

CORN PRODUCTS INTERNATIONAL INC
Form 10-Q
August 08, 2008

**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 June 30, 2008**

COMMISSION FILE NUMBER 1-13397

CORN PRODUCTS INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

22-3514823

(I.R.S. Employer Identification Number)

**5 WESTBROOK CORPORATE CENTER,
WESTCHESTER, ILLINOIS**

(Address of principal executive offices)

60154

(Zip Code)

(708) 551-2600

(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of large accelerated filer, accelerated filer and small reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a 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 registrant's classes of common stock, as of the latest practicable date.

CLASS
Common Stock, \$.01 par value

OUTSTANDING AT July 31, 2008
74,462,564 shares

PART I FINANCIAL INFORMATION

ITEM 1
FINANCIAL STATEMENTSCORN PRODUCTS INTERNATIONAL, INC.
Condensed Consolidated Statements of Income
(Unaudited)

(In millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net sales before shipping and handling costs	\$1,093.6	\$917.0	\$2,084.6	\$1,733.6
Less: shipping and handling costs	65.1	60.0	125.2	114.8
Net sales	1,028.5	857.0	1,959.4	1,618.8
Cost of sales	841.9	701.5	1,599.5	1,317.2
Gross profit	186.6	155.5	359.9	301.6
Operating expenses	73.4	64.9	140.9	122.5
Other income (expense)-net	2.6		3.6	(0.8)
Operating income	115.8	90.6	222.6	178.3
Financing costs-net	6.9	12.9	14.3	22.7
Income before income taxes and minority interest	108.9	77.7	208.3	155.6
Provision for income taxes	38.0	25.5	71.3	52.0
	70.9	52.2	137.0	103.6
Minority interest in earnings	2.5	1.6	4.3	3.0
Net income	\$ 68.4	\$ 50.6	\$ 132.7	\$ 100.6
Weighted average common shares outstanding:				
Basic	74.4	74.8	74.2	74.6
Diluted	76.2	76.6	75.9	76.4
Earnings per common share:				
Basic	\$ 0.92	\$ 0.68	\$ 1.79	\$ 1.35
Diluted	\$ 0.90	\$ 0.66	\$ 1.75	\$ 1.32

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS
CORN PRODUCTS INTERNATIONAL, INC.
Condensed Consolidated Balance Sheets

(In millions, except share and per share amounts)	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 292	\$ 175
Accounts receivable net	654	460
Inventories	526	427
Prepaid expenses	17	14
Deferred income taxes	14	13
Total current assets	1,503	1,089
Property, plant and equipment net	1,566	1,500
Goodwill and other intangible assets	405	426
Deferred income taxes	1	1
Investments	10	13
Other assets	107	74
Total assets	\$3,592	\$ 3,103
Liabilities and equity		
Current liabilities		
Short-term borrowings and current portion of long-term debt	\$ 122	\$ 130
Deferred income taxes	112	28
Accounts payable and accrued liabilities	631	516
Total current liabilities	865	674
Non-current liabilities	126	123
Long-term debt	514	519
Deferred income taxes	137	133
Minority interest in subsidiaries	21	21
Redeemable common stock (500,000 shares issued and outstanding at June 30, 2008 and December 31, 2007) stated at redemption value	23	19
Share-based payments subject to redemption	8	9
Stockholders equity		
Preferred stock authorized 25,000,000 shares-\$0.01 par value none issued	1	1

Edgar Filing: CORN PRODUCTS INTERNATIONAL INC - Form 10-Q

Common stock - authorized 200,000,000 shares- \$0.01 par value	74,819,774	
shares issued at June 30, 2008 and December 31, 2007		
Additional paid-in capital	1,074	1,082
Less: Treasury stock (common stock; 950,281 and 1,568,996 shares at June 30, 2008 and December 31, 2007, respectively) at cost	(35)	(57)
Accumulated other comprehensive income (loss)	50	(115)
Retained earnings	808	694
Total stockholders equity	1,898	1,605
Total liabilities and equity	\$3,592	\$ 3,103

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION**ITEM 1****FINANCIAL STATEMENTS**

CORN PRODUCTS INTERNATIONAL, INC.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(In millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net income	\$ 68	\$ 51	\$133	\$101
Comprehensive income (loss):				
Gains (losses) on cash flow hedges, net of income tax effect of \$73, \$6, \$124 and \$12, respectively	120	(10)	204	(20)
Reclassification adjustment for (gains) losses on cash flow hedges included in net income, net of income tax effect of \$22, \$13, \$29 and \$13, respectively	(36)	(21)	(49)	(21)
Unrealized loss on investment, net of income tax effect of \$1			(2)	
Currency translation adjustment	9	42	12	57
Comprehensive income	\$161	\$ 62	\$298	\$117

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1
FINANCIAL STATEMENTSCORN PRODUCTS INTERNATIONAL, INC.
Condensed Consolidated Statement of Stockholders' Equity and Redeemable Equity
(Unaudited)

STOCKHOLDERS' EQUITY

(in millions)	Additional			Accumulated Other		Share-based	
	Common Stock	Paid-In Capital	Treasury Stock	Comprehensive Income (Loss)	Retained Earnings	Redeemable Common Stock	Payments Subject to Redemption
Balance, December 31, 2007	\$1	\$1,082	\$(57)	\$ (115)	\$694	\$ 19	\$ 9
Net income					133		
Dividends declared					(19)		
Gains on cash flow hedges, net of income tax effect of \$124				204			
Amount of gains on cash flow hedges reclassified to earnings, net of income tax effect of \$29				(49)			
Repurchase of common stock			(1)				
Issuance of common stock on exercise of stock options		(8)	19				
Share-based compensation		1	4				(1)
Excess tax benefit on share-based compensation		3					
Change in fair value of redeemable common stock		(4)				4	
Unrealized loss on investment, net of income tax effect of \$1				(2)			
Currency translation adjustment				12			

Balance, June 30, 2008	\$1	\$1,074	\$(35)	\$ 50	\$808	\$ 23	\$ 8
-----------------------------------	------------	----------------	---------------	--------------	--------------	--------------	-------------

See Notes to Condensed Consolidated Financial Statements

5

PART I FINANCIAL INFORMATION

ITEM 1
FINANCIAL STATEMENTSCORN PRODUCTS INTERNATIONAL, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Six Months Ended	
	2008	June 30, 2007
Cash provided by (used for) operating activities:		
Net income	\$ 133	\$ 101
Non-cash charges (credits) to net income:		
Depreciation	65	62
Minority interest in earnings	4	3
Changes in working capital:		
Accounts receivable and prepaid items	29	(83)
Inventories	(104)	(26)
Accounts payable and accrued liabilities	112	8
Other	(6)	2
Cash provided by operating activities	233	67
Cash provided by (used for) investing activities:		
Capital expenditures, net of proceeds on disposal	(105)	(69)
Payments for acquisitions (net of cash acquired of \$7)		(59)
Other	5	1
Cash used for investing activities	(100)	(127)
Cash provided by (used for) financing activities:		
Proceeds from borrowings	53	355
Payments on debt	(63)	(24)
Repurchases of common stock	(1)	(7)
Issuance of common stock	11	12
Dividends paid (including to minority interest shareholders)	(20)	(16)
Excess tax benefit on share-based compensation	3	3
Other		1
Cash provided by (used for) for financing activities	(17)	324
Effect of foreign exchange rate changes on cash	1	1
Increase in cash and cash equivalents	117	265
Cash and cash equivalents, beginning of period	175	131

Cash and cash equivalents, end of period	\$ 292	\$ 396
--	---------------	---------------

See Notes to Condensed Consolidated Financial Statements

6

CORN PRODUCTS INTERNATIONAL, INC.
Notes to Condensed Consolidated Financial Statements

1. Interim Financial Statements

References to the Company are to Corn Products International, Inc. and its consolidated subsidiaries. These statements should be read in conjunction with the consolidated financial statements and the related notes to those statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

The unaudited condensed consolidated interim financial statements included herein were prepared by management and reflect all adjustments (consisting solely of normal recurring items unless otherwise noted) which are, in the opinion of management, necessary to present a fair statement of results of operations and cash flows for the interim periods ended June 30, 2008 and 2007, and the financial position of the Company as of June 30, 2008. The results for the interim periods are not necessarily indicative of the results expected for the full years.

2. Bunge Acquisition

On June 23, 2008, the Company (Corn Products) and Bunge Limited (Bunge) announced that they have entered into a definitive agreement in which Bunge will acquire Corn Products in an all-stock transaction.

Under the terms of the agreement, each share of Corn Products common stock will be exchanged for a fraction of a common share of Bunge determined by dividing \$56.00 by the volume weighted average closing price of a Bunge common share on the New York Stock Exchange for the 15 trading days ending on the second trading day prior to the date of the Corn Products stockholders meeting, provided that if this average closing price is equal to or greater than \$133.10, each share of Corn Products common stock will be exchanged for 0.4207 of a Bunge common share, and if this average closing price is equal to or less than \$108.90, each share of Corn Products common stock will be exchanged for 0.5142 of a Bunge common share. If the 15 day average closing price of a Bunge common share ending on the second trading day prior to the date of the Corn Products stockholders meeting is within the range of \$108.90 to \$133.10, then Corn Products stockholders will receive common shares of Bunge having a market value of \$56 for each share of Corn Products stock owned. Assuming Corn Products stockholders receive common shares of Bunge having a market value of \$56 for each share of Corn Products stock owned, the aggregate transaction value would be approximately \$4.8 billion, including assumption of Corn Products' net debt.

The exchange of shares in the transaction is expected to qualify as a tax-free reorganization, allowing Corn Products stockholders to defer any gain on their shares for U.S. income tax purposes.

Upon closing of the transaction, Corn Products will become a wholly owned subsidiary of Bunge, and Mr. Sam Scott, the CEO of the Company, will join Bunge's Board of Directors.

The transaction is expected to close in the fourth quarter of 2008 and is subject to the satisfaction of customary closing conditions, including receipt of regulatory clearances, as well as approval by the shareholders of both companies.

3. Share-Based Compensation

The Company accounts for share-based compensation under the provisions of Statement of Financial Accounting Standards No. 123R, Share-Based Payment.

A summary of information with respect to stock-based compensation is as follows:

(in millions)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Total stock-based compensation expense included in net income	\$ 2.8	\$ 3.9	\$ 7.7	\$ 7.7
Income tax benefit related to stock-based compensation included in net income	\$ 1.0	\$ 1.3	\$ 2.6	\$ 2.6

Stock Options:

Under the Company's stock incentive plan, stock options are granted at exercise prices that equal the market value of the underlying common stock on the date of grant. The options are exercisable upon vesting, which occurs for grants issued in 2008 and 2007 evenly over a three-year period from the date of the grant, and have a term of 10 years. Stock options granted prior to 2007 are exercisable upon vesting, which occurs in 50 percent increments at the one and two year anniversary dates of the date of grant, and also have a term of 10 years. Compensation expense is recognized on a straight-line basis for awards.

The Company granted non-qualified options to purchase 813 thousand shares of the Company's common stock during the six months ended June 30, 2008. There were no non-qualified options granted during the second quarter of 2008.

The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2008	June 30, 2007
Expected life (in years)	5.3	5.3
Risk-free interest rate	2.91%	4.76%
Expected volatility	27.04%	26.75%
Expected dividend yield	1.16%	0.98%

The expected life of options represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and the Company's historical exercise patterns. The risk-free interest rate is based on the US Treasury yield curve in effect at the time of the grant for periods corresponding with the expected life of

the options. Expected volatility is based on historical volatilities of the Company's common stock. Dividend yields are based on historical dividend payments.

Stock option activity for the six months ended June 30, 2008 was as follows:

(dollars and shares in thousands, except per share)	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	4,193	\$22.30		
Granted	813	34.32		
Exercised	(527)	19.88		
Cancelled	(38)	33.52		
Outstanding at June 30, 2008	4,441	24.70	6.63	\$ 108,432
Exercisable at June 30, 2008	3,176	\$20.92	5.59	\$ 89,554

For the six months ended June 30, 2008, cash received from the exercise of stock options was \$11 million and the income tax benefit realized from the exercise of stock options was \$3 million. As of June 30, 2008, the total remaining unrecognized compensation cost related to non-vested stock options approximated \$9 million, which will be amortized over the weighted-average period of approximately 2.1 years.

Additional information pertaining to stock option activity is as follows:

(dollars in thousands, except per share)	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Weighted average grant date fair value of stock options granted (per share)	\$	\$ 12.45	\$ 9.05	\$ 10.37
Total intrinsic value of stock options exercised	\$12,462	\$13,204	\$13,303	\$14,604

Restricted Shares of Common Stock:

The Company has granted restricted stock to certain employees that vest after a designated service period ranging from three to five years. The fair value of the restricted stock is determined based upon the number of shares granted and the quoted price of the Company's stock at the date of the grant. Expense recognized for the three and six months ended June 30, 2008 was \$0.3 million and \$0.8 million, respectively, as compared to \$0.3 million and \$0.6 million in the comparable prior year periods.

The following table summarizes restricted share activity for the six months ended June 30, 2008.

(shares in thousands)	Number of Restricted Shares	Weighted Average Fair Value
Non-vested at December 31, 2007	166	\$29.85
Granted	46	34.36
Vested	(13)	27.24
Cancelled	(8)	33.97
Non-vested at June 30, 2008	191	30.60

As of June 30, 2008, the total remaining unrecognized compensation cost related to restricted stock approximated \$4 million, which will be amortized on a weighted-average basis over 2.3 years.

4. Inventories

Inventories are summarized as follows:

(in millions)	At June 30, 2008	At December 31, 2007
Finished and in process	\$ 195	\$ 165
Raw materials	273	202
Manufacturing supplies and other	58	60
Total inventories	\$ 526	\$ 427

5. Segment Information

The Company operates in one business segment, corn refining, and is managed on a geographic regional basis. Its North America operations include corn-refining businesses in the United States, Canada and Mexico. The Company's South America operations include corn-refining businesses in Brazil, Colombia, Ecuador, Peru and the Southern Cone of South America, which includes Argentina, Chile and Uruguay. The Company's Asia/Africa operations include corn-refining businesses in Korea, Pakistan, Malaysia, Kenya and China, and a tapioca root processing operation in Thailand.

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net Sales				
North America	\$ 609.3	\$533.7	\$1,146.2	\$1,001.4
South America	297.6	218.5	569.6	418.9
Asia/Africa	121.6	104.8	243.6	198.5
Total	\$1,028.5	\$857.0	\$1,959.4	\$1,618.8
Operating Income				
North America	\$ 85.5	\$ 68.4	\$ 160.8	\$ 129.5
South America	36.5	25.9	68.7	50.9
Asia/Africa	12.7	11.7	25.6	26.0
Corporate	(18.9)	(15.4)	(32.5)	(28.1)
Total	\$ 115.8	\$ 90.6	\$ 222.6	\$ 178.3

(in millions)	At June 30, 2008	At December 31, 2007
Total Assets		
North America	\$ 2,084	\$ 1,716
South America	999	902
Asia/Africa	509	485
Total	\$ 3,592	\$ 3,103

6. Net Periodic Benefit Cost

For detailed information about the Company's pension and postretirement benefit plans, please refer to Note 8 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

The following sets forth the components of net periodic benefit cost of the US and non-US defined benefit pension plans for the three and six months ended June 30, 2008 and 2007:

Three Months