a result of these swap terminations, Bunge realized a net settlement loss of approximately $4 million that was recorded as an adjustment to the carrying amount of the related debt in the condensed consolidated balance sheet. This settlement loss will be amortized to earnings over the remaining term of the associated debt instruments.

The following table summarizes Bunge's outstanding interest rate swap agreements accounted for as fair value hedges as of September 30, 2007:

	Maturity				Fair Value Loss
(US$ in millions)	**2014**	**2015**	**2017**	**Total**	**September 30, 2007**
Receive fixed/pay variable notional amount	$ 500	$ 400	$ 250	$ 1,150	$ (27)
Weighted average variable rate payable (1)	5.90%	5.46%	5.94%		
Weighted average fixed rate receivable	5.35%	5.10%	5.90%		

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

Bunge recognized approximately $2 million and $10 million of interest expense in the three and nine months ended September 30, 2007, respectively, and approximately $3 million and $12 million in the three months and nine months ended September 30, 2006, respectively, relating to its outstanding interest rate swap agreements in the condensed consolidated statements of income.

Foreign exchange derivatives 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 Bunge has entered into forward purchase and zero cost collar contracts that it has 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 accumulated other comprehensive income (loss), a separate component of shareholders' equity, until net income is affected by the variability of cash flows of the hedged transaction. In most cases, amounts recorded in accumulated other comprehensive income (loss) will be reclassified to earnings.

BUNGE LIMITED AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. FINANCIAL INSTRUMENTS (continued)

typically within an operating cycle. Results of hedges related to sales in non-functional currencies are recorded in net sales in the condensed consolidated statements of income for the three and nine months ended September 30, 2007. As of September 30, 2007, approximately $323 million of anticipated foreign currency denominated sales have been hedged with the underlying derivative contracts settling at various dates through December 2008. At September 30, 2007, the fair value of contracts expected to settle within the next 12 months, which was recorded in other current assets, was approximately $28 million. The change in the fair value of the contracts designated as cash flow hedges is recorded in accumulated other comprehensive income (loss) and was approximately $15 million, net of tax, in the nine months ended September 30, 2007. The change in the fair value is reclassified into earnings when the anticipated sales occur with approximately $15 million, net of tax, expected to be reclassified into earnings in 2008. 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.

Bunge uses net investment hedges to offset the translation adjustments arising from remeasuring its investment in the assets, liabilities, revenues, and expenses of our Brazilian subsidiaries. For derivative instruments that are designated and qualify as net investment hedges, Bunge records the effective portion of the gain or loss on the derivative instrument in accumulated other comprehensive income (loss). At September 30, 2007, Bunge had outstanding cross currency swaps with a notional value of $76 million to hedge its net investment in Brazilian assets. Bunge pays Brazilian *reais* and receives U.S. dollars using fixed interest rates, offsetting the translation adjustment of its net investment in Brazilian *reais* assets. These swaps have maturity dates in 2008. At September 30, 2007, the fair value of these currency swaps was a loss of $16 million, which was recorded in other non-current liabilities in the condensed consolidated balance sheet. Bunge recognized a loss of $10 million on the change in fair value on its outstanding net investment hedge and a loss of $43 million on the settlement of certain other net investment hedges for the nine months ended September 30, 2007, which were included as an offset against foreign exchange translation adjustment in accumulated other comprehensive income (loss).

9. RELATED PARTY TRANSACTIONS

Bunge purchased soybeans, related soybean commodity products and other commodity products from its unconsolidated joint ventures (primarily its North American joint ventures), which totaled $291 million and $113 million for the three months ended September 30, 2007 and 2006, respectively, and $568 million and $259 million for the nine months ended September 30, 2007 and 2006, respectively. Bunge also sold soybean commodity products and other commodity products to its North American and certain European joint ventures, which totaled $51 million and $46 million for the three months ended September 30, 2007 and 2006, respectively, and $123 million and $99 million for the nine months ended September 30, 2007 and 2006, 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)

10. EMPLOYEE BENEFIT PLANS

	Pension Benefits Three Months Ended September 30,		Pension Benefits Nine Months Ended September 30,	
(US$ in millions)	**2007**	**2006**	**2007**	**2006**
Service cost	$ 3	$ 3	$ 9	$ 9
Interest cost	5	5	16	15
Expected return on plan assets	(5)	(5)	(15)	(15)
Recognized prior service cost			1	1
Recognized net loss	1	1		