INTERNATIONAL FLAVORS & FRAGRANCES INC
Form 10-Q
April 30, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2009

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 1-4858

INTERNATIONAL FLAVORS & FRAGRANCES INC.

(Exact name of registrant as specified in its charter)

New York	13-1432060
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

521 West 57th Street, New York, N.Y. 10019-2960
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code (212) 765-5500

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 þ No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of shares outstanding as of April 17, 2009: 78,692,641

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERNATIONAL FLAVORS & FRAGRANCES INC.
CONSOLIDATED BALANCE SHEET
(DOLLARS IN THOUSANDS)
(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 87,589	$ 178,467
Short-term investments	328	361
Trade receivables	430,219	412,127
Allowance for doubtful accounts	(11,835)	(11,156)
Inventories: Raw materials	224,326	235,324
Work in process	9,675	10,975
Finished goods	218,281	233,268
Total Inventories	452,282	479,567
Deferred income taxes	15,519	23,695
Other current assets	77,955	78,007
Total Current Assets	1,052,057	1,161,068
Property, Plant and Equipment, at cost	1,144,359	1,171,908
Accumulated depreciation	(669,977)	(675,052)
	474,382	496,856
Goodwill	665,582	665,582
Intangible assets, net	59,562	61,101
Deferred income taxes	155,245	160,661
Other assets	212,804	204,645
Total Assets	$ 2,619,632	$ 2,749,913
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Bank borrowings and overdrafts and current portion of long-term debt	$ 90,465	$ 101,982
Accounts payable	95,303	114,997
Accrued payrolls and bonuses	27,726	40,456
Dividends payable		19,666
Restructuring and other charges	12,786	14,821
Other current liabilities	120,393	159,119
Total Current Liabilities	346,673	451,041

Other Liabilities:		
Long-term debt	1,124,903	1,153,672
Deferred gains	57,875	58,632
Retirement liabilities	276,969	276,231
Other liabilities	167,619	229,695
Total Other Liabilities	1,627,366	1,718,230
Commitments and Contingencies (Note 13)		
Shareholders Equity:		
Common stock 12 1/2¢ par value; authorized 500,000,000 shares; issued 115,761,840 shares as of March 31, 2009 and December 31, 2008; and outstanding 78,690,641 and 78,661,062 shares as of March 31, 2009 and December 31, 2008	14,470	14,470
Capital in excess of par value	113,585	106,073
Retained earnings	2,250,165	2,222,641
Accumulated other comprehensive loss	(297,659)	(325,105)
	2,080,561	2,018,079
Treasury stock, at cost - 37,071,199 shares as of March 31, 2009 and 37,100,778 shares as of December 31, 2008	(1,442,849)	(1,444,968)
Total Shareholders Equity	637,712	573,111
Noncontrolling interest	7,881	7,531
Total Shareholders Equity including noncontrolling interest	645,593	580,642
Total Liabilities and Shareholders Equity	$ 2,619,632	$ 2,749,913

See Notes to Consolidated Financial Statements

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INTERNATIONAL FLAVORS & FRAGRANCES INC.
CONSOLIDATED STATEMENT OF INCOME
(AMOUNTS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)
(Unaudited)

	Three Months Ended March 31,	
	2009	**2008**
Net sales	$ 559,630	$ 596,605
Cost of goods sold	337,430	351,123
Research and development expenses	50,189	52,056
Selling and administrative expenses	89,424	90,149
Amortization of intangibles	1,538	1,538
Restructuring and other charges		6,222
Interest expense	19,781	18,219
Other (income) expense, net	(1,162)	2,307
	497,200	521,614
Income before taxes on income	62,430	74,991
Taxes on income	15,233	19,043
Net income	47,197	55,948
Other comprehensive income:		
Foreign currency translation adjustments	24,041	(32,474)
Accumulated gains (losses) on derivatives qualifying as hedges	1,581	(2,521)
Pension and postretirement liability adjustment	1,824	3,388
Comprehensive income	$ 74,643	$ 24,341
Net income per share basic	$ 0.60	$ 0.69
Net income per share diluted	$ 0.60	$ 0.69
Average number of shares outstanding basic	78,195	80,296
Average number of shares outstanding diluted	78,747	81,079
Dividends declared per share	$ 0.25	$ 0.23

See Notes to Consolidated Financial Statements

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INTERNATIONAL FLAVORS & FRAGRANCES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(DOLLARS IN THOUSANDS)
(Unaudited)

	Three Months Ended March 31,	
	2009	**2008**
Cash flows from operating activities:		
Net income	$ 47,197	$ 55,948
Adjustments to reconcile to net cash provided by operations:		
Depreciation and amortization	18,631	19,494
Deferred income taxes	5,985	21
(Gain) loss on disposal of assets	(809)	72
Equity based compensation	4,759	3,885
Changes in assets and liabilities:		
Current receivables	(27,221)	(34,802)
Inventories	12,803	(4,897)
Current payables	(57,574)	(48,814)
Changes in other assets	(2,262)	(12,023)
Changes in other liabilities	(15,877)	28,757
Net cash (used in) provided by operations	(14,368)	7,641
Cash flows from investing activities:		
Additions to property, plant and equipment	(7,644)	(11,966)
Purchase of investments	(198)	(3,784)
Termination of net investment hedge	(11,916)	
Proceeds from disposal of assets	675	471
Net cash used in investing activities	(19,083)	(15,279)
Cash flows from financing activities:		
Cash dividends paid to shareholders	(39,338)	(18,628)
Net change in bank borrowings and overdrafts	(7,264)	(36,568)
Proceeds from issuance of stock under stock-based compensation plans	347	2,314
Purchase of treasury stock	(1,967)	(29,995)
Net cash used in financing activities	(48,222)	(82,877)
Effect of exchange rate changes on cash and cash equivalents	(9,205)	(498)
Net change in cash and cash equivalents	(90,878)	(91,013)
Cash and cash equivalents at beginning of year	178,467	151,471
Cash and cash equivalents at end of period	$ 87,589	$ 60,458
Interest paid	$ 37,985	$ 38,031

Income taxes paid	$	7,763	$	10,268

See Notes to Consolidated Financial Statements

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Notes to Consolidated Financial Statements

These interim statements and management s related discussion and analysis should be read in conjunction with the Consolidated Financial Statements and their related notes and management s discussion and analysis of results of operations and financial condition included in our 2008 Annual Report on Form 10-K (2008 Form 10-K). These interim statements are unaudited. We have historically operated on a 52/53 week fiscal year ending on the Friday closest to the last day of the quarter. For ease of presentation, December 31 and March 31 are utilized consistently throughout these financial statements and notes to represent the period end date. In the opinion of our management, all adjustments, including normal recurring accruals, necessary for a fair presentation of the results for the interim periods have been made.

Note 1. Accounting Changes

Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 FAS 160

We adopted FAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (FAS 160) as of January 1, 2009 which requires us to classify our noncontrolling interest in consolidated subsidiaries (previously referred to as minority interest) as a separate component of shareholders equity. Through December 31, 2008, such noncontrolling interest had been included in Other liabilities in our Consolidated Balance Sheet. Any applicable (income) expense attributable to the noncontrolling interest is included in Other (income) expense, net in the accompanying Consolidated Statement of Income due to its immateriality and, as such, is not included separately in comprehensive income.

Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB No. 133 - SFAS No. 161

We adopted SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (FAS 161) as of January 1, 2009. FAS 161 amends and expands the disclosure requirements of SFAS No. 133 by requiring enhanced disclosures regarding the objectives and strategies for using derivatives, how derivative instruments are accounted for, and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The adoption of this statement had no impact on our financial position or results of operations. The additional disclosures required by this statement are included in Note 12.

Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities FSP EITF 03-6-1

We adopted FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1) as of January 1, 2009. FSP EITF 03-6-1 considers unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities and requires them to be included in the computation of basic earnings per share pursuant to the two-class method described in SFAS No. 128, Earnings per Share". The adoption of this FSP did not have a material impact on our Consolidated Financial Statements and is explained in detail in Note 3.

Note 2. Reclassifications:

Certain reclassifications have been made to the prior periods financial statements to conform to 2009 classifications. In addition, as a result of the adoption of FAS 160 as discussed in Note 1 above, we reclassified Noncontrolling interest of $7.5 million from Other liabilities to a separate component of Shareholders Equity in the Consolidated Balance Sheet.

Note 3. Net Income Per Share:

Net income per share is based on the weighted average number of shares outstanding. A reconciliation of the shares used in the computation of basic and diluted net income per share is as follows:

	Three Months Ended March 31,	
(Shares in thousands)	**2009**	**2008**
Basic	78,195	80,296
Assumed conversion under stock plan	552	783

Diluted	78,747	81,079

Stock options and stock settled appreciation rights (SSARs) to purchase 2,268,159 and 331,593 shares were outstanding for the first quarter of 2009 and 2008, respectively, but were not included in the computation of diluted net income per share for the respective periods since the impact was anti-dilutive.

Our PRS contain nonforfeitable rights to dividends and thus are considered participating securities which are required to be included in the computation of basic and diluted earnings per share pursuant to the two-class method. We did not reflect presentation of the two-class method as basic and diluted net income per share for both common shareholders and PRS shareholders was the same for each period and the number of PRS outstanding as of March 31, 2009 and 2008 was immaterial (0.6% of the total number of shares outstanding). Net income allocated to such PRS was approximately $0.3 million in each period. Diluted shares and net income per share for the three months ended March 31, 2008 have been adjusted to reflect the adoption of FSP EITF 03-6-1.

Note 4. Restructuring and Other Charges:

The 2008 charge primarily related to employee separation expenses in connection with the implementation of a global shared service center and a performance improvement plan. Movements in restructuring liabilities, included in Restructuring and other charges in the accompanying Consolidated Balance Sheet, were (in millions):

	Employee-Related
Balance December 31, 2008	$ 14.8
Cash and other costs	(2.0)
Balance March 31, 2009	$ 12.8

The balance of the employee-related liabilities is expected to be utilized by the end of 2010 as obligations are satisfied.

Note 5. Goodwill and Other Intangible Assets, Net:

Goodwill by operating segment at March 31, 2009 and December 31, 2008 is as follows:

(DOLLARS IN THOUSANDS)	Amount
Flavors	$ 319,479
Fragrances	346,103
Total	$ 665,582

Trademark and other intangible assets consist of the following amounts:

(DOLLARS IN THOUSANDS)	March 31, 2009	December 31, 2008
Gross carrying value	$ 165,406	$ 165,406
Accumulated amortization	105,844	104,305
Total	$ 59,562	$ 61,101

Amortization expense for the three months ended March 31, 2009 and March 31, 2008 was $1.5 million for each period. Annual amortization is estimated to be $6 million in 2009 and $6 million in each year from 2010 through 2013.

Note 6. Comprehensive Income:

Changes in the Accumulated other comprehensive income (loss) component of shareholders equity were as follows:

(DOLLARS IN THOUSANDS)	Translation adjustments	Accumulated (losses) gains on derivatives qualifying as hedges, net of tax	Pension and postretirement liability adjustment, net of tax	Total
Balance December 31, 2008	$ (149,846)	$ (3,832)	$ (171,427)	$ (325,105)
Change	24,041	1,581	1,824	27,446
Balance March 31, 2009	$ (125,805)	$ (2,251)	$ (169,603)	$ (297,659)

(DOLLARS IN THOUSANDS)	Translation adjustments	Accumulated (losses) gains on derivatives qualifying as hedges, net of tax	Pension and postretirement liability adjustment, net of tax	Total
Balance December 31, 2007	$ (32,990)	$ (1,843)	$ (109,514)	$ (144,347)
Change	(32,474)	(2,521)	3,388	(31,607)
Balance March 31, 2008	$ (65,464)	$ (4,364)	$ (106,126)	$ (175,954)

Note 7. Borrowings:

Debt consists of the following:

(DOLLARS IN THOUSANDS)	Rate	Maturities	March 31, 2009	December 31, 2008
Bank borrowings and overdrafts			$ 40,465	$ 51,982
Current portion of long-term debt	5.89%		50,000	50,000
Total current debt			90,465	101,982
Senior notes - 2007	6.38%	2017-27	500,000	500,000
Senior notes - 2006	6.06%	2011-16	325,000	325,000
Bank borrowings	1.36%	2012	132,305	141,575
Japanese Yen loan - 2008	2.21%	2011	133,044	149,758
Japanese Yen notes	2.81%	2011	18,142	20,422
Other			17	24
Deferred realized gains on interest rate swaps			16,395	16,893
Total long-term debt			1,124,903	1,153,672
Total debt			$ 1,215,368	$ 1,255,654

Note 8. Income Taxes:

As of March 31, 2009, we had $59 million of gross unrecognized tax benefits recorded in Other liabilities, that if recognized, would be recorded as a component of income tax expense and affect the effective tax rate.

We have consistently recognized interest and penalties related to unrecognized tax benefits as a component of income tax expense. At March 31, 2009, we had accrued $8 million of interest and penalties.

We have several tax audits in process and have open tax years with various significant taxing jurisdictions that range primarily from 2002 to 2008. Based on currently available information, we do not believe the ultimate outcome of these tax audits and other tax positions related to open tax years, when finalized, will have a material adverse effect on our financial position, results of operations or cash flows.

The effective tax rate for the three months ended March 31, 2009 was 24.4% compared with 25.4% in the three months ended March 31, 2008. The 2008 quarter includes the benefit from favorable tax rulings with respect to prior

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periods of $2.1 million resulting in a 280 basis point reduction in the effective tax rate. The decline in the effective tax rate in 2009 is mainly attributable to the closure of open tax positions and the mix of earnings across the countries in which we operate.

Note 9. Equity Compensation Plans:

We have various plans under which our officers, senior management, other key employees and directors may be granted equity-based awards, including PRS, restricted stock units (RSUs), SSARs or stock options to purchase our common stock.

We offer a Long-Term Incentive Plan (LTIP) for senior management. LTIP plan awards are based on meeting certain targeted financial and/or strategic goals established by the Compensation Committee of the Board of Directors early in each cycle. Beginning with the LTIP 2007-2009 cycle and thereafter, the targeted payout is 50% cash and 50% IFF stock. The number of shares for the 50% stock portion is determined by the closing share price on the first trading day at the beginning of the cycle. The executive generally must remain employed with IFF during the cycle to receive the award.

Stock option and SSAR activity for the three months ended March 31, 2009 was as follows:

(SHARE AMOUNTS IN THOUSANDS)	Shares Subject to Options/SSARs	Weighted Average Exercise Price
Balance at December 31, 2008	2,422	$ 35.86
Exercised	(12)	$ 28.99
Cancelled	(27)	$ 31.69
Balance at March 31, 2009	2,383	$ 35.95

Restricted stock and RSU activity for the three months ended March 31, 2009 was as follows:

(SHARE AMOUNTS IN THOUSANDS)	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Balance at December 31, 2008	1,408	$ 33.34
Cancelled	(12)	$ 42.98
Balance at March 31, 2009	1,396	$ 33.33

Pre-tax expense related to all forms of equity compensation was as follows:

	Three Months Ended March 31,	
(DOLLARS IN THOUSANDS)	2009	2008
Restricted stock and RSUs	$ 4,088	$ 3,134
Stock options and SSARs	671	751
Total equity compensation expense	$ 4,759	$ 3,885

Tax related benefits of $1.5 million and $1 million were recognized for the first quarter of 2009 and 2008, respectively.

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Note 10. Segment Information:

We are organized into two business segments, Flavors and Fragrances; these segments align with the internal structure used to manage these businesses. Accounting policies used for segment reporting are described in Note 1 of the Notes to the Consolidated Financial Statements included in our 2008 Form 10-K.

We evaluate the performance of business units based on operating profit before interest expense, other income (expense), net and income taxes. The Global expense caption represents corporate and headquarters-related expenses which include legal, finance, human resources and other administrative expenses that are not allocated to individual business units. The first three months of 2008 includes approximately $3 million of restructuring costs offset by a $3 million benefit from an insurance recovery related to a prior year product contamination matter. Unallocated assets are principally cash, short-term investments and other corporate and headquarters-related assets.

Our reportable segment information was as follows:

	Three Months Ended March 31, 2009			
(DOLLARS IN THOUSANDS)	**Flavors**	**Fragrances**	**Global Expenses**	**Consolidated**
Net sales	$ 266,121	$ 293,509		$ 559,630
Operating profit	$ 52,840	$ 35,991	$ (7,782)	81,049
Interest expense				(19,781)
Other income (expense), net				1,162
Income before taxes on income				$ 62,430