CORN PRODUCTS INTERNATIONAL INC
Form 10-K
February 27, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

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 1-13397
CORN PRODUCTS INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**22-3514823**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5 Westbrook Corporate Center, Westchester, Illinois	**60154**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code **(708) 551-2600**
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

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 o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 (Do not check if a smaller reporting company)	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

The aggregate market value of the Registrant s voting stock held by non-affiliates of the Registrant (based upon the per share closing price of $49.11 on June 30, 2008, and, for the purpose of this calculation only, the assumption that all of the Registrant s directors and executive officers are affiliates) was approximately $3,627,000,000.

The number of shares outstanding of the Registrant s Common Stock, par value $.01 per share, as of February 23, 2009, was 74,744,000.

Documents Incorporated by Reference:

Information required by Part III (Items 10, 11, 12, 13 and 14) of this document is incorporated by reference to certain portions of the Registrant s definitive Proxy Statement (the Proxy Statement) to be distributed in connection with its 2009 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2008.

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PART I.

ITEM 1. BUSINESS

The Company

Corn Products International, Inc. was incorporated as a Delaware corporation in 1997 and its common stock is traded on the New York Stock Exchange. Corn Products International, Inc., together with its subsidiaries, manufactures and sells a number of ingredients to a wide variety of food and industrial customers.

For purposes of this report, unless the context otherwise requires, all references herein to the Company, Corn Products, we, us, and our shall mean Corn Products International, Inc. and its subsidiaries.

We are one of the world s largest corn refiners and a major supplier of high-quality food ingredients and industrial products derived from wet milling and processing of corn and other starch-based materials.

Our consolidated net sales were $3.94 billion in 2008. Approximately 60 percent of our 2008 net sales were provided from our North American operations, while our South American and Asia/African operations contributed approximately 28 percent and 12 percent, respectively.

Our products are derived primarily from the processing of corn and other starch-based materials, such as tapioca. Corn refining is a capital-intensive, two-step process that involves the wet milling and processing of corn. During the front-end process, corn is steeped in a water-based solution and separated into starch and co-products such as animal feed and corn oil. The starch is then either dried for sale or further processed to make sweeteners and other ingredients that serve the particular needs of various industries.

Our sweetener products include high fructose corn syrup (HFCS), glucose corn syrups, high maltose corn syrups, caramel color, dextrose, polyols, maltodextrins and glucose and corn syrup solids. Our starch-based products include both industrial and food-grade starches.

Corn Products supplies a broad range of customers in many diverse industries around the world, including the food and beverage, pharmaceutical, paper products, corrugated, laminated paper, textile and brewing industries, as well as the global animal feed and corn oil markets.

We believe our approach to production and service, which focuses on local management and production improvements of our worldwide operations, provides us with a unique understanding of the cultures and product requirements in each of the geographic markets in which we operate, bringing added value to our customers.

Products

Sweetener Products. Our sweetener products represented approximately 53 percent, 57 percent and 55 percent of our net sales for 2008, 2007 and 2006, respectively.

High Fructose Corn Syrup: We primarily produce two types of high fructose corn syrup: (i) HFCS-55, which is mainly used as a sweetener in soft drinks; and (ii) HFCS-42, which is used as a sweetener in various consumer products such as fruit-flavored beverages, yeast-raised breads, rolls, dough, ready-to-eat cakes, yogurt and ice cream.

Glucose Corn Syrups: Corn syrups are fundamental ingredients widely used in food products such as baked goods, snack foods, beverages, canned fruits, condiments, candy and other sweets, dairy products, ice cream, jams and jellies, prepared mixes and table syrups. In many markets, we offer corn syrups that are manufactured through an ion exchange process, a method that creates the highest quality, purest corn syrups.

High Maltose Corn Syrup: This special type of glucose syrup has a unique carbohydrate profile, making it ideal for use as a source of fermentable sugars in brewing beers. High maltose corn syrups are also used in the production of confections, canning and some other food processing applications.

Dextrose: We were granted the first US patent for dextrose in 1923. We currently produce dextrose products that are grouped in three different categories monohydrate, anhydrous and specialty. Monohydrate dextrose is used across the food industry in many of the same products as glucose corn syrups, especially in confectionery applications. Anhydrous dextrose is used to make solutions for intravenous injection and other pharmaceutical applications, as well as some specialty food applications. Specialty dextrose products are used in a wide range of applications, from confectionery tableting to dry mixes to carriers for high intensity sweeteners. Dextrose also has a wide range of industrial applications, including use in wall board and production of biodegradable surfactants (surface agents), humectants (moisture agents), and as the base for fermentation products including vitamins, organic acids, amino acids and alcohol.

Polyols: These products are sugar-free, reduced calorie sweeteners primarily derived from starch. They include crystalline sorbitol, crystalline maltitol, mannitol, specialty liquid polyols and liquid sorbitol for the food, beverage, confectionary, industrial, personal and oral care, and nutritional supplement markets.

Maltodextrins and Glucose and Corn Syrup Solids: These products have a multitude of food applications, including formulations where liquid corn syrups cannot be used. Maltodextrins are resistant to browning, provide excellent solubility, have a low hydroscopicity (do not retain moisture), and are ideal for their carrier/bulking properties. Corn syrup solids have a bland flavor, remain clear in solution, and are easy to handle and also provide bulking properties.

Starch Products. Starch products represented approximately 22 percent of our net sales in each of 2008, 2007 and 2006. Starches are an important component in a wide range of processed foods, where they are used particularly as a thickener and binder. Cornstarch is also sold to cornstarch packers for sale to consumers. Starches are also used in paper production to produce a smooth surface for printed communications and to improve strength in recycled papers. In the corrugating industry, starches are used to produce high quality adhesives for the production of shipping containers, display board and other corrugated applications. The textile industry has successfully used starches for over a century to provide size and finishes for manufactured products. Industrial starches are used in the production of construction materials, textiles, adhesives, pharmaceuticals and cosmetics, as well as in mining, water filtration and oil and gas drilling.

Co-Products and others. Co-products and others accounted for 25 percent, 21 percent and 23 percent of our net sales for 2008, 2007 and 2006, respectively. Refined corn oil (from germ) is sold to packers of cooking oil and to producers of margarine, salad dressings, shortening, mayonnaise and other foods. Corn gluten feed is sold as animal feed. Corn gluten meal is sold as high protein feed for chickens, pet food and aquaculture primarily, and steepwater is sold as an additive for animal feed.

Geographic Scope and Operations

We operate in one business segment, corn refining, and manage our business on a geographic regional basis. Our business includes regional operations in North America, South America and Asia/Africa. In 2008, approximately 60 percent of our net sales were derived from operations in North America, while net sales from operations in South America and Asia/Africa represented approximately 28 percent and 12 percent of our net sales, respectively. See Note

14 of the notes to the consolidated financial statements entitled Segment Information for additional financial information with respect to geographic areas.

In general, demand for our products is balanced throughout the year. However, demand for sweeteners in South America is greater in the first and fourth quarters (its summer season) while demand for sweeteners in North America is greater in the second and third quarters. Due to the offsetting impact of these demand trends, we do not experience material seasonal fluctuations in our business.

Our North America region consists of operations in the US, Canada and Mexico. The region s facilities include 11 plants producing regular and modified starches, dextrose, high fructose, glucose and high maltose corn syrups and corn syrup solids, dextrins and maltodextrins, polyols, caramel color, fructooligosaccharides and oat bran concentrate. Our plant in Bedford Park, Illinois is a major supplier of starch and dextrose products for our US and export customers. Our other US plants in Winston-Salem, North Carolina and Stockton, California enjoy strong market shares in their local areas, as do our Canadian plants in Cardinal, London and Port Colborne, Ontario. Our Winston-Salem, Stockton, Port Colborne and London plants primarily produce high fructose corn syrup. We are the largest corn refiner in Mexico, with plants in Guadalajara, Mexico City and San Juan del Rio. We also have a plant in Mapleton, Illinois that produces polyols and a plant in Missoula, Montana that produces oat bran concentrate.

We are the largest corn refiner in South America, with strong market shares in Argentina, Brazil, Chile, Colombia and Peru. Our South America region includes 11 plants that produce regular, modified, waxy and tapioca starches, high fructose and high maltose corn syrups and corn syrup solids, dextrins and maltodextrins, dextrose, caramel color, sorbitol and vegetable adhesives.

Our Asia/Africa region consists of corn and tapioca refining operations in South Korea, Pakistan, Thailand, Kenya and China. The region s facilities include 7 plants that produce modified, regular, waxy and tapioca starches, dextrins, glucose, dextrose, high fructose corn syrups and caramel color.

In addition to the operations in which we engage directly, we have strategic alliances through technical license agreements with companies in South Africa and Venezuela. As a group, our strategic alliance partners produce high fructose, glucose and high maltose syrups (both corn and tapioca), regular, modified, waxy and tapioca starches, dextrose and dextrins, maltodextrins and caramel color. These products have leading positions in many of their target markets.

Competition

The corn refining industry is highly competitive. Many of our products are viewed as basic commodity ingredients that compete with virtually identical products and derivatives manufactured by other companies in the industry. The US is a highly competitive market where there are other corn refiners, several of which are divisions of larger enterprises. Some of these competitors, unlike us, have vertically integrated their corn refining and other operations. Competitors include ADM Corn Processing Division (ADM) (a division of Archer-Daniels-Midland Company), Cargill, Inc., Tate & Lyle Ingredients Americas, Inc., National Starch and Chemical Company (National Starch) (a subsidiary of Akzo Nobel N.V.) and several others. Our operations in Mexico and Canada face competition from US imports and local producers including ALMEX, a Mexican joint venture between ADM and Tate & Lyle Ingredients Americas, Inc. In South America, Cargill and National Starch have corn-refining operations in Brazil. Many smaller local corn and tapioca refiners also operate in many of our markets. Competition within our markets is largely based on price, quality and product availability.

Several of our products also compete with products made from raw materials other than corn. High fructose corn syrup and monohydrate dextrose compete principally with cane and beet sugar products. Co-products such as corn oil and gluten meal compete with products of the corn dry milling industry and with soybean oil, soybean meal and other products. Fluctuations in prices of these competing products may affect prices of, and profits derived from, our products.

Customers

We supply a broad range of customers in over 60 industries. Approximately 25 percent of our 2008 net sales were to companies engaged in the processed foods industry and approximately 13 percent of our 2008 net sales were to companies engaged in the soft drink industry. Additionally, sales to the brewing industry and to the animal feed market each represented approximately 12 percent of our 2008 net sales.

Raw Materials

The basic raw material of the corn refining industry is yellow dent corn. The supply of corn in the United States has been, and is anticipated to continue to be, adequate for our domestic needs. The price of corn, which is determined by reference to prices on the Chicago Board of Trade, fluctuates as a result of various factors including: farmer planting decisions, climate, and government policies (including those related to the production of ethanol), livestock feeding, shortages or surpluses of world grain supplies, and domestic and foreign government policies and trade agreements. Demand for corn in the US to produce ethanol has been a significant factor in increasing the price of corn in 2007 and 2008.

Corn is also grown in other areas of the world, including Canada, Mexico, South Africa, Argentina, Brazil, China, Pakistan and Kenya. Our affiliates outside the United States utilize both local supplies of corn and corn imported from other geographic areas, including the United States. The supply of corn for these affiliates is also generally expected to be adequate for our needs. Corn prices for our non-US affiliates generally fluctuate as a result of the same factors that affect US corn prices.

Due to the competitive nature of the corn refining industry and the availability of substitute products not produced from corn, such as sugar from cane or beet, end product prices may not necessarily fluctuate in a manner that correlates to raw material costs of corn.

We follow a policy of hedging our exposure to commodity fluctuations with commodities futures contracts for certain of our North American corn purchases. All of our firm-priced business is hedged. Other business may or may not be hedged at any given time based on management s judgment as to the need to fix the costs of our raw materials to protect our profitability. See Item 7A, Quantitative and Qualitative Disclosures about Market Risk, section entitled Commodity Costs for additional information.

Product Development

Corn Products has product application technology centers that direct our product development teams worldwide to develop product application solutions to better serve the ingredient needs of our customers. Product development activity is focused on developing product applications for identified customer and market needs. Through this approach, we have developed value-added products for use in the corrugated paper, food, textile, baking and confectionery industries. We usually collaborate with customers to develop the desired product application either in the customers facilities, our technical service laboratories or on a contract basis. These efforts are supported by our marketing, product technology and technology support staff.

Sales and Distribution

Our salaried sales personnel, who are generally dedicated to customers in a geographic region, sell our products directly to manufacturers and distributors. In addition, we have a staff that provides technical support to our sales personnel on an industry basis. We generally contract with trucking companies to deliver our bulk products to customer destinations. In North America, we generally use trucks to ship to nearby customers. For those customers located considerable distances from our plants, we use either rail or a combination of railcars and trucks to deliver our product. We generally lease railcars for terms of five to fifteen years.

Patents, Trademarks and Technical License Agreements

We own a number of patents, which relate to a variety of products and processes, and a number of established trademarks under which we market our products. We also have the right to use other patents and trademarks pursuant to patent and trademark licenses. We do not believe that any individual patent or trademark is material to our business. There is no currently pending challenge to the use or registration of any of our significant patents or trademarks that would have a material adverse impact on the Company or its results of operations if decided adversely to us.

We are a party to technical license agreements with third parties in South Africa and Venezuela whereby we provide technical, management and business advice on the operations of corn refining businesses and receive royalties in return. These arrangements provide us with product penetration in these countries as well as experience and relationships that could facilitate future expansion. The duration of the agreements range from one to three years, and these agreements can be extended by mutual agreement. These relationships have been in place for many years. We receive approximately $2 million of annual income for services provided under these agreements.

Employees

As of December 31, 2008 we had approximately 7,800 employees, of which approximately 900 were located in the United States. Approximately 31 percent of US and 55 percent of our non-US employees are unionized. In addition, the Company has approximately 1,000 temporary employees.

Government Regulation and Environmental Matters

As a manufacturer and maker of food items and items for use in the pharmaceutical industry, our operations and the use of many of our products are subject to various US, state, foreign and local statutes and regulations, including the Federal Food, Drug and Cosmetic Act and the Occupational Safety and Health Act. We and many of our products are also subject to regulation by various government agencies, including the United States Food and Drug Administration. Among other things, applicable regulations prescribe requirements and establish standards for product quality, purity and labeling. Failure to comply with one or more regulatory requirements can result in a variety of sanctions, including monetary fines. No such fines of a material nature were imposed on us in 2008. We may also be required to comply with US, state, foreign and local laws regulating food handling and storage. We believe these laws and regulations have not negatively affected our competitive position.

Limestone is used as a bed in the coal-burning boiler at our Argo facility in Bedford Park, Illinois to control emissions when burning coal. In January 2009, the limestone handling system suffered a structural failure. Due to this event, the coal-burning boiler is being used at a reduced load on natural gas while the limestone system is repaired. We are also utilizing back-up natural gas boilers. We expect the losses related to this event to be covered by insurance, less deductible amounts, which we estimate to be $3 million. At the present time, we do not believe that the event involving the limestone system will have a significant impact on the operations of our Argo facility or materially impact our financial results.

Our operations are also subject to various US, state, foreign and local laws and regulations requirements with respect to environmental matters, including air and water quality and underground fuel storage tanks, and other regulations intended to protect public health and the environment. Based on current laws and regulations and the enforcement and interpretations thereof, we do not expect that the costs of future environmental compliance will be a material expense, although there can be no assurance that we will remain in compliance or that the costs of remaining in compliance will not have a material adverse effect on our future financial condition and results of operations.

During 2008 we spent approximately $5 million for environmental control and wastewater treatment equipment to be incorporated into existing facilities and in planned construction projects. We currently anticipate that we will spend approximately $9 million for environmental facilities and programs in 2009 and a similar amount in 2010.

Other

Our Internet address is www.cornproducts.com. We make available, free of charge through our Internet website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. These reports are made available as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission. Our corporate governance guidelines, Board committee charters and code of ethics are posted on our website, the address of which is www.cornproducts.com, and each is available in print to any shareholder upon request in writing to Corn Products International, Inc., 5 Westbrook Corporate Center, Westchester, Illinois 60154 Attention: Corporate Secretary. The contents of our website are not incorporated by reference into this report.

Executive Officers of the Registrant

Set forth below are the names and ages of all of our executive officers, indicating their positions and offices with the Company and other business experience during the past five years. Our executive officers are elected annually by the Board to serve until the next annual election of officers and until their respective successors have been elected and have qualified unless removed by the Board.

Name	Age	Positions, Offices and Business Experience
Samuel C. Scott III	64	Chairman and Chief Executive Officer since February 2001 and President since 1997. Mr. Scott also served as Chief Operating Officer from 1997 through January 2001. Previously, he served as President of the worldwide Corn Refining Business of CPC International, Inc; now Unilever Bestfoods (CPC), from 1995 to 1997 and was President of CPC s North American Corn Refining Business from 1989 to 1997. He was elected a Vice President of CPC in 1991. Mr. Scott is a director of Motorola, Inc., The Bank of New York Mellon Corporation, Abbott Laboratories, Northwestern Memorial HealthCare, ACCION International, The Executives Club of Chicago, The Chicago Council on Global Affairs and the Chicago Urban League. He is also a Trustee of the Conference Board. Mr. Scott is Chairman of Motorola s Compensation and Leadership Committee.
Cheryl K. Beebe	53	Vice President and Chief Financial Officer since February 2004. Ms. Beebe previously served as Vice President, Finance from July 2002 to February 2004, as Vice President from 1999 to 2002 and as Treasurer from 1997 to February 2004. Prior thereto, she served as Director of Finance and Planning for the CPC Corn Refining Business worldwide from 1995 to 1997 and as Director of Financial Analysis and Planning for Corn Products North America from 1993. Ms. Beebe joined CPC in 1980 and served in various financial positions in CPC s US consumer food business, North American audit group and worldwide corporate treasury group. Ms. Beebe is a member of the Board of Directors of Packaging Corporation of America. She is also a member of the Board of Trustees for Fairleigh Dickinson University.

Name	Age	Positions, Offices and Business Experience
Jorge L. Fiamenghi	53	Vice President and President of the South America Division since 1999. Mr. Fiamenghi served as Acting President, US/Canadian Region from August 2001 to February 2002. Mr. Fiamenghi served as President and General Manager, Corn Products Brazil from 1996 to 1999. Mr. Fiamenghi was General Manager for the CPC Corn Refining affiliate in Argentina beginning in 1991. Prior thereto, he was Financial and Planning Director for the CPC South American Corn Refining Division from 1989 to 1991, and served as Financial and Administrative Manager for the CPC Corn Refining Division in Mexico beginning in 1987. Mr. Fiamenghi joined CPC in 1971 and served in various financial and planning positions in CPC.
Jack C. Fortnum	52	Vice President since 1999 and President of the North America Division since May 2004. Mr. Fortnum previously served as President, US/Canadian Region from July 2003 to May 2004, and as President, US Business from February 2002 until July 2003. Prior to that, Mr. Fortnum served as Executive Vice President, US/Canadian Region from August 2001 until February 2002, as the Controller from 1997 to 2001, as the Vice President of Finance for Refineries de Maiz, CPC s Argentine subsidiary, from 1995 to 1997, as the Director of Finance and Planning for CPC s Latin America Corn Refining Division from 1993 to 1995, and as the Vice President and Comptroller of Canada Starch Operating Company Inc., the Canadian subsidiary of CPC, and as the Vice President of Finance of the Canadian Corn Refining Business from 1989. Mr. Fortnum is a member of the Boards of Directors of the Chicagoland Chamber of Commerce, the Corn Refiners Association and Greenfield Ethanol, Inc.

Name	Age	Positions, Offices and Business Experience
James J. Hirchak	55	Vice President Human Resources since December 1997. Mr. Hirchak joined CPC in 1976 and held various Human Resources positions in CPC until 1984, when he joined the CPC Corn Products Division. In 1987, Mr. Hirchak was appointed Director, Human Resources for Corn Products North American Operations and he served as Vice President, Human Resources for the Corn Products Division of CPC from 1992 to 1997. He is a member of the Board of Directors of Accion Chicago, Inc.
Kimberly A. Hunter	47	Corporate Treasurer since February 2004. Ms. Hunter previously served as Director of Corporate Treasury from September 2001 to February 2004. Prior to that, she served as Managing Director, Investment Grade Securities at Bank One Corporation, a financial institution, from 1997 to 2000 and as Vice President, Capital Markets of Bank One from 1992 to 1997.
Mary Ann Hynes	61	Vice President, General Counsel and Corporate Secretary since March 2006 and, additionally, Chief Compliance Officer since January 2008. Prior to that, Ms. Hynes was Senior Vice President and General Counsel, Chief Legal Officer for IMC Global Inc., a producer and distributor of crop nutrients and animal feed ingredients, from July 1999 to October 2004, and a consultant to The Mosaic Company, also a producer and distributor of crop nutrients and animal feed ingredients, from October 2004 to October 2005. The Mosaic Company acquired IMC Global Inc. in October 2004.
Robin A. Kornmeyer	60	Vice President since September 2002 and Controller since January 2002. Prior to that, Mr. Kornmeyer served as Corporate Controller at Foster Wheeler Ltd., a worldwide engineering and construction company, from 2000 to 2002.
John F. Saucier	55	Vice President and President Asia/Africa Division and Global Business Development since November 2007. Mr. Saucier previously served as Vice President, Global Business and Product Development, Sales and Marketing from April 2006 to November 2007. Prior to that, Mr. Saucier was President of the Integrated Nylon Division of Solutia, Inc., a specialty chemical manufacturer from September 2001 to March 2005.

ITEM 1A. RISK FACTORS

Our business and assets are subject to varying degrees of risk and uncertainty. The following are factors that we believe could cause our actual results to differ materially from expected and historical results. Additional risks that are currently unknown to us may also impair our business or adversely affect our financial condition or results of operations. In addition, forward-looking statements within the meaning of the federal securities laws that are contained in this Form 10-K or in our other filings or statements may be subject to the risks described below as well as other risks and uncertainties. Please read the cautionary notice regarding forward-looking statements in Item 7 below.

Current economic conditions may adversely impact demand for our products, reduce access to credit and cause our customers and others with which we do business to suffer financial hardship, all of which could adversely impact our business, results of operations, financial condition and cash flows.

Economic conditions have recently deteriorated significantly in the US and many other countries and regions in which we do business, and may remain challenging for the foreseeable future. General business and economic conditions that could affect us include short-term and long-term interest rates, unemployment, inflation, fluctuations in debt markets and the strength of the US economy and the local economies in which we operate. While currently these conditions have not impaired our ability to access credit markets and finance our operations, there can be no assurance that there will not be a further deterioration in the financial markets.

There could be a number of other effects from these economic developments on our business, including reduced consumer demand for products; insolvency of our customers, resulting in increased provisions for credit losses; decreased customer demand, including order delays or cancellations and counterparty failures negatively impacting our operations.

In connection with our defined benefit pension plans, adverse changes in investment returns earned on pension assets and discount rates used to calculate pension and related liabilities or changes in required pension funding levels may have an unfavorable impact on future pension expense and cash flow.

In addition, the current negative worldwide economic conditions and market instability makes it increasingly difficult for us, our customers and our suppliers to accurately forecast future product demand trends, which could cause us to produce excess products that can increase our inventory carrying costs. Alternatively, this forecasting difficulty could cause a shortage of products that could result in an inability to satisfy demand for our products.

We operate a multinational business subject to the economic, political and other risks inherent in operating in foreign countries and with foreign currencies.

We have operated in foreign countries and with foreign currencies for many years. Our results are subject to foreign currency exchange fluctuations. Our operations are subject to political, economic and other risks. There has been and continues to be significant political uncertainty in some countries in which we operate. Economic changes, terrorist activity and political unrest may result in business interruption or decreased demand for our products. Protectionist trade measures and import and export licensing requirements could also adversely affect our results of operations. Our success will depend in part on our ability to manage continued global political and/or economic uncertainty.

We primarily sell world commodities. Historically, local prices have adjusted relatively quickly to offset the effect of local currency devaluations, but we expect that it will take longer than normal and be more difficult than in the past to achieve pricing and volume improvement in our international business to recapture the unfavorable impact of currency devaluations. We may hedge transactions that are denominated in a currency other than the currency of the operating unit entering into the underlying transaction. We are subject to the risks normally attendant to such hedging activities**.**

Raw material and energy price fluctuations, and supply interruptions and shortages could adversely affect our results of operations.

Our finished products are made primarily from corn. Purchased corn accounts for between 40 percent and 65 percent of finished product costs. Energy costs represent approximately 12 percent of our finished product costs. We use energy primarily to create steam in our production process and in dryers to dry product. We consume coal, natural gas, electricity, wood and fuel oil to generate energy. The market prices for these commodities may vary considerably depending on supply and demand, world economies and other factors. We purchase these commodities based on our anticipated usage and future outlook for these costs. We cannot assure that we will be able to purchase these commodities at prices that we can adequately pass on to customers to sustain or increase profitability.

In North America, we sell a large portion of our finished products at firm prices established in supply contracts typically lasting for periods of up to one year. In order to minimize the effect of volatility in the cost of corn related to these firm-priced supply contracts, we take hedging positions by entering into corn futures contracts. We are unable to hedge price risk related to co-product sales. These derivative contracts typically mature within one year. At expiration, we settle the derivative contracts at a net amount equal to the difference between the then-current price of corn and the fixed contract price. These hedging instruments are subject to fluctuations in value; however, changes in the value of the underlying exposures we are hedging generally offset such fluctuations. The fluctuations in the fair value of theses hedging instruments may affect the cash flow of the Company. We fund any unrealized losses or receive cash for any unrealized gains on a daily basis. While the corn futures contracts or hedging positions are intended to minimize the volatility of corn costs on operating profits, the hedging activity can result in losses, some of which may be material. Outside of North America, sales of finished product under long-term, firm-priced supply contracts are not material. We also use derivative financial instruments to hedge portions of our natural gas costs, primarily in our North American operations.

Due to market volatility, we cannot assure that we can adequately pass potential increases in the cost of corn on to customers through product price increases or purchase quantities of corn at prices sufficient to sustain or increase our profitability.

Our corn purchasing costs, which include the price of the corn plus delivery cost, account for 40 percent to 65 percent of our product costs. The price and availability of corn is influenced by economic and industry conditions, including supply and demand factors such as crop disease and severe weather conditions such as drought, floods or frost that are difficult to anticipate and which we cannot control. Demand for corn in the US to produce ethanol has been a significant factor in increasing the price of corn in 2007 and 2008. That demand has been significantly impacted by US governmental policies designed to encourage the production of ethanol. In addition, government programs supporting sugar prices indirectly impact the price of corn sweeteners, especially high fructose corn syrup.

Our profitability may be affected by other factors beyond our control.

Our operating income and ability to increase profitability depends to a large extent upon our ability to price finished products at a level that will cover manufacturing and raw material costs and provide an acceptable profit margin. Our ability to maintain appropriate price levels is determined by a number of factors largely beyond our control, such as aggregate industry supply and market demand, which may vary from time to time, and the economic conditions of the geographic regions where we conduct our operations.

We operate in a highly competitive environment and it may be difficult to preserve operating margins and maintain market share.

We operate in a highly competitive environment. Almost all of our products compete with virtually identical or similar products manufactured by other companies in the corn refining industry. In the United States, there are other corn refiners, several of which are divisions of larger enterprises that have greater financial resources than we do. Some of these competitors, unlike us, have vertically integrated their corn refining and other operations. Many of our products also compete with products made from raw materials other than corn. Fluctuation in prices of these competing products may affect prices of, and profits derived from, our products. Competition in markets in which we compete is largely based on price, quality and product availability.

Changes in consumer preferences and perceptions may lessen the demand for our products, which could reduce our sales and profitability and harm our business.

Food products are often affected by changes in consumer tastes, national, regional and local economic conditions and demographic trends. For instance, changes in prevailing health or dietary preferences causing consumers to avoid food products containing sweetener products in favor of foods that are perceived as being more healthy, could reduce our sales and profitability, and such a reduction could be material.

The uncertainty of acceptance of products developed through biotechnology could affect our profitability.

The commercial success of agricultural products developed through biotechnology, including genetically modified corn, depends in part on public acceptance of their development, cultivation, distribution and consumption. Public attitudes can be influenced by claims that genetically modified products are unsafe for consumption or that they pose unknown risks to the environment even if such claims are not based on scientific studies. These public attitudes can influence regulatory and legislative decisions about biotechnology even where they are approved. The sale of the Company s products which may contain genetically modified corn could be delayed or impaired because of adverse public perception regarding the safety of the Company s products and the potential effects of these products on animals, human health and the environment.

Our profitability could be negatively impacted if we fail to maintain satisfactory labor relations.

Approximately 31 percent of US and 55 percent of non-US employees are members of unions. Strikes, lockouts or other work stoppages or slow downs involving our unionized employees could have a material adverse effect on us.

Our reliance on certain industries for a significant portion of our sales could have a material adverse affect on our business.

Approximately 25 percent of our 2008 sales were made to companies engaged in the processed foods industry and approximately 13 percent were made to companies in the soft drink industry. Additionally, sales to the brewing industry and to the animal feed market each represented approximately 12 percent of our 2008 net sales. If our processed foods customers, soft drink customers, brewing industry customers or animal feed customers were to substantially decrease their purchases, our business might be materially adversely affected.

An outbreak of a life threatening communicable disease could negatively impact our business.

The outbreak of Severe Acute Respiratory Syndrome (SARS) previously affected the economies of certain countries where we manufacture and sell products. If the economies of any countries where we sell or manufacture products are affected by a similar outbreak of SARS, the Avian Flu, or other life threatening communicable diseases, it could result in decreased sales and unfavorably impact our business.

Government policies and regulations in general, and specifically affecting agriculture-related businesses, could adversely affect our operating results.

Our operating results could be affected by changes in trade, monetary and fiscal policies, laws and regulations, and other activities of United States and foreign governments, agencies, and similar organizations. These conditions include but are not limited to changes in a country s or region s economic or political conditions, trade regulations affecting production, pricing and marketing of products, local labor conditions and regulations, reduced protection of intellectual property rights, changes in the regulatory or legal environment, restrictions on currency exchange activities, currency exchange fluctuations, burdensome taxes and tariffs, and other trade barriers. International risks and uncertainties, including changing social and economic conditions as well as terrorism, political hostilities, and war, could limit our ability to transact business in these markets and could adversely affect our revenues and operating results.

Due to cross-border disputes, our operations could be adversely affected by actions taken by the governments of countries where we conduct business.

The recognition of impairment charges on goodwill or long-lived assets would adversely impact our future financial position and results of operations.

We perform an annual impairment assessment for goodwill and, as necessary, for long-lived assets. If the results of such assessments were to show that the fair value of our property, plant and equipment or goodwill were less than the carrying values, we would be required to recognize a charge for impairment of goodwill and/or long-lived assets and the amount of the impairment charge could be material.

Our goodwill impairment assessment for the year ended December 31, 2008 did not result in any impairment charges. However, as a result of the current operating performance and expectations regarding future operating performance of our Korean operations (Korea), the fair value of these assets was only modestly in excess of their carrying value. The net book value of goodwill relating to Korea was approximately $120 million at December 31, 2008.

We used a discounted cash flow model (DCF model) to determine the current fair value of our Korean operation. Management believes that this approach is appropriate because it provides a fair value estimate based upon Korea s expected long-term operating and cash flow performance. This approach also mitigates most of the impact of cyclical downturns that occur in the industry. This approach was based on a ten-year projection of operating results and cash flows that is discounted using a weighted-average cost of capital. The projection is based upon our best estimates of projected economic and market conditions over the related period including growth rates, estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, and future capital expenditures. We specifically made the following operating assumptions for Korea: a reduction of corn costs and freight rates to historical levels; recovery of HFCS sales volume to the carbonated beverage industry; recovery of starch volume to the paper industry and glucose volumes to distributors; and the introduction of new products into the Korean market.

We also considered the market approach, which uses the price relationships of publicly traded stocks to derive value. However, given Korea s recent financial performance, the market approach was considered less reliable than the DCF model and therefore, no weight was given to it. However, the results of the market approach tended to support the income approach s conclusions.

Even though it was determined that there was no goodwill impairment for our Korean operation on December 31, 2008, the future occurrence of a potential indicator of impairment, such as a significant adverse change in the business climate that would require a change in our assumptions or strategic decisions made in response to economic or competitive conditions, would require an assessment prior to the next required assessment date of December 31, 2009.

Changes in our tax rates or exposure to additional income tax liabilities could impact our profitability.

We are subject to income taxes in the United States and in various other foreign jurisdictions. Our effective tax rates could be adversely affected by changes in the mix of earnings by jurisdiction, changes in tax laws or tax rates, changes in the valuation of deferred tax assets and liabilities, and material adjustments from tax audits.

In particular, the carrying value of deferred tax assets, which are predominantly in the US, is dependent upon our ability to generate future taxable income in the US. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions and a material assessment by a governing tax authority could affect our profitability.

Operating difficulties at our manufacturing plants could adversely affect our operating results.

Corn refining is a capital intensive industry. We have 29 plants and have preventive maintenance and de-bottlenecking programs designed to maintain and improve grind capacity and facility reliability. If we encounter operating difficulties at a plant for an extended period of time or start up problems with any capital improvement projects, we may not be able to meet a portion of sales order commitments and could incur significantly higher operating expenses, both of which could adversely affect our operating results. We also use boilers to generate steam required in our manufacturing processes. An event that impaired the operation of a boiler for an extended period of time could have a significant adverse effect on the operations of any plant where such event occurred.

We may not have access to the funds required for future growth and expansion.

We may need additional funds for working capital to grow and expand our operations. We expect to fund our capital expenditures from operating cash flow to the extent we are able to do so. If our operating cash flow is insufficient to fund our capital expenditures, we may either reduce our capital expenditures or utilize our general credit facilities. We may also seek to generate additional liquidity through the sale of debt or equity securities in private or public markets or through the sale of non-productive assets. We cannot provide any assurance that our cash flows from operations will be sufficient to fund anticipated capital expenditures or that we will be able to obtain additional funds from financial markets or from the sale of assets at terms favorable to us. If we are unable to generate sufficient cash flows or raise sufficient additional funds to cover our capital expenditures, we may not be able to achieve our desired operating efficiencies and expansion plans, which may adversely impact our competitiveness and, therefore, our results of operations.

Increased interest rates could increase our borrowing costs.

From time to time we may issue securities to finance acquisitions, capital expenditures, working capital and for other general corporate purposes. An increase in interest rates in the general economy could result in an increase in our borrowing costs for these financings, as well as under any existing debt that bears interest at an unhedged floating rate.

We may not successfully identify and complete acquisitions or strategic alliances on favorable terms or achieve anticipated synergies relating to any acquisitions or alliances, and such acquisitions could result in unforeseen operating difficulties and expenditures and require significant management resources.

We regularly review potential acquisitions of complementary businesses, technologies, services or products, as well as potential strategic alliances. We may be unable to find suitable acquisition candidates or appropriate partners with which to form partnerships or strategic alliances. Even if we identify appropriate acquisition or alliance candidates, we may be unable to complete such acquisitions or alliances on favorable terms, if at all. In addition, the process of integrating an acquired business, technology, service or product into our existing business and operations may result in unforeseen operating difficulties and expenditures. Integration of an acquired company also may require significant management resources that otherwise would be available for ongoing development of our business. Moreover, we may not realize the anticipated benefits of any acquisition or strategic alliance, and such transactions may not generate anticipated financial results. Future acquisitions could also require us to issue equity securities, incur debt, assume contingent liabilities or amortize expenses related to intangible assets, any of which could harm our business.

Our inability to contain costs could adversely affect our future profitability and growth.

Our future profitability and growth depends on our ability to contain operating costs and per-unit product costs and to maintain and/or implement effective cost control programs, while at the same time maintaining competitive pricing and superior quality products, customer service and support. Our ability to maintain a competitive cost structure depends on continued containment of manufacturing, delivery and administrative costs as well as the implementation of cost-effective purchasing programs for raw materials, energy and related manufacturing requirements.

If we are unable to contain our operating costs and maintain the productivity and reliability of our production facilities, our profitability and growth could be adversely affected.

Volatility in the stock market, fluctuations in quarterly operating results and other factors could adversely affect the market price of our common stock.

The market price for our common stock may be significantly affected by factors such as our announcement of new products or services or such announcements by our competitors; technological innovation by us, our competitors or other vendors; quarterly variations in our operating results or the operating results of our competitors; general conditions in our or our customers markets; and changes in the earnings estimates by analysts or reported results that vary materially from such estimates. In addition, the stock market has experienced significant price fluctuations that have affected the market prices of equity securities of many companies that have been unrelated to the operating performance of any individual company.

No assurance can be given that we will continue to pay dividends.

The payment of dividends is at the discretion of our Board of Directors and will be subject to our financial results and the availability of surplus funds to pay dividends.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None

ITEM 2. PROPERTIES

We operate, directly and through our consolidated subsidiaries, 29 manufacturing facilities, all of which are owned. In addition, we lease our corporate headquarters in Westchester, Illinois. The following list details the locations of our manufacturing facilities within each of our three geographic regions:

North America	South America	Asia/Africa
Cardinal, Ontario, Canada	Baradero, Argentina	Shouguang, China
London, Ontario, Canada	Chacabuco, Argentina	Eldoret, Kenya
Port Colborne, Ontario, Canada	Balsa Nova, Brazil	Cornwala, Pakistan
San Juan del Rio, Queretaro, Mexico	Cabo, Brazil	Faisalabad, Pakistan
Guadalajara, Jalisco, Mexico	Conchal, Brazil	Ichon, South Korea
Mexico City, Edo. de Mexico	Mogi-Guacu, Brazil	Inchon, South Korea
Stockton, California, U.S.	Rio de Janeiro, Brazil	Sikhiu, Thailand
Bedford Park, Illinois, U.S.	Llay-Llay, Chile	
Winston-Salem, North Carolina, U.S.	Barranquilla, Colombia	
Missoula, Montana, U.S.	Cali, Colombia	
Mapleton, Illinois, U.S.	Lima, Peru	

We believe our manufacturing facilities are sufficient to meet our current production needs. We have preventive maintenance and de-bottlenecking programs designed to further improve grind capacity and facility reliability.

We have electricity co-generation facilities at all of our US and Canadian plants with the exception of Missoula, Montana and Mapleton, Illinois, as well as at our plants in San Juan del Rio, Mexico; Baradero, Argentina; and Balsa Nova and Mogi-Guacu, Brazil, that provide electricity at a lower cost than is available from third parties. We generally own and operate these co-generation facilities, except for the facilities at our Stockton, California; Cardinal, Ontario; and Balsa Nova and Mogi-Guacu, Brazil locations, which are owned by, and operated pursuant to co-generation agreements with, third parties.

In recent years, we have made significant capital expenditures to update, expand and improve our facilities, spending $228 million in 2008. We believe these capital expenditures will allow us to operate efficient facilities for the foreseeable future. We currently anticipate that capital expenditures for 2009 will approximate $125 to $150 million.

ITEM 3. LEGAL PROCEEDINGS

On October 21, 2003, we submitted, on our own behalf and on behalf of our Mexican affiliate, CPIngredientes, S.A. de C.V., (previously known as Compania Proveedora de Ingredientes) a Request for Institution of Arbitration Proceedings Submitted Pursuant to Chapter 11 of the North American Free Trade Agreement (NAFTA) (the Request). The Request was submitted to the Additional Office of the International Centre for Settlement of Investment Disputes and was brought against the United Mexican States. In the Request, we asserted that the imposition by Mexico of a discriminatory tax on beverages containing HFCS in force from 2002 through 2006 breached various obligations of Mexico under NAFTA. The case was bifurcated into two phases, liability and damages, and a hearing on liability was held before a Tribunal in July 2006. In a Decision dated January 15, 2008, the Tribunal issued an order holding that Mexico had violated NAFTA Article 1102, National Treatment. In July 2008, a hearing regarding the quantum of damages was held before the same Tribunal. We sought damages and pre- and post-judgment interest totaling $288 million through December 31, 2008. The Tribunal asked for post-hearing submissions on specific topics relative to the damages claims which were filed on October 31, 2008. The amount and timing of a final award by the Tribunal is not known at this time. See also Note 13 of the notes to the consolidated financial statements.

We are currently subject to various other claims and suits arising in the ordinary course of business, including certain environmental proceedings. We do not believe that the results of such legal proceedings, even if unfavorable to us, will be material to us. There can be no assurance, however, that such claims or suits or those arising in the future, whether taken individually or in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of our security holders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Shares of our common stock are traded on the New York Stock Exchange (NYSE) under the ticker symbol CPO. The number of holders of record of our common stock was 7,503 at January 30, 2009.

We have a history of paying quarterly dividends. The amount and timing of the dividend payment, if any, is based on a number of factors including estimated earnings, financial position and cash flow. The payment of a dividend is solely at the discretion of our Board of Directors. Future dividend payments will be subject to our financial results and the availability of surplus funds to pay dividends.

The quarterly high and low sales prices for our common stock and cash dividends declared per common share for 2007 and 2008 are shown below.

	1st QTR	2nd QTR	3rd QTR	4th QTR
2008				
Market prices				
High	$40.15	$54.96	$49.69	$32.53
Low	31.42	35.46	28.83	17.51

	1st QTR	2nd QTR	3rd QTR	4th QTR
Per share dividends	$ 0.12	$ 0.14	$ 0.14	$ 0.14
2007				
Market prices				
High	$37.20	$46.63	$48.85	$49.30
Low	25.48	33.52	37.79	35.36
Per share dividends	$ 0.09	$ 0.09	$ 0.11	$ 0.11

Issuer Purchases of Equity Securities:

The following table summarizes information with respect to our purchases of our common stock during the fourth quarter of 2008.

(shares in thousands)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs at end of period
Oct. 1 Oct. 31, 2008				4,943 shares
Nov. 1 Nov. 30, 2008				4,943 shares
Dec. 1 Dec. 31, 2008				4,943 shares
Total				

On November 7, 2007, our Board of Directors approved a stock repurchase program, which runs through November 30, 2010, authorizing repurchase up to 5 million shares of our outstanding common stock. As of December 31, 2008, we had 4.9 million shares available for repurchase under this program.

ITEM 6. SELECTED FINANCIAL DATA*

Selected financial data is provided below.

(in millions, except per share amounts)	**2008**	**2007**	**2006**	**2005**	**2004**
Summary of operations:					
Net sales	$3,944	$3,391	$2,621	$2,360	$2,283
Net income	267	198	124	90	94
Net earnings per common share:					
Basic	$ 3.59	$ 2.65	$ 1.67	$ 1.20	$ 1.28
Diluted	$ 3.52	$ 2.59	$ 1.63	$ 1.19	$ 1.25
Cash dividends declared per common share	$ 0.54	$ 0.40	$ 0.33	$ 0.28	$ 0.25
Balance sheet data:					
Working capital	$ 438	$ 415	$ 320	$ 261	$ 222
Property, plant and equipment-net	1,447	1,500	1,356	1,274	1,211
Total assets	3,207	3,103	2,645	2,389	2,367
Long-term debt	660	519	480	471	480
Total debt	866	649	554	528	568
Redeemable common stock	14	19	44	29	33
Stockholders equity	$1,384	$1,605	$1,330	$1,210	$1,081
Shares outstanding, year end	74.5	73.8	74.3	73.8	74.5
Additional data:					
Depreciation and amortization	$ 128	$ 125	$ 114	$ 106	$ 102
Capital expenditures	228	177	171	143	104

* All share and per share amounts have been adjusted for the 2-for-1 stock split effective January 25, 2005.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are one of the world s largest corn refiners and a major supplier of high-quality food ingredients and industrial products derived from the wet milling and processing of corn and other starch-based materials. The corn refining industry is highly competitive. Many of our products are viewed as commodities that compete with virtually identical products manufactured by other companies in the industry. However, we have 29 manufacturing plants located throughout North America, South America and Asia/Africa and we manage and operate our businesses at a local level. We believe this approach provides us with a unique understanding of the cultures and product requirements in each of the geographic markets in which we operate, bringing added value to our customers. Our sweeteners are found in products such as baked goods, candies, chewing gum, dairy products and ice cream, soft drinks and beer. Our starches are a staple of the food, paper, textile and corrugating industries.

Critical success factors in our business include managing our significant manufacturing costs, including corn and utilities. In addition, due to our global operations we are exposed to fluctuations in foreign currency exchange rates. We use derivative financial instruments, when appropriate, for the purpose of minimizing the risks and/or costs associated with fluctuations in commodity prices, foreign exchange rates and interest rates. Also, the capital intensive nature of the corn wet milling industry requires that we generate significant cash flow on a yearly basis in order to selectively reinvest in the business and grow organically, as well as through strategic acquisitions and alliances. We utilize certain key metrics relating to working capital, debt and return on capital employed to monitor our progress toward achieving our strategic business objectives (see section entitled Key Performance Metrics).

We achieved record highs for net sales, operating income, net income and diluted earnings per common share for 2008. This record performance primarily reflects significantly higher sales and earnings driven by improved pricing in our North American and South American businesses. Strong co-product pricing for the first nine months of 2008 contributed significantly to our record performance. Our record diluted earnings per common share of $3.52 for 2008 includes the impact of $16 million of expenses, or $0.14 per diluted common share, related to the terminated merger with Bunge Limited (Bunge). See also Note 9 of the notes to the consolidated financial statements.

The global economic recession negatively impacted our business in the fourth quarter of 2008 and we expect that it will continue to present us with many challenges. During the fourth quarter co-product pricing began to decline and foreign currencies devalued substantially. In 2009, we expect significantly lower co-product pricing, particularly for corn oil, and continued foreign currency devaluations. Market prices for corn have fallen from the high levels experienced during much of 2008 and, accordingly, we currently anticipate that co-product values for 2009 will be far below the prices realized in 2008. We also expect that it will take longer and be more difficult to achieve pricing and volume improvement in our international business to recapture the unfavorable impact of currency devaluations compared to our historical experience. Additionally, a general uncertainty and lack of clarity with respect to volume demand and pricing strength in our international business are contributing factors to what we believe will be a weaker 2009. In light of these factors, we currently anticipate that operating income in each of our regions for 2009 will decrease significantly from 2008. We also expect that our diluted EPS for 2009 will decline substantially from the $3.52 per diluted common share earned in 2008.

Despite the difficulties presented by the global economic recession, we currently expect that our future operating cash flows and borrowing availability under our credit facilities will provide us with sufficient liquidity to grow our business and meet our financial obligations.

RESULTS OF OPERATIONS

We have significant operations in North America, South America and Asia/Africa. For most of our foreign subsidiaries, the local foreign currency is the functional currency. Accordingly, revenues and expenses denominated in the functional currencies of these subsidiaries are translated into US dollars at the applicable average exchange rates for the period. Fluctuations in foreign currency exchange rates affect the US dollar amounts of our foreign subsidiaries revenues and expenses. The impact of currency exchange rate changes, where significant, is described below.

2008 Compared to 2007

Net Income. Net income for 2008 increased 35 percent to $267 million, or $3.52 per diluted common share, from 2007 net income of $198 million, or $2.59 per diluted common share.

The increase in net income for 2008 primarily reflects a significant increase in operating income driven by improved results in North America and South America, which more than offset lower results in Asia/Africa. Our results for 2008 include $16 million of expenses ($11 million net of income taxes, or $0.14 per diluted common share) related to the terminated merger with Bunge. The 2007 results included a $6 million pretax gain ($4 million net of income taxes, or $.05 per diluted common share) associated with our investment in the CME Group Inc.

Net Sales. Net sales for 2008 increased to $3.94 billion from $3.39 billion in 2007, as sales grew in each of our regions.

A summary of net sales by geographic region is shown below:

(in millions)	2008	2007	Increase	% Change
North America	$ 2,370	$ 2,052	$ 318	15%
South America	1,120	925	195	21%
Asia/Africa	454	414	40	10%
Total	$ 3,944	$ 3,391	$ 553	16%

The increase in net sales reflects price/product mix improvement of 20 percent ($677 million), which more than offset a volume decline of 4 percent ($117 million) and a slight decrease ($7 million) attributable to weaker foreign currencies relative to the US dollar. The translation impact of weaker average Asian currencies was substantially offset by stronger average South American currencies. Co-product sales of $871 million for 2008 increased 37 percent over the prior year period, primarily reflecting higher pricing. We expect a decline in co-product sales in 2009 driven by lower market prices, particularly for corn oil.

Historically, we have generally been able to recapture foreign currency devaluations through higher selling prices within a period of three to six months. However, given the global economic recession, we believe that it will take longer to recover the impact of devaluations through pricing improvements.

Sales in North America increased 15 percent driven principally by price/product mix improvement of 18 percent as selling prices strengthened throughout the region reflecting our ability to pass on higher corn costs and stronger co-product pricing. Currency translation attributable to a stronger Canadian dollar contributed slightly to the increase in net sales. A volume decline of 3 percent, primarily related to lower demand for high fructose corn syrup (HFCS) in the region, partially offset these increases. Sales in South America increased 21 percent driven mainly by price/product mix improvement of 19 percent as selling prices rose throughout the region to recover increased corn costs. Additionally, a 5 percent translation benefit related to stronger South American currencies contributed to the net sales increase in the region. Volume in South America declined 3 percent primarily reflecting reduced demand in the brewing market. Sales in Asia/Africa increased 10 percent, as a 30 percent price/product mix improvement driven by higher selling prices throughout the region mainly attributable to our ability to pass on increased corn and tapioca costs, more than offset a 13 percent decrease attributable to weaker local currencies in Korea and Pakistan and a 7 percent volume decline primarily resulting from soft economic conditions in Korea.

Cost of Sales. Cost of sales for 2008 increased 15 percent to $3.24 billion from $2.81 billion in 2007. This increase principally reflects higher corn prices. Gross corn costs for 2008 were up approximately 22 percent from 2007, reflecting a significant increase in the market price for this commodity. Currency translation was negligible as the impact of stronger South American currencies was offset by the effect of weaker Asian currencies. Energy costs for 2008 increased approximately 7 percent over the prior year. Our gross profit margin for 2008 was 18 percent, compared with 17 percent in 2007, principally reflecting improved profitability and margins in North America and South America as higher selling prices for our products were able to recover increases in corn and other manufacturing costs.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses for 2008 were $275 million, up from $249 million in 2007. This increase principally reflects higher compensation-related costs. Additionally, bad debt expense increased $5 million reflecting the difficult economic environment. We may be required to provide for additional credit losses in the future should the global economic recession continue for a prolonged period. Currency translation was negligible as the effect of stronger average currencies in South America were offset by weaker currencies in Asia/Africa. SG&A expenses for 2008 represented 7 percent of net sales, consistent with the prior year.

Other Income-net. Other income-net of $4 million for 2008 declined $6 million from other income-net of $10 million last year. Other income for 2008 includes $16 million of costs pertaining to the terminated Bunge merger. Other income for 2008 also includes various insurance and tax recoveries approximating $8 million and a $5 million gain from the sale of land. Other income for 2007 includes the $6 million gain relating to our investment in CME. Fee and royalty income for 2008 was consistent with the prior year.

Operating Income. A summary of operating income is shown below:

(in millions)	2008	2007	Favorable (Unfavorable) Variance	Favorable (Unfavorable) % Change
North America	$ 313	$ 234	$ 79	34%
South America	151	115	36	31%
Asia/Africa	38	45	(7)	(16)%
Corporate expenses	(52)	(53)	1	2%
Costs of terminated merger	(16)		(16)	
Gain on CME investment		6	(6)	
Operating income	$ 434	$ 347	$ 87	25%

Operating income for 2008 increased 25 percent to $434 million from $347 million in 2007 driven by strong earnings growth in North America and South America. Currency translation was negligible as the impact of weaker average Asian currencies was substantially offset by the effect of stronger average South American and North American currencies. The 2008 results include approximately $16 million of expenses related to the terminated merger with Bunge. The 2007 results included a $6 million gain associated with our investment in the CME Group Inc. North America operating income increased 34 percent to $313 million in 2008 from $234 million a year ago, reflecting earnings growth throughout the region, driven principally by higher product selling prices that more than offset increased corn and energy costs. Currency translation attributable to the stronger Canadian dollar contributed approximately $1 million to the operating income increase in the region. South America operating income increased 31 percent to $151 million from $115 million in 2007, reflecting strong earnings growth in Brazil and the Southern Cone of South America. This earnings growth was principally driven by higher product selling prices that more than offset increased corn and energy costs. Currency translation, primarily associated with the stronger Brazilian Real, contributed approximately $7 million to the operating income increase in the region. Asia/Africa operating income declined 16 percent from 2007 as lower earnings in South Korea more than offset earnings growth in the rest of the region. The earnings decline in South Korea was driven by higher corn and ocean freight costs and reduced sales volume attributable to a softer economy and increased competition. Additionally, currency translation attributable to weaker Asian currencies reduced operating income by approximately $7 million in the region.

Financing Costs-net. Financing costs-net decreased to $29 million in 2008 from $42 million in 2007. The decline mainly reflects foreign currency transaction gains, lower interest costs attributable to reduced average borrowings and borrowing rates and increased capitalized interest, partially offset by a decline in interest income. Capitalized interest for 2008 was $8 million, as compared with $4 million in 2007.

Provision for Income Taxes. Our effective income tax rate was 32.0 percent in 2008, as compared to 33.5 percent in 2007. The decrease primarily reflects the effect of a year over year change in our geographical income mix, a statutory rate reduction in Korea, and other discrete items.

Minority Interest in Earnings. Minority interest in earnings increased to $8 million in 2008 from $5 million in 2007. The increase from 2007 mainly reflects the effect of earnings growth in Pakistan and China.

Comprehensive Income (Loss). We recorded a comprehensive loss of $212 million in 2008, as compared with comprehensive income of $306 million in 2007. The decrease in comprehensive income primarily reflects unfavorable variances in the currency translation adjustment and losses on cash flow hedges related to our corn and gas hedging contracts, which more than offset our net income growth. The $313 million unfavorable variance in the currency translation adjustment reflects a weakening in end of period 2008 foreign currencies relative to the US dollar, as compared to the prior year period when foreign currencies appreciated for the year. Weaker end of period currencies in Brazil, Korea and Canada accounted for most of the unfavorable translation variance.

2007 Compared to 2006

Net Income. Net income for 2007 increased 60 percent to $198 million, or $2.59 per diluted common share, from 2006 net income of $124 million, or $1.63 per diluted common share.

The increase in net income for 2007 primarily reflects a significant increase in operating income driven by improved results in North America and South America. Additionally, in 2007 we recognized a $6 million pretax gain ($4 million after-tax, or $.05 per diluted common share) associated with our investment in the Chicago Board of Trade Holdings, Inc. (CBOT) upon the July 2007 merger of the CBOT with the Chicago Mercantile Exchange Holdings Inc. to form the CME Group Inc.

Net Sales. Net sales for 2007 increased to $3.39 billion from $2.62 billion in 2006, as sales grew in each of our regions.

A summary of net sales by geographic region is shown below:

(in millions)	2007	2006	Increase	% Change
North America	$ 2,052	$ 1,588	$ 464	29%
South America	925	670	255	38%
Asia/Africa	414	363	51	14%
Total	$ 3,391	$ 2,621	$ 770	29%

The increase in net sales reflects price/product mix improvement of 24 percent ($632 million), a 4 percent benefit ($106 million) from currency translation attributable to stronger foreign currencies relative to the US dollar and volume growth of 1 percent ($32 million). Operations from recent acquisitions, including our December 2006 acquisition of DEMSA and our February acquisition of SPI Polyols and GETEC (see Note 3 of the notes to the consolidated financial statements), contributed approximately $106 million of net sales in 2007.

Sales in North America increased 29 percent driven principally by significantly improved price/product mix as prices strengthened throughout the region reflecting higher corn costs. A volume decline of 1 percent was offset by a 1 percent benefit from currency translation attributable to a stronger Canadian dollar. Sales in South America increased 38 percent reflecting price/product mix improvement of 21 percent due to higher pricing for all product categories, 6 percent volume growth driven by acquisitions and stronger demand for sweetener products, and an 11 percent translation benefit attributable to stronger South American currencies, particularly in Brazil and Colombia. Sales in Asia/Africa increased 14 percent reflecting price/product mix improvement of 11 percent driven by higher prices throughout the region mainly attributable to increased corn and tapioca costs, and a 3 percent increase attributable to stronger Asian currencies. Volume in the region was flat.

Cost of Sales. Cost of sales for 2007 increased 27 percent to $2.81 billion from $2.21 billion in 2006. This increase principally reflects higher corn costs, currency translation associated with the weaker US dollar and increased sales volume. Corn costs for 2007 increased approximately 38 percent over 2006. Currency translation attributable to the weaker US dollar caused cost of sales to increase approximately 4 percent from 2006. Energy costs for 2007 increased approximately 3 percent over 2006. Our gross profit margin for 2007 was 17 percent, compared with 16 percent in 2006, principally reflecting improved profitability and margins in North America and South America as higher selling prices for our products were able to recover increases in corn and other costs.

Selling, General and Administrative Expenses. SG&A expenses for 2007 were $249 million, up from $202 million in 2006. This increase principally reflects higher compensation-related costs, operating expenses of acquired businesses and currency translation associated with stronger foreign currencies. SG&A expenses for 2007 represented 7 percent of net sales, compared to 8 percent of net sales in 2006.

Other Income-net. Other income-net for 2007 was $10 million, unchanged from last year. Other income for 2007 includes the $6 million gain relating to our investment in CME. Other income for 2006 includes various insurance and tax recoveries approximating $5 million and $1 million of earnings from non-controlled affiliates. Fee and royalty income for 2007 was consistent with 2006.

Operating Income. A summary of operating income is shown below:

(in millions)	2007	2006	Favorable (Unfavorable) Variance	Favorable (Unfavorable) % Change
North America	$ 234	$ 130	$ 104	80%
South America	115	84	31	37%
Asia/Africa	45	53	(8)	(15)%
Corporate expenses	(53)	(43)	(10)	(23)%
Gain on CME investment	6		6	
Operating income	$ 347	$ 224	$ 123	55%

Operating income for 2007 increased 55 percent to $347 million from $224 million in 2006 driven by strong earnings growth in North America and South America. Currency translation attributable to the weaker US dollar contributed approximately $14 million to the increase in operating income. North America operating income increased significantly to $234 million in 2007 from $130 million a year ago, as earnings grew throughout the region principally attributable to improved product pricing. Currency translation attributable to the stronger Canadian dollar contributed approximately $4 million to the operating income increase in the region. South America operating income increased 37 percent to $115 million from $84 million in 2006, primarily reflecting significant earnings growth in Brazil driven by higher product pricing, increased demand and a stronger local currency. Currency translation attributable to stronger local currencies in Brazil and Colombia contributed approximately $10 million to the operating income increase in the region. Additionally, earnings growth in the Andean region of South America and results from acquired operations contributed to the increased operating income for South America. Operating income for the Southern Cone of South America was relatively unchanged from 2006. Asia/Africa operating income declined 15 percent from 2006 as lower earnings in South Korea mainly due to lower sales volume attributable to a stagnant economy and import competition, and higher corn and ocean freight costs, more than offset earnings growth in Pakistan.

Financing Costs-net. Financing costs-net increased to $42 million in 2007 from $27 million in 2006. The increase primarily reflects increased borrowings, a reduction in capitalized interest and an increase in foreign currency transaction

losses. An increase in interest income driven by higher average cash positions partially offset higher interest expense. Capitalized interest for 2007 was $4 million, as compared with $10 million in 2006.

Provision for Income Taxes. Our effective income tax rate was 33.5 percent in 2007, as compared to 35.3 percent in 2006. The decrease primarily reflects the effect of a year over year change in our geographical income mix and the recognition of $2 million of previously unrecognized tax benefits in 2007.

Minority Interest in Earnings. Minority interest in earnings increased to $5 million in 2007 from $4 million in 2006. The increase from 2006 mainly reflects the effect of improved earnings in Pakistan.

Comprehensive Income. We recorded comprehensive income of $306 million in 2007, as compared with comprehensive income of $186 million in 2006. The increase in comprehensive income mainly reflects our net income growth and a favorable variance in the currency translation adjustment attributable to a weaker US dollar.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008, our total assets were $3.21 billion, up from $3.10 billion at December 31, 2007. This increase primarily reflects an increase in our margin accounts relating to corn futures contracts, capital investments, net income and increased inventories attributable to higher corn costs, partially offset by translation effects associated with weaker end of period foreign currencies relative to the US dollar and unrealized losses on corn futures contracts. Stockholders equity decreased to $1.38 billion at December 31, 2008 from $1.61 billion at December 31, 2007, primarily reflecting an increase in the accumulated other comprehensive loss due to unfavorable currency translation effects attributable to the stronger US dollar and unrealized losses on cash flow hedges, which more than offset our 2008 net income.

We have a $500 million senior, unsecured revolving credit facility consisting of a $470 million US revolving credit facility and a $30 million Canadian revolving credit facility (together, the Revolving Credit Agreement) that matures in April 2012. We guarantee the Canadian revolving credit facility. At December 31, 2008, there were $146 million of borrowings outstanding under the US revolving credit facility and $29 million of borrowings outstanding under the Canadian revolving credit facility. In addition, we have a number of short-term credit facilities consisting of operating lines of credit. At December 31, 2008, we had total debt outstanding of $866 million, compared to $649 million at December 31, 2007. In addition to the borrowings under the Revolving Credit Agreement, the debt includes $181 million of 8.45 percent senior notes due August 15, 2009, $200 million of 6.0 percent senior notes due 2017, $100 million (face amount) of 6.625 percent senior notes due 2037 and $211 million of consolidated subsidiary debt consisting of local country borrowings. Approximately $206 million of the consolidated subsidiary debt is short-term. The 8.45 percent senior notes are included in long-term debt as we have the ability and intent to refinance these notes prior to the maturity date. Corn Products International, as the parent company, guarantees certain obligations of several of its consolidated subsidiaries. At December 31, 2008 such guarantees, including the outstanding borrowings under the Canadian revolving credit facility, aggregated $51 million. Management believes that such consolidated subsidiaries will meet their financial obligations as they become due.

Historically, the principal source of our liquidity has been our internally generated cash flow, which we have supplemented as necessary with our ability to borrow on our bank lines and to raise funds in both the debt and equity markets. In addition to borrowing availability under our Revolving Credit Agreement, we also have approximately $189 million of unused operating lines of credit in the various foreign countries in which we operate.

The weighted average interest rate on our total indebtedness was approximately 6.9 percent and 7.5 percent for 2008 and 2007, respectively.

Net Cash Flows

A summary of operating cash flows is shown below:

(in millions)	2008	2007
Net income	$ 267	$ 198
Depreciation and amortization	128	125
Deferred income taxes	12	7
Stock option expense	5	7
Unrealized gain on investment		(6)
Minority interest in earnings	8	5
Changes in working capital	(458)	(59)
Deposit with tax authority	(13)	(17)
Other	(28)	(2)
Cash (used for) provided by operations	$ (79)	$ 258

Cash used for operations was $79 million in 2008, as compared with cash provided by operations of $258 million in 2007. The decrease in operating cash flow primarily reflects an increase in working capital in 2008, driven principally by a $295 million increase in margin accounts relating to corn futures and options contracts. To manage price risk related to corn purchases in North America, we use derivative instruments (corn futures and options contracts) to lock in our corn costs associated with firm-priced customer sales contracts. We are unable to hedge price risk related to co-product sales. As the market price of corn fluctuates, our derivative instruments change in value and we fund any unrealized losses or receive cash for any unrealized gains related to outstanding corn futures and option contracts. Due to the substantial change in the market price of corn in 2008 we were required to fund significant losses associated with these derivative instruments, particularly during the second half of the year. We expect that these cash payments will be recovered when the related corn is used in our manufacturing process and we collect the proceeds from the sales of our products to our customers. The increase in working capital for 2008 also reflects an increase in inventories driven by higher corn costs, an increase in accounts receivable attributable to higher sales and a reduction in accounts payable and accrued liabilities due to the timing of payments. We plan to continue to hedge certain of our North American corn purchases through the use of corn futures and option contracts and accordingly, will be required to make or be entitled to receive, cash deposits for margin calls depending on the movement in the market price for corn. During the fourth quarter of 2008 we utilized our revolving credit facilities to fund a portion of the margin calls related to our corn futures contracts.

Listed below is our primary investing and financing activities for 2008 (in millions):

Capital expenditures	$(228)
Payments on debt	(56)
Proceeds from borrowings	313
Dividends paid (including dividends of $4 to minority interest shareholders)	(42)
Proceeds from issuance of common stock	11

On November 19, 2008, our board of directors declared a quarterly cash dividend of $0.14 per share of common stock. The cash dividend was paid on January 26, 2009 to stockholders of record at the close of business on January 8, 2009.

We currently anticipate that capital expenditures for 2009 will be in the range of $125 million to $150 million, much of which represents spending on projects continued from 2008.

As previously mentioned, we have $181 million of 8.45 percent senior notes that mature August 15, 2009. We expect to refinance these senior notes prior to the maturity date as appropriate opportunities are presented in the debt market. In the event market conditions do not provide appropriate opportunities then we expect to utilize our US revolving credit facility to fund the repayment of the senior notes.

The global economic recession presents many challenges. Co-product values are suppressed (particularly corn oil), market prices for corn are volatile, foreign currencies are under pressure and it will take us longer than it has in the past to recapture the impact of currency devaluations. Additionally, world-wide demand for our products is soft. Despite the difficulties presented by the global economic recession, we currently expect that our future operating cash flows and borrowing availability under our credit facilities will provide us with sufficient liquidity to fund our anticipated capital expenditures and dividends, repay the 8.45 percent senior notes (in the event it is not otherwise refinanced), and fund potential acquisitions and other investing and/or financing strategies for the foreseeable future.

Hedging

We are exposed to market risk stemming from changes in commodity prices, foreign currency exchange rates and interest rates. In the normal course of business, we actively manage our exposure to these market risks by entering into various hedging transactions, authorized under established policies that place clear controls on these activities. The counterparties in these transactions are generally highly rated institutions. Our hedging transactions include but are not limited to a variety of derivative financial instruments such as commodity futures contracts, forward currency contracts and options, interest rate swap agreements and treasury lock agreements. See Note 4 of the notes to the consolidated financial statements for additional information.

Commodity Price Risk:

We use derivatives to manage price risk related to purchases of corn and natural gas used in the manufacturing process. We periodically enter into futures and option contracts for a portion of our anticipated corn and natural gas usage, generally over the following twelve months, in order to hedge price risk associated with fluctuations in market prices. These futures and option contracts are recognized at fair value and have effectively reduced our exposure to changes in market prices for these commodities. We are unable to hedge price risk related to co-product sales. Unrealized gains and losses associated with marking our commodities-based derivative contracts to market are recorded as a component of other comprehensive income. At December 31, 2008, our accumulated other comprehensive loss account included $179 million of losses, net of tax of $107 million, related to these futures and options contracts. We expect that the anticipated losses will be reclassified into earnings as follows: $170 million in 2009; and $9 million in 2010. We expect the losses to be offset by changes in the underlying commodities cost.

Foreign Currency Exchange Risk:

Due to our global operations, we are exposed to fluctuations in foreign currency exchange rates. As a result, we have exposure to translational foreign exchange risk when our foreign operation results are translated to US dollars (USD) and to transactional foreign exchange risk when transactions not denominated in the functional currency of the operating unit are revalued. We primarily use foreign currency forward contracts, swaps and options to selectively hedge our foreign currency cash flow exposures. We generally hedge 12 to 18 months forward. As of December 31, 2008, we had $34 million of net notional foreign currency forward contracts that hedged net liability transactional exposures.

Interest Rate Risk:

We are exposed to interest rate volatility with regard to future issuances of fixed rate debt, and existing and future issuances of variable rate debt. Primary exposures include US Treasury rates, LIBOR, and local short-term borrowing rates. We use interest rate swaps and Treasury Lock agreements (T-Locks) to hedge our exposure to interest rate changes, to reduce the volatility of our financing costs, and to achieve a desired proportion of fixed versus floating rate debt, based on current and projected market conditions. Generally for interest rate swaps, we agree with a counterparty to exchange the difference between fixed-rate and floating-rate interest amounts based on an agreed notional principal amount. At December 31, 2008 we did not have any interest rate swaps outstanding.

We plan to refinance our 8.45 percent $181 million senior notes due August 2009 by issuing long-term, fixed rate debt in 2009. In conjunction with this plan and in order to manage our exposure to variability in the benchmark interest rate on which the fixed interest rate of the planned debt is expected to be based, we entered into a T-Lock with respect to $50 million of such future indebtedness. The T-Lock is designated as a hedge of the variability in cash flows associated with future interest payments caused by market fluctuations in the benchmark interest rate between the time the T-Lock was entered and the time the debt is issued. It is accounted for as a cash flow hedge. Accordingly, changes in the fair value of the T-Lock are recorded to other comprehensive income (loss) until the consummation of the planned debt offering, at which time any realized gain (loss) will be amortized over the life of the debt. In 2006, we had entered into T-Locks that fixed the benchmark component of the interest rate to be established for our $200 million 6.0 percent Senior Notes due April 15, 2017. These $200 million T-Locks, which were accounted for as cash flow hedges, expired on March 21, 2007 and we paid approximately $5 million, representing the losses on the T-Locks, to settle the agreements. The $5 million loss is included in accumulated other comprehensive loss and is being amortized to financing costs over the term of the $200 million 6.0 percent Senior Notes due April 15, 2017. At December 31, 2008, our accumulated other comprehensive loss account included $8 million of losses, net of tax of $5 million, related to T-Locks.

Contractual Obligations and Off Balance Sheet Arrangements

The table below summarizes our significant contractual obligations as of December 31, 2008. Information included in the table is cross-referenced to the notes to the consolidated financial statements elsewhere in this report, as applicable.

(in millions)			Payments due by period			
Contractual Obligations	Note reference	Total	Less than 1 year	2 3 years	4 5 years	More than 5 years
Long-term debt	5	$ 661	$ 181	$ 5	$ 175	$ 300
Interest on long-term debt	5	320	39	45	38	198
Operating lease obligations	6	122	28	37	23	34
Pension and other postretirement obligations	8	236	17	25	31	163
Purchase obligations (a)		976	194	178	114	490
Total		$ 2,315	$ 459	$ 290	$ 381	$ 1,185

(a) *The purchase obligations relate principally to power supply agreements, including take or pay energy supply contracts, which help to provide us with an adequate power supply at certain of our facilities.*

(b) *The above table does not reflect unrecognized income tax* *benefits of $19 million, the timing of which is uncertain. See Note 7 of the notes to the consolidated financial statements for additional information with respect to unrecognized income tax benefits.*

On January 20, 2006, Corn Products Brazil (CPO Brazil) entered into a Natural Gas Purchase and Sale Agreement (the Agreement) with Companhia de Gas de Sao Paulo Comgas (Comgas). Pursuant to the terms of the Agreement, Comgas supplies natural gas to the cogeneration facility at CPO Brazil s Mogi Guacu plant. This Agreement will expire on March 31, 2023, unless extended or terminated under certain conditions specified in the Agreement. During the term of the Agreement, CPO Brazil is obligated to purchase from Comgas, and Comgas is obligated to provide to CPO Brazil, certain minimum quantities of natural gas that are specified in the Agreement. The price for such quantities of natural gas is determined pursuant to a formula set forth in the Agreement. The price may vary based upon gas commodity cost and transportation costs, which are adjusted annually; the distribution margin which is set by the Brazilian Commission of Public Energy Services; and the fluctuation of exchange rates between the US dollar and the Brazilian real. We estimate that the total minimum expenditures by CPO Brazil through the remaining term of the Agreement will be approximately $268 million based on current exchange rates as of December 31, 2008 and estimates regarding the application of the formula set forth in the Agreement, spread evenly over the remaining term of the Agreement. These amounts are included in the purchase obligations disclosed in the table above. See also Note 10 of the notes to the consolidated financial statements for additional information.

As described in Note 11 of the notes to the consolidated financial statements, we have an agreement with certain common stockholders (collectively the holder), relating to 500,000 shares of our common stock, that provides the holder with the right to require us to repurchase those common shares for cash at a price equal to the average of the closing per share market price of our common stock for the 20 trading days immediately preceding the date that the holder exercises the put option. The put option is exercisable at any time until January 2010 when it expires. The holder can also elect to sell the common shares on the open market, subject to certain restrictions. The holder of the put option may not require us to repurchase less than 500,000 shares on any single exercise of the put option. In the event the holder exercises the put option requiring us to repurchase the shares, we would be required to pay for the shares within 90 calendar days from the exercise date. Any amount due would accrue interest at our revolving credit facility rate from the date of exercise until the payment date. If the holder had put the 500,000 shares then subject to the agreement to us on December 31, 2008, we would have been obligated to repurchase the shares for approximately $14 million based upon the average of the closing per share market price of the Company s common stock for the 20 trading days prior to December 31, 2008 ($28.62 per share). This amount is reflected as redeemable common stock in our Consolidated Balance Sheet at December 31, 2008.

We currently anticipate that in 2009 we will make cash contributions of $3 million and $4 million to our US and non-US pension plans, respectively. See Note 8 of the notes to the consolidated financial statements for further information with respect to our pension and postretirement benefit plans.

Key Performance Metrics

We use certain key metrics to better monitor our progress towards achieving our strategic business objectives. These metrics relate to our return on capital employed, our financial leverage, and our management of working capital, each of which is tracked on an ongoing basis. We assess whether we are achieving an adequate return on invested capital by measuring our Return on Capital Employed (ROCE) against our cost of capital. We monitor our financial leverage by regularly reviewing our ratio of debt to earnings before interest, taxes, depreciation and amortization (Debt to EBITDA) and our Debt to Capitalization percentage to assure that we are properly financed. We assess our level of working capital investment by evaluating our Operating Working Capital as a percentage of Net Sales. We believe the use of these metrics enables us to better run our business and is useful to investors.

The metrics below include certain information (including Capital Employed, Adjusted Operating Income, EBITDA, Adjusted Current Assets, Adjusted Current Liabilities and Operating Working Capital) that is not calculated in accordance with Generally Accepted Accounting Principles (GAAP). A reconciliation of these amounts to the most directly comparable financial measures calculated in accordance with GAAP is contained in the following tables. Management believes that this non-GAAP information provides investors with a meaningful presentation of useful information on a basis consistent with the way in which management monitors and evaluates our operating performance. The information presented should not be considered in isolation and should not be used as a substitute for our financial results calculated under GAAP. In addition, these non-GAAP amounts are susceptible to varying interpretations and calculations, and the amounts presented below may not be comparable to similarly titled measures of other companies.

Our calculations of these key metrics for 2008 with comparisons to the prior year are as follows:

Return on Capital Employed (dollars in millions)	2008	2007
Total stockholders equity *	$ 1,605	$ 1,330
Add:		
Cumulative translation adjustment *	132	214
Minority interest in subsidiaries *	21	19
Redeemable common stock *	19	44
Share-based payments subject to redemption*	9	4
Total debt *	649	554

Return on Capital Employed (dollars in millions)	2008	2007
Less:		
Cash and cash equivalents *	(175)	(131)
Capital employed * (a)	$ 2,260	$ 2,034
Operating income	$ 434	$ 347
Adjusted for:		
Income taxes (at effective tax rates of 32.0% in 2008 and 33.5% in 2007)	(139)	(116)
Adjusted operating income, net of tax (b)	$ 295	$ 231
Return on Capital Employed (b¸a)	13.1%	11.4%

* *Balance sheet amounts used in computing capital employed represent beginning of period balances*

Debt to EBITDA ratio (dollars in millions)	2008	2007
Short-term debt	$ 206	$ 130
Long-term debt	660	519
Total debt (a)	$ 866	$ 649
Net income	$ 267	$ 198
Add back:		
Minority interest in earnings	8	5
Provision for income taxes	130	102
Interest expense, net of interest income of $5 and $12, respectively	38	38
Depreciation and amortization	128	125
EBITDA (b)	$ 571	$ 468
Debt to EBITDA ratio (a ÷ b)	1.5	1.4

Debt to Capitalization percentage (dollars in millions)	2008	2007
Short-term debt	$ 206	$ 130
Long-term debt	660	519
Total debt (a)	$ 866	$ 649

Deferred income tax liabilities	$ 105	$ 133
Minority interest in subsidiaries	22	21
Redeemable common stock	14	19
Share-based payments subject to redemption	11	9
		31

Debt to Capitalization percentage (dollars in millions)	2008	2007
Stockholders equity	1,384	1,605
Total capital	$ 1,536	$ 1,787
Total debt and capital (b)	$ 2,402	$ 2,436
Debt to Capitalization percentage (a¸b)	36.1%	26.6%

Operating Working Capital

The accompanying unaudited financial statements of Mitek Systems, Inc. (the “Company”) have been prepared in accordance with the instructions to Form 10-QSB and, therefore, do not include all information and footnote disclosures that are otherwise required by Regulation S-B and that will normally be made in the Company's Annual Report on Form 10-KSB. Refer to the Company’s financial statements on Form 10-KSB for additional information.

The financial statements do, however, reflect all adjustments (solely of a normal recurring nature) which are, in the opinion of management, necessary for a fair statement of the results of the interim periods presented.

Results for the six months ended March 31, 2006 and 2005 are not necessarily indicative of results which may be reported for any other interim period or for the year as a whole.

Research and Development time and materials are recorded by the Company for each project. In the event such time is devoted to services sold by the Company, the time and materials spent on such development are charged to cost of sales-professional services, education and other.

2. Recently Issued Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* . This statement amends FASB Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* . This statement resolves issues addressed in Statement 133 Implementation Issue No. D1, *Applications of Statement 133 to Beneficial Interests in Securitized Financial Assets* . We are still evaluating the impact of SFAS No. 155.

3. Accounting for Stock-Based Compensation

We account for stock-based compensation in accordance with Accounting Principles Board Opinion (“APB”) No. 25, *Accounting for Stock Issued to Employees*, and FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*.

Pro forma information regarding net loss and loss per share is required by SFAS No. 123, *Accounting for Stock-based Compensation,* and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the dates of grant using the Black-Scholes option valuation model with the following weighted-average assumptions for the six months ended March 31, 2006 and 2005.

	2006	2005
Risk free interest rates	4.43%	3.5%
Dividend yields	0%	0%
Volatility	79%	75%

Weighted average expected life	3 years	3 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility.

Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Our pro forma information is as follows (in thousands, except for net loss per share information):

	Three months ended March 31		Six months ended March 31	
	2006	2005	2006	2005
Net income (loss) as reported	$ 25	$ (798)	$ (447)	$ (1,716)
Net income (loss) pro forma	(76)	(878)	(650)	(1,874)
Net income (loss) per share as reported	.00	(.07)	(.03)	(.15)
Net income (loss) per share pro forma	(.01)	(.08)	(.04)	(.17)

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4. Issuance of Convertible Debt

On June 11, 2004, we secured a financing arrangement with Laurus Master Fund ("Laurus"). The financing consists of a $3 million Secured Note that bears interest at the rate of prime (as published in the Wall Street Journal), plus one percent (6.75% as of September 30, 2005) and has a term of three years (June 11, 2007). The Secured Note is convertible into shares of our common stock at an initial fixed price of $0.70 per share, a premium to the 10-day average closing share price as of June 11, 2004. The conversion price of the Secured Note is subject to adjustment upon the occurrence of certain events. The effective annual interest rate of this Convertible Debt, after considering the total debt issue costs (discussed below), is approximately 36%.
In connection with the financing, Laurus was also issued warrants to purchase up to 860,000 shares of our common stock. The warrants are exercisable as follows: 230,000 shares at $0.79 per share; 230,000 shares at $0.85 per share and the balance at $0.92 per share. The gross proceeds of the convertible debt were allocated to the debt instrument and the warrants on a relative fair value basis. Then we computed the beneficial conversion feature embedded in the debt instrument using the effective conversion price in accordance with EITF 98-5 and 00-27. We have recorded a debt discount of (i) $367,887 for the valuation of the 860,000 warrants issued with the note (computed using a Black-Scholes model with an interest rate of 2.53%, volatility of 81%, zero dividends and expected term of three years); (ii) $522,384 for a beneficial conversion feature inherent in the Secured Note and (iii) $151,000 for debt issue costs paid to affiliates of the lender, for a total discount of $1,041,271. The $1,041,271 is being amortized over the term of the Secured Note. Cumulative amortization of the debt discounts through March 31, 2006 was $954,821.

A registration rights agreement was executed requiring us to register the shares of our common stock underlying the Secured Note and warrants so as to permit the public resale thereof. Liquidated damages of 2% of the Secured Note balance per month accrued if stipulated deadlines were not met. Prior to the end of fiscal 2004, we incurred a penalty of $208,000 to Laurus Funds for failing to register the securities underlying the Debt Instrument. On October 4, 2004, the Company settled this penalty with Laurus Master Fund, LLC by agreeing to issue an additional warrant for the purchase of 200,000 shares at a price of $0.70 per share. The value of this additional warrant was calculated by us to be $73,159, using a Black-Scholes option pricing model. The registration statement was filed with the Securities and Exchange Commission on October 4, 2004. We were required to have received an effective registration no later than December 31, 2004. The registration was not effective by that time, so we incurred liquidated damages, payable in cash, in the amount of $215,000 for the period January 1, 2005 to May 13, 2005. The registration became effective on May 13, 2005, and we do not anticipate there will be future penalties associated with the registration.

In conjunction with raising capital through the issuance of convertible debt, the Company has issued various warrants that have registration rights for the underlying shares. As the contracts must be settled by the delivery of registered shares and the delivery of the registered shares is not controlled by the Company, pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the net value of the warrants at the date of issuance was recorded as a warrant liability on the balance sheet ($367,887) and the change in fair value from the date of issuance to September 30, 2004 has been included in other (expense) income.

To secure the payment of all obligations, we entered into a Master Security Agreement which assigns and grants to Laurus a continuing security interest in all of the following property now owned or at any time upon execution of the agreement, acquired by us or subsidiaries, or in which any assignor now have or at any time in the future may acquire any right, title or interest: all cash, cash equivalents, accounts, deposit accounts, inventory, equipment, goods, documents, instruments (including, without limitation, promissory notes), contract rights, general tangibles, chattel paper, supporting obligations, investment property, letter-of-credit rights, trademarks, trademark applications, patents, patent applications, copyrights, copyright applications, tradestyles and any other intellectual property, in each case, in which any Assignor now have or may acquire any right, title or interest, all proceeds and products thereof (including, without limitation, proceeds of insurance) and all additions, accessions and substitutions. In the event any Assignor wishes to finance an acquisition in the ordinary course of business of any hereafter-acquired equipment and have obtained a commitment from a financing source to finance such equipment from an unrelated third party, Laurus agrees to release its security interest on such hereafter-acquired equipment so financed by such third party financing source.

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The Secured Notes stipulates that the Secured Note is to be repaid using cash payment along with an equity conversion option; the details of both methods for repayment are as follows: The cash repayments stipulate that beginning on December 1, 2004, or the first amortization date, we shall make monthly payments to Laurus on each repayment date until the maturity date, each in the amount of $90,909, together with any accrued and unpaid interest to date. The conversion repayment states that each month by the fifth business day prior to each amortization date, Laurus shall deliver to us a written notice converting the monthly amount payable on the next repayment date in either cash or shares of common stock, or a combination of both. If a repayment notice is not delivered by Laurus on or before the applicable notice date for such repayment date, then we pay the monthly amount due in cash. Any portion of the monthly amount paid in cash shall be paid to Laurus in an amount equal to 102% of the principal portion of the monthly amount due. If Laurus converts all or a portion of the monthly amount in shares of our common stock, the number of such shares to be issued by us will be the number determined by dividing the portion of the monthly amount to be paid in shares of common stock, by the applicable fixed conversion price, which is presently $0.70 per share.

The following table reflects the Convertible Debt at March 31, 2006:

Convertible Debt	$ 652,818
Deferred financing costs	(86,450)
	566,368

The debt has the following principal amounts due over the remaining life as follows:

Year ended 9/30/06	$ 652,818

5. Commitments and Contingencies

We signed a seven year lease for a property located at 8911 Balboa Avenue, Suite B, San Diego, California 92123 which became effective in December 2005. The initial term of the Lease is seven years. The Lease may be terminable by the Company after the calendar month which is forty-eight (48) full calendar months after the Commencement Date (December 9, 2005); however, termination will require certain penalties to be paid equal to two months of base rent and all unamortized improvements and commissions.

Future annual minimum rental payments payable by us under non-cancelable leases are as follows:

	Operating Leases
Year Ending September 30:	
2006	$ 148,121
2007	305,002
2008	314,558
2009	324,814
2010	333,671
Thereafter	724,775
Total	$ 2,150,941

6. Related Party Transactions

In the second quarter of fiscal 2006, we realized revenue of approximately $353,000 with John H. Harland Company ("John Harland") for engineering development services pursuant to an agreement dated February 22, 2005 which was subsequently amended on December 29, 2005 and March 21, 2006. The amendments extended the life of the agreement and increased the amount of non-refundable engineering development services and provided us the authorization to invoice for timely completion of all milestones under the agreement. In addition, we sold to Harland Financial Solutions, a subsidiary of John Harland, software licenses and software maintenance for approximately $27,000. In the second quarter of fiscal 2005, we realized revenue of approximately $250,000 with John H. Harland Company for engineering development services. In addition, we sold to Harland Financial Solutions software licenses and software maintenance for approximately $16,000. In the first six months of fiscal 2006, we realized revenue of approximately $703,000 with John H. Harland for engineering development services and approximately $44,000 to Harland Financial Solutions for software licenses and software maintenance. In the first six months of fiscal 2005, we realized revenue of approximately $275,000 with John H, Harland for engineering development services and approximately $50,000 to Harland Financial Solutions for software licenses and software maintenance.

7. Product Revenues - Below is a summary of the revenues by product lines.

Revenue (000's)	Three Months Ended March 31 2006	Three Months Ended March 31 2005	Six Months Ended March 31 2006	Six Months Ended March 31 2005
Recognition Toolkits	$ 657	$ 1,093	$ 1,433	$ 1,848
Document and Image Processing Solutions	0	33	10	97
Professional services, Maintenance and other	798	646	1,533	1,127
Total Revenue	$ 1,455	$ 1,772	$ 2,976	$ 3,072

8. Stockholders' Equity

During the six month period ended March 31, 2006, Laurus Master Fund converted $986,500 of its convertible note into 1,409,286 shares.

9. Subsequent Events

As of April 14, 2006, Laurus Master Fund has converted its note in the amount of $21,000 to 30,000 shares. The balance of Laurus convertible note on April 14, 2006 was approximately $632,000.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Management's Discussion

In addition to historical information, this Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. As contained herein, the words "expects," "anticipates," "believes," "intends," "will," and similar types of expressions identify forward-looking statements, which are based on information that is currently available to us, speak only as of the date hereof, and are subject to certain risks and uncertainties. To the extent that the MD&A contains forward-looking statements regarding the financial condition, operating results, business prospects or any other aspect of the Company, please be advised that our actual financial condition, operating results and business performance may differ materially from that projected or estimated by us in forward-looking statements. We have attempted to identify certain of the factors that it currently believes may cause actual future experiences and results to differ from our current expectations. The difference may be caused by a variety of factors, including, but not limited, to the following: (i) adverse economic conditions; (ii) decreases in demand for our products and services; (iii) intense competition, including entry of new competitors into our markets; (iv) increased or adverse federal, state and local government regulation; (v) our inability to retain our working capital or otherwise obtain additional capital on terms satisfactory to us; (vi) increased or unexpected expenses; (vii) lower revenues and net income than forecast; (viii) price increases for supplies; (ix) inability to raise prices; (x) the risk of additional litigation and/or administrative proceedings involving us and our employees; (xi) higher than anticipated labor costs; (xii) adverse publicity or news coverage regarding us; (xiii) inability to successfully carry out marketing and sales plans, including the Company's strategic realignment; (xiv) loss of key executives; (xv) changes in interest rates; (xvi) inflationary factors; (xvii) and other specific risks that may be alluded to in this MD&A.

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Our strategy for fiscal 2006 is to grow the identified markets for our new products and enhance the functionality and marketability of our image based recognition and forgery detection technologies. In particular, Mitek is determined to expand the installed base of its Recognition Toolkits and leverage existing technology by devising recognition-based applications to detect potential fraud and loss at financial institutions. We also seek to expand the installed base of our Check Forgery detection Solutions by entering into reselling relationships with key resellers who will better penetrate the market and provide entrée into a larger base of community banks.

Management presumes that users of these interim financial statements and information have read or have access to the discussion and analysis for the preceding fiscal year.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates by management are affected by management's application of accounting policies are subjective and may differ from actual results. Critical accounting policies for us include revenue recognition, impairment of accounts and notes receivable, loss contingencies, fair value of equity instruments and accounting for income taxes.

Revenue Recognition

We enter into contractual arrangements with resellers and end users that may include licensing of our software products, product support and maintenance services, consulting services, resale of third-party hardware, or various combinations thereof, including the sale of such products or services separately. Our accounting policies regarding the recognition of revenue for these contractual arrangements is fully described in Notes to the Financial Statements on Form 10-KSB previously filed.

We consider many factors when applying accounting principles generally accepted in the United States of America related to revenue recognition. These factors include, but are not limited to:

- The actual contractual terms, such as payment terms, delivery dates, and pricing of the various product and service elements of a contract
- Availability of products to be delivered
- Time period over which services are to be performed
- Creditworthiness of the customer
- The complexity of customizations to our software required by service contracts
- The sales channel through which the sale is made (direct, VAR, distributor, etc.)
- Discounts given for each element of a contract
- Any commitments made as to installation or implementation "go live" dates

Each of the relevant factors is analyzed to determine its impact, individually and collectively with other factors, on the revenue to be recognized for any particular contract with a customer. Management is required to make judgments regarding the significance of each factor in applying the revenue recognition standards, as well as whether or not each factor complies with such standards. Any misjudgment or error by management in its evaluation of the factors and the application of the standards, especially with respect to complex or new types of transactions, could have a material adverse impact on our future revenues and operating results.

Accounts Receivable.

We evaluate the creditworthiness of our customers prior to order fulfillment and we perform ongoing credit evaluations of our customers to adjust credit limits based on payment history and our assessment of the customer's current creditworthiness. We constantly monitor collections from our customers and maintain a provision for estimated credit losses that is based on historical experience and on specific customer collection issues. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Since our revenue recognition policy requires customers to be deemed creditworthy, our accounts receivable are based on customers whose payment is reasonably assured. Our accounts receivables are derived from sales to a wide variety of customers. We do not believe a change in liquidity of any one customer or our inability to collect from any one customer would have a material adverse impact on our financial position.

Loss Contingencies

The financial statements presented include accruals for a loss contingency.

Fair Value of Equity Instruments

The valuation of certain items, including valuation of warrants, beneficial conversion feature related to convertible debt and compensation expense related to stock options granted, involve significant estimations with underlying assumptions judgmentally determined. The valuation of warrants and stock options are based upon a Black Scholes valuation model, which involve estimates of stock volatility, expected life of the instruments and other assumptions. As our stock is thinly traded, the estimates, which are based partly on historical pricing of our stock, may not represent fair value, but we believe it is presently the best form of estimating objective fair value.

Deferred Income Taxes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We maintain a valuation allowance against the deferred tax asset due to uncertainty regarding the future realization based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. Until such time as we can demonstrate that it will no longer incur losses or if we are unable to generate sufficient future taxable income we could be required to maintain the valuation allowance against our deferred tax assets.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

Comparison of Three Months and Six Months Ended March 31, 2006 and 2005

Net Sales. Net sales for the three month period ended March 31, 2006 were approximately $1,455,000, compared to approximately $1,772,000 for the same period in 2005, a decrease of approximately $317,000, or 18%. The decrease was primarily attributable to two customers with total revenue of approximately $315,000 in the second quarter of fiscal 2005 that did not repeat in the second quarter of fiscal 2006.

Revenue from Harland for engineering development services were approximately $353,000 for the second quarter of fiscal 2006 compared with approximately $250,000 for the same period in fiscal 2005.

Net sales for the six month period ended March 31, 2006 were approximately $2,976,000 compared to approximately $3,072,000 for the same period in 2005, a decrease of approximately $96,000, or 3%. The decrease was primarily attributable to a shortfall of orders from two customers as discussed above.

Revenue from Harland for engineering development services were approximately $703,000 for the six month period ended March 31, 2006 compared to approximately $275,000 for the same period in fiscal 2005.

Cost of Sales. Cost of Sales for the three month period ended March 31, 2006 were approximately $225,000 compared to approximately $229,000 for the same period in 2005, a decrease of approximately $4,000 or 2%. Stated as a percentage of net sales, cost of sales were 15% compared to 13% for the same period in fiscal 2005. The dollar decrease, and the increase as a percentage of sales, in cost of sales is due to product mix as costs of sales related to professional services typically carries higher costs.

Cost of sales for the six month period ended March 31, 2006 were approximately $635,000 compared to approximately $413,000 for the same period in 2005, an increase of approximately $222,000 or 54%. Stated as a percentage of net sales, cost of sales were 21% compared to 13% for the same period in fiscal 2005. The dollar increase, and the increase as a percentage of sales, in cost of sales is due to an increase in professional services revenue to Harland and direct costs related to such professional services.

Operations. Operations expense for the three-month period ended March 31, 2006 were approximately $22,000, compared to approximately $36,000 for the same period in 2005, a decrease of approximately $14,000 or 39% Stated as a percentage of net sales, operations expenses remained the same for both fiscal years at 2%. The decrease in expenses primarily relates to the reduction of facilities and related expenses due to decline in facilities costs and reduced amount charged to operations due to reduction in staff required to perform this function.

Operations expenses for the six month period ended March 31, 2006 were approximately $43,000, compared to approximately $76,000 for the same period in 2005, a decrease of approximately $33,000 or 43%. Stated as a percentage of net sales, operations expenses remained the same for both fiscal years at 1%. The decrease in expenses primarily relates to the reduction of facilities and related expenses.

Selling and Marketing. Selling and marketing expenses for the three month period ended March 31, 2006 were approximately $322,000, compared to approximately $623,000 for the same period in 2005, a decrease of approximately $301,000 or 48%. Stated as a percentage of net sales, selling and marketing expenses decreased to 22% for the period ended March 31, 2006, compared to 35% for the same period in 2005. The dollar decrease in expenses for the three month period is primarily attributable to reclassification of product management personnel from sales and marketing to engineering in the current fiscal year, combined with reduced headcount in the current fiscal year

Selling and marketing expenses for the six month period ended March 31, 2006 were approximately $721,000, compared to approximately $1,203,000 for the same period in 2005, a decrease of approximately $482,000 or 40%. Stated as a percentage of net sales, selling and marketing expenses decreased to 24% for the period ended March 31, 2006, compared to 39% for the same period in 2005. The dollar decrease in expenses for the six month period is primarily attributable to reclassification of product management personnel from sales and marketing to engineering in the current fiscal year, combined with reduced headcount in the current fiscal year

Research and Development. Research and development expenses are incurred to maintain existing products, develop new products or new product features, and development of custom projects. Research and development expenses for the three month period ended March 31, 2006 were approximately $405,000 compared to approximately $347,000 for the same period in 2005, an increase of approximately $58,000 or 17%. Stated as a percentage of net sales, research and development expenses increased to 28% for the period ended March 31, 2006 compared to 20% for the same period in 2005. The increase in expenses for the three month period is primarily due to the reclassification of product management personnel from sales and marketing to engineering in the current fiscal year.

The expenses for the three month periods do not include approximately $168,000 and approximately $172,000, respectively, that was spent in research and development related to contract development and charged to cost of sales-professional services, education and other. Research and development expenses including charges to cost of sales were approximately $573,000 and approximately $519,000 for the three month period ended March 31, 2006 and 2005, respectively.

Research and development expenses for the six month period ended March 31, 2006 were approximately $732,000, compared to approximately $717,000 for the same period in 2005, an increase of approximately $15,000 or 2%. Stated as a percentage of net sales, research and development expenses increased to 25% for the period ended March 31, 2006 compared to 23% for the same period in 2005. The increase in expenses for the six month period is primarily due to the reclassification of product management personnel from sales and marketing to engineering in the current fiscal year.

The expenses for the six month periods do not include approximately $538,000 and approximately $274,000, respectively, that was spent in research and development related to contract development and charged to cost of sales-professional services, education and other. Research and development expenses including charges to cost of sales were approximately $1,270,000 and approximately $991,000 for the six month period ended March 31, 2006 and

2005, respectively.

General and Administrative. General and administrative expenses for the three month period ended March 31, 2006 were approximately $416,000, compared to approximately $1,085,000 for the same period in 2005, a decrease of approximately $669,000 or 62%. Stated as a percentage of net sales, general and administrative expenses decreased to 29% compared to 61% for the same period in 2005. The decrease in expenses for the three month period is primarily attributable to the reduction in legal costs (relating to litigation with BSM in fiscal 2005)

General and administrative expenses for the six month period ended March 31, 2006 were approximately $948,000, compared to approximately $2,011,000 for the same period in 2005, a decrease of approximately $1,063,000 or 53%. Stated as a percentage of net sales, general and administrative expenses decreased to 32% for the period ended March 31, 2006 compared to 65% for the same period in 2005. The decrease in expenses for the six month period is primarily attributable to the reduction in legal costs (relating to litigation with BSM in fiscal 2005) combined with reduced accounting fees.

Interest and Other Income (Expense) - Net. Interest and other income (expense) for the three-month period ended March 31, 2006 were approximately ($38,000), compared to interest and other income (expense) of approximately ($251,000) for the same period in 2005, a change of approximately $213,000. The primary reason for the change is the cash interest paid to Laurus Master Fund during the three months ended March 31, 2006 of approximately $14,000 compared to interest paid to Laurus Master Fund of $213,000 for the same period in fiscal 2005, as well as amortization of the deferred loan costs related to the beneficial conversion feature of the convertible note, including additional expense recognized from conversion of debt to equity.

LIQUIDITY AND CAPITAL

At March 31, 2006, the Company had approximately $1,925,000 in cash as compared to approximately $2,387,000 at September 30, 2005. Accounts receivable totaled approximately $991,000, an increase of approximately $119,000 over the September 30, 2005 balance of approximately $773,000. This increase was primarily the result of increased sales activity during the second fiscal quarter when compared to the forth quarter of 2005.

We financed our cash needs during the first six months of fiscal 2006 primarily from collections of accounts receivable, and existing cash. During fiscal 2005, we financed our cash needs primarily from financing, investing activities and existing cash.

Net cash used in operating activities during the six months ended March 31, 2006 was approximately ($420,000). The primary use of cash from operating activities was the loss during the six month period of approximately $447,000, and an increase in accounts receivable of approximately $210,000. The primary source of cash from operating activities was an increase to deferred revenue of approximately $107,000. The primary non-cash adjustment to operating activities was depreciation and amortization expense for fixed assets and debt discount of approximately $359,000. The Company used part of the cash provided from operating activities to finance the acquisition of equipment used in its business.

Our working capital and current ratio was approximately $1,377,000 and 1.80, respectively, at March 31, 2006, and total liabilities to equity ratio was 1.09 to 1 compared to 2.36 to 1 at September 30, 2005.

There are no significant capital expenditures planned for the foreseeable future.

We evaluate our cash requirements on a quarterly basis. Historically, we have managed our cash requirements principally from cash generated from operations and financing transactions. We believe that we will have sufficient capital to finance our operations for the next twelve months using existing cash, and cash to be generated from operations.

ITEM 3

CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective as of the quarter ended March 31, 2006.

There have not been any changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d - 15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting

PART II - OTHER INFORMATION

ITEM 1

LEGAL PROCEEDINGS

There are no additional material legal proceedings pending against the Company not previously reported by the Company in Item 3 of its Form 10-KSB for the year ended September 30, 2005, which Item 3 is incorporated herein by reference.

ITEM 2

UNREGISTERED SALES OF EQUITY SECURITIES

In connection with the payment of the principal related to a convertible term note of $3,000,000, issued to Laurus Master Fund, Ltd. ("Laurus") in June 2004, we issued the following shares of our common stock during the quarter ended March 31, 2006: January 4, 2006, 20,000 shares were converted, reflecting $14,000 of principal; January 10, 2006, 70,000 shares were converted, reflecting $49,000 of principal; January 12, 2006, 10,000 shares were converted, reflecting $7,000 of principal; January 17, 2006, 25,000 shares were converted, reflecting $17,500 of principal; January 25, 2006, 10,000 shares were converted, reflecting $7,000 of principal; February 2, 2006, 10,000 shares were converted, reflecting $7,000 of principal; February 7, 2006, 10,000 shares were converted, reflecting $7,000 of principal; February 15, 2006, 10,000 shares were converted, reflecting $7,000 of principal; March 3, 2006, 10,000 shares were converted, reflecting $7,000 in principal; March 6, 2006, 10,000 shares were converted, reflecting $7,000 of principal; March 14, 2006, 10,000 shares were converted, reflecting $7,000 of principal.
These conversions were made pursuant to Section 4(2) of the Securities Act of 1933, as amended, as Laurus is a sophisticated investor who had access to information about Mitek.

ITEM 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

a. The Company's Annual Meeting of Stockholders was held on February 22, 2006 (the "Meeting").

b. The following directors were elected at the Meeting:

Director	For	Against or Withheld
John M. Thornton	14,311,498	866,793
James B. DeBello	14,337,808	840,483
Sally B. Thornton	14,290,104	888,187

Gerald I Farmer, Ph.D	14,189,748	988,543
Michael Bealmear	15,081,448	96,843
William P. Tudor	15,094,548	83,743
Vinton Cunningham	15,094,808	83,483

c. The Mitek Systems, Inc. 2006 Stock Option Plan was approved.

For	Against or Withheld	Abstain or Broker Non-Vote
7,370,489	1,224,855	6,582,947

d. Stonefield Josephson, Inc. was ratified as the Company's 2006 auditors:

For	Against or Withheld	Abstain or Broker Non-Vote
14,936,929	146,902	94,459

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ITEM 6.

EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits:
The following exhibits are filed herewith:

Exhibit Number	Exhibit Title
31.1	Certification of Periodic Report by the Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Periodic Report by the Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certification of Periodic Report by the Chief Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2	Certification of Periodic Report by the Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002

b. The Company did not file a Form 8-K during the second quarter of fiscal 2006.

SIGNATURES

Pursuant to the requirements 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.

MITEK SYSTEMS, INC.

Date: May 12, 2006	/s/ James B. Debello
	James B. DeBello, President and Chief Executive Officer
Date: May 12, 2006	/s/ Tesfaye Hailemichael
	Tesfaye Hailemichael Chief Financial Officer