INTERNATIONAL FLAVORS & FRAGRANCES INC
Form 10-Q
May 08, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OF

THE SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended March 31, 2006

Commission file number 1-4858

INTERNATIONAL FLAVORS & FRAGRANCES INC.

(Exact name of registrant as specified in its charter)

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

521 West 57th Street, New York, N.Y. 10019-2960
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (212) 765-5500

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve 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 [|X|] No [ ]

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12B-2 of the Exchange Act).

Yes [ ] No [X]

Number of shares outstanding as of May 1, 2006: 90,838,142

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS		3/
Current Assets:		
Cash and cash equivalents	$	2
Short-term investments		
Trade receivables		3
Allowance for doubtful accounts		(
Inventories: Raw materials		2
Work in process		
Finished goods		2
Total Inventories		4
Deferred income taxes		
Other current assets		
Total Current Assets		1,1
Property, Plant and Equipment, at cost		1,0
Accumulated depreciation		(5
		4
Goodwill		6
Intangible Assets, net		1
Other Assets		1
Total Assets	$	2,5

LIABILITIES AND SHAREHOLDERS' EQUITY		3/3
Current Liabilities:		
Bank borrowings, overdrafts and current portion of long-term debt	$	8
Accounts payable		1
Accrued payrolls and bonuses		
Dividends payable		
Income taxes		
Restructuring and other charges		
Other current liabilities		1
Total Current Liabilities		1,1
Other Liabilities:		
Long-term debt		1
Deferred gains		
Retirement liabilities		2
Other liabilities		1
Total Other Liabilities		5

Commitments and Contingencies (Note 9)	
Shareholders' Equity:	
Common stock 12 1/2 cent par value; authorized 500,000,000 shares; issued 115,761,840 shares	
Capital in excess of par value	
Retained earnings	1,7
Accumulated other comprehensive income:	
Cumulative translation adjustment	(
Accumulated losses on derivatives qualifying as hedges (net of tax)	
Minimum pension liability adjustment (net of tax)	(1
	1,7
Treasury stock, at cost - 25,150,525 shares in 2006 and 23,047,349 shares in 2005	(8
Total Shareholders' Equity	8
Total Liabilities and Shareholders' Equity	$ 2,5

See Notes to Consolidated Financial Statements

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

	3 Mon
	2006
Net sales	$ 511,
Cost of goods sold	294,
Research and development expenses	45,
Selling and administrative expenses	85,
Amortization of intangibles	3,
Restructuring and other charges	
Interest expense	5,
Other (income) expense, net	
	436,
Income before taxes on income	75,
Taxes on income	21,
Net income	53,
Other comprehensive income:	
Foreign currency translation adjustments	4,
Accumulated gains (losses) on derivatives qualifying as hedges (net of tax)	
Comprehensive income	$ 59,
Net Income per share - basic	$0
Net Income per share - diluted	$0

Average number of shares outstanding - basic	91,
Average number of shares outstanding - diluted	92,
Dividends declared per share	$0.

See Notes to Consolidated Financial Statements

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

	3 Months Ended Mar
	2006
Cash flows from operating activities:	
Net income	$ 53,690 $
Adjustments to reconcile to net cash provided by operations:	
Depreciation and amortization	22,261
Deferred income taxes	9,953
Gain on disposal of assets	(1,644)
Changes in assets and liabilities:	
Current receivables	(45,164)
Inventories	(1,694)
Current payables	(1,110)
Changes in other assets, net	(2,134)
Changes in other liabilities, net	7,037
Net cash provided by (used in) operations	41,195
Cash flows from investing activities:	
Net change in short-term investments	25
Additions to property, plant and equipment	(9,033)
Proceeds from disposal of assets	4,670
Net cash used in investing activities	(4,338)
Cash flows from financing activities:	
Cash dividends paid to shareholders	(17,189)
Net change in bank borrowings and overdrafts	(19,398)
Net change in commercial paper outstanding	-
Proceeds from long-term debt	-
Repayments of long-term debt	(6)
Proceeds from issuance of stock under stock option and employee stock purchase plans	6,636
Purchase of treasury stock	(75,561)
Net cash (used in) provided by financing activities	(105,518)
Effect of exchange rate changes on cash and cash equivalents	1,367
Net change in cash and cash equivalents	(67,294)
Cash and cash equivalents at beginning of year	272,545
Cash and cash equivalents at end of period	$ 205,251 $

Interest paid	$	1,622 $
Income taxes paid	$	8,056 $

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

These interim statements and management's related discussion and analysis should be read in conjunction with the consolidated financial statements and their related notes and management's discussion and analysis of results of operations and financial condition included in the Company's 2005 Annual Report on Form 10-K. These interim statements are unaudited. In the opinion of the Company's management, all adjustments, including normal recurring accruals, necessary for a fair presentation of the results for the interim periods have been made.

Note 1. Net Income Per Share:

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

	Three Months Ended March 31,	
(Shares in thousands)	2006	2005
Basic	91,535	94,325
Assumed conversion under stock plans	672	1,700
Diluted	92,207	96,025

Stock options to purchase 1,875,375 and 552,862 shares were outstanding for the first quarter of 2006 and 2005, respectively, but were not included in the computation of diluted net income per share for the respective periods since the impact was anti- dilutive.

Note 2. Restructuring and Other Charges:

As described in Note 2 to the Consolidated Financial Statements in the Company's 2005 Annual Report, the Company has undertaken a significant reorganization, including management changes, consolidation of production facilities and related actions.

The Company undertook a plan to eliminate approximately 300 positions in manufacturing, selling, research and administration functions, principally in its European and North American operating regions. The majority of affected positions involve employee separation while the balance relates to open positions that will not be filled. As a result of these actions, the Company recognized pre-tax charges of $23.3 million in 2005 and $0.7 million in the first quarter of 2006.

Movements in the liabilities related to the restructuring charges, included in restructuring and other charges or other liabilities as appropriate, were (in millions):

	Employee-Related	Asset-Related and Other	Total
Balance December 31, 2005	$ 29.5	$ 4.9	$ 34.4
Additional charges	0.2	0.5	0.7
Cash and other costs	(6.7)	(0.2)	(6.9)
Balance March 31, 2006	$ 23.0	$ 5.2	$ 28.2

Consistent with the original plan, the balance of the employee-related liabilities are expected to be utilized by 2008 as obligations are satisfied; the asset-related charges will be utilized in 2007 on final decommissioning and disposal of the affected equipment.

Note 3. Goodwill and Other Intangible Assets, Net

Goodwill by operating segment at March 31, 2006 and December 31, 2005 is as follows:

(DOLLARS IN THOUSANDS)	Amount
North America	$ 218,575
Europe	258,607
India	29,209
Latin America	49,046
Asia Pacific	110,145
Total	$ 665,582

Trademark and other intangible assets consist of the following amounts:

(DOLLARS IN THOUSANDS)	March 31, 2006	December 31, 2005
Gross carrying value	$ 177,498	$ 177,498
Accumulated amortization	74,139	70,429
Total	$ 103,359	$ 107,069

Amortization expense for the period ended March 31, 2005 was $3.7 million; estimated annual amortization is $14.8 million in 2006, $13.5 million in 2007 and $6.8 million in 2008 through 2011.

Note 4. Comprehensive Income:

Changes in the accumulated other comprehensive income component of shareholders'

equity were as follows:

2006(Dollars in thousands)	Translation adjustments	Accumulated losses on derivatives qualifying as hedges, net of tax	M P Ob ne
Balance December 31, 2005	$ (47,369)	$ (2,606)	$
Change	4,837	806	
Balance March 31, 2006	$ (42,532)	$ (1,800)	$

2005(Dollars in thousands)	Translation adjustments	Accumulated losses on derivatives qualifying as hedges, net of tax	M P Ob ne
Balance December 31, 2004	$ 8,227	$ (5,694)	$
Change	(26,863)	(842)	
Balance March 31, 2005	$ (18,636)	$ (6,536)	$

Note 5. Borrowings:

Debt consists of the following:

(Dollars in Thousands)	Rate	Maturities	March 31, 20
Bank borrowings and overdrafts			$ 304,6
Current portion of long-term debt	6.45%	2006	499,2
Current portion of deferred realized gains on interest rate swaps			1,7
Total current debt			805,7
Japanese Yen notes	2.45%	2008-11	128,5
Other		2011	
Deferred realized gains on interest rate swaps			1,5
Total long-term debt			130,1
Total debt			$ 935,8

The 6.45% Notes mature May 15, 2006 and are accordingly classified as current at March 31, 2006.

Note 6. Equity Compensation Plans:

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) "Share-Based Payment" ("SFAS No. 123 (R)") using the modified prospective method, which requires measurement of compensation cost of all stock-based awards at fair value on the date of grant and recognition of compensation over the service periods for awards expected to vest. Under this transition method, compensation cost in 2006 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), and (2) all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). The Company will recognize the cost of all employee stock options on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures. Results for prior periods have not been restated.

The Company previously applied the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") and provided the pro forma disclosures required by SFAS No. 123. No compensation expense for employee stock options was previously reflected in net earnings, as all stock options granted under those plans had an exercise price not less than the market value of the common stock on the date of the grant.

The Company changed its valuation model used for estimating the fair value of options granted after January 1, 2006, from a Black-Scholes option-pricing model to a Binomial lattice-pricing model. This change was made in order to provide a better estimate of fair value since the Binomial model is a more flexible method for valuing employee stock options than the Black-Scholes model. The flexibility of the simulated Binomial model stems from the ability to incorporate inputs that change over time, such as volatility and interest rates, and to allow for actual exercise behavior of option holders. The Company plans to use an average of implied and historical volatility and the expected term assumption was determined based on historical patterns.

The Company has various equity plans under which the Company's officers, senior management, directors and other key employees may be granted options to purchase the Company's common stock at 100% of the market price on the day the option is granted or may receive other forms of equity-based awards. Prior to 2004, stock options were the primary form of equity compensation. Beginning in 2004, the Company granted Restricted Stock Unit's ("RSU's") as an element of its incentive compensation plan for all eligible U.S. - based employees and a majority of eligible overseas employees. Vesting of the RSU's for the Company's officers and senior management is performance and time based, and for the remainder of eligible employees, vesting is time based; the vesting period is primarily three years from date of grant, however vesting can be adjusted within certain parameters. For a small group of primarily overseas employees, the Company continues to issue stock options.

Stock Options

Stock options to purchase common stock are granted at an exercise price of not less than fair value of the underlying stock on the date of the grant. Stock options granted generally become exercisable on the first anniversary of the grant date and have a maximum term of ten years. There were no stock options awarded in the first quarter of 2006. Compensation cost and the related tax benefit for unvested stock option awards issued prior to adoption totaled $1.3 million and $0.5 million, respectively for the three months ended March 31,

2006. Using the Black-Scholes option valuation model, the estimated fair values of options granted during 2005 were $10.57 per share.

The following table illustrates the effect on net earnings and earning per share ("EPS") if the Company had applied the fair value recognition provisions of SFAS No. 123 to measure stock-based compensation expense for outstanding stock-based option awards for the quarter ended March 31, 2005.

(Dollars in thousands except per share amounts)	2005
Net income, as reported	$ 52,543
Deduct: Total stock-based employee compensation expense determined under fair value method for all stock option awards, net of related tax effects	1,884
Pro-forma net income	$ 50,659
Net income per share:	
Basic - as reported	$0.56
Basic - pro-forma	$0.54
Diluted - as reported	$0.55
Diluted - pro-forma	$0.53

Principal assumptions used in applying the Black-Scholes model were:

	2005
Risk-free interest rate	4.2%
Expected life, in years	5
Expected volatility	26.9%
Expected dividend yield	1.7%

The Company anticipates using historical information to estimate expected life and forfeitures within the valuation model. The expected term of an option is based on historical employee exercise behavior, vesting terms and a contractual life of ten years. The risk-free rate for periods within the expected life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on an average of implied and historical volatility of the price of our common shares over the calculated expected life. The Company anticipates paying cash dividends in the future and therefore uses an expected dividend yield in the valuation model using current cash dividends of $.185 per share each quarter for options granted during 2006. The adoption of FAS 123R did not change the way that the Company has accounted for stock options in prior periods.

The Company stock option activity was as follows for the three months ended March 31, 2006:

	Shares Subject to Option	Weighted Average Exercise Price	Average Remaining Contractual Term

Balance at January 1, 2006	6,698,428	$32.52	
Options granted	-	$ -	
Options exercised	187,535	$29.80	
Options cancelled	54,126	$30.55	
Balance at March 31, 2006	6,456,767	$32.61	5.7
Exercisable at March 31, 2006	6,144,512	$32.34	5.6

The total intrinsic value of options exercised during the three months ended March 31, 2006 was $0.9 million.

The Company stock option activity for non-vested shares for the three months ended March 31, 2006 was as follows:

	Shares	Weighted Average Exercise Price
Non-vested at January 1, 2006	1,074,140	$33.05
Options granted	-	
Options vested	701,056	
Options cancelled	60,829	
Non-vested at March 31, 2006	312,255	$37.88

As of March 31, 2006, there was $3.1 million of total unrecognized compensation cost related to non-vested stock option awards granted under the stock option plans relating to future periods. The cost is expected to be recognized over a weighted average period of 1.6 years.

Restricted Stock Units

The Company may grant restricted shares and RSU's to eligible employees, giving them in most instances all of the rights of stockholders, except that they may not sell, assign, pledge or otherwise encumber such shares. Such shares and RSU's are subject to forfeiture if certain employment conditions are not met. RSU's generally vest 100% at the end of three years, however, RSU's granted to all officers and senior management have a performance restriction which if not attained terminates the RSU's prior to vesting.

The fair value of the RSU's is equal to the market price of the Company's stock at date of grant and is amortized to expense ratably over the vesting period. The Company recorded compensation expense related to RSU's of $1.5 million and $2.5 million for the three months ended March 31, 2006 and 2005, respectively.

The Company restricted stock activity for the three months ended March 31, 2006 was as follows:

	Number of Shares	Average Grant Date Fair Value Per Share
Balance at January 1, 2006	909,385	$38.84
Granted	-	

Vested	45,281	
Forfeited	98,398	
Balance at March 31, 2006	765,706	$38.49

The total intrinsic value of RSU's which vested during the three months ended March 31, 2006 was $1.6 million.

The adoption of SFAS No. 123(R) resulted in a cumulative effect gain of $0.5 million which reflects the net cumulative impact of estimating future forfeitures in the determination of periodic expense for unvested RSU awards, rather than recording forfeitures only when they occur. The cumulative effect was recorded in operating expenses and not as a cumulative effect of a change in accounting principle because the amount was not material.

Note 7. Segment Information:

The Company manages its operations by major geographical region. Flavors and fragrances have similar economic and operational characteristics including research and development, the nature of the creative and production processes, the type of customers, and the methods by which products are distributed. Accounting policies used for segment reporting are identical to those described in Note 1 of the Notes to the Consolidated Financial Statements included in the Company's 2005 Annual Report.

The Company evaluates the performance of its geographic regions based on segment profit which is income before taxes on income, excluding interest expense, other income and expense and the effects of restructuring and other charges and accounting changes. The Company is divided into five geographic regions for management purposes: North America, Europe, India, Latin America and Asia Pacific. The Global Expenses caption represents corporate and headquarters-related expenses which include legal, finance, human resource and other administrative expenses that are not allocable to individual regions. Transfers between geographic regions are accounted for at prices that approximate arm's-length market prices. Unallocated assets are principally cash, short-term investments and other corporate and headquarters-related assets. The Company's reportable segment information follows:

2006 (Dollars in thousands)	North America	Europe	India	Latin America	Asia Pacific	Glob Expen
Sales to unaffiliated customers	$ 160,704	$ 190,717	$ 17,880	$ 63,646	$ 78,485	
Transfers between areas	15,178	45,150	270	99	11,022	
Total sales	$ 175,882	$ 235,867	$ 18,150	$ 63,745	$ 89,507	
Segment profit	$ 14,658	$ 58,875	$ 4,528	$ 7,636	$ 11,777	$ (15,
Restructuring and other charges	$ -	$ (6)	$ (385)	$ -	$ (270)	
Operating profit	$ 14,658	$ 58,869	$ 4,143	$ 7,636	$ 11,507	$ (15,
Interest expense						
Other income (expense), net						
Income before taxes on income						

2005 (Dollars in thousands)	North America	Europe	India	Latin America	Asia Pacific	Glob Expen
Sales to unaffiliated customers	$ 155,096	$ 211,796	$ 16,176	$ 57,962	$ 82,022	
Transfers between areas	21,303	46,883	1	318	9,933	
Total sales	$ 176,399	$ 258,679	$ 16,177	$ 58,280	$ 91,955	
Operating profit	$ 14,629	$ 55,374	$ 4,079	$ 5,564	$ 14,265	$ (12,
Interest expense						
Other income (expense), net						
Income before taxes on income						

Note 8. Retirement Benefits:

As described in Note 14 of the Notes to the Consolidated Financial Statements included in the Company's 2005 Annual Report, the Company and most of its subsidiaries have pension and/or other retirement benefit plans covering substantially all employees.

For the quarters ended March 31, 2006 and 2005, pension expense included the following components:

	U.S. Plans	
(Dollars in thousands)	2006	2005
Service cost for benefits earned	$ 2,636	$ 2,390
Interest cost on projected benefit obligation	5,465	5,200
Expected return on plan assets	(5,493)	(5,243)
Net amortization and deferrals	2,015	1,191
Defined benefit plans	4,623	3,538
Defined contribution and other retirement plans	814	790
Total pension expense	$ 5,437	$ 4,328

The Company expects to contribute $12.7 million to its U.S. pension plans in 2006. In the quarter ended March 31, 2006, no contributions were made to the Company's qualified plan and $0.7 million of contributions for benefit payments were made to a non-qualified plan. The Company expects to contribute $22.1 million to its non-U.S. pension plans in 2006. In the quarter ended March 31, 2006, $4.2 million of contributions were made to these plans. The majority of these contributions are reported in Other Assets on the Consolidated Balance Sheet.

For the quarters ended March 31, 2006 and 2005, expense recognized for postretirement benefits other than pensions included the following components:

(Dollars in thousands)	2006	2005
Service cost for benefits earned	$ 856	$ 622
Interest on benefit obligation	1,575	1,226
Net amortization and deferrals	191	(107)
Total postretirement benefit expense	$ 2,622	$ 1,741

The Company expects to contribute $3.9 million to its postretirement benefit plans in 2006. In the quarter ended March 31, 2006, $1.0 million of contributions was made.

Note 9. Commitments and Contingencies:

The Company is party to a number of lawsuits and claims related primarily to flavoring supplied by the Company to manufacturers of butter flavor popcorn. At each balance sheet date, or more frequently as conditions warrant, the Company reviews the status of each pending claim, as well as its insurance coverage for such claims with due consideration given to potentially applicable deductibles, retentions and reservation of rights under its insurance policies, and the advice of its outside legal counsel and a third party expert in modeling insurance deductible amounts with respect to all these matters. While the ultimate outcome of any litigation cannot be predicted, management believes that adequate provision has been made with respect to all known claims. There can be no assurance that future events will not require the Company to increase the amount it has accrued for any matter or accrue for a matter that has not been previously accrued.

The Company recorded its expected liability with respect to these claims in Other liabilities and expected recoveries from its insurance carrier group in Other Assets. The Company believes that realization of the insurance receivable is probable due to the terms of the insurance policies, the financial strength of the insurance carrier group and the payment experience to date of the carrier group as it relates to these claims.

Note 10. Reclassifications:

Certain reclassifications have been made to the prior year's financial statements to conform to 2006 classifications.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Overview

The Company is a leading creator and manufacturer of flavor and fragrance compounds used to impart or improve the flavor or fragrance in a wide variety of consumer products.

Fragrance compounds are used in perfumes, cosmetics, toiletries, hair care products, deodorants, soaps, detergents and softeners as well as air care products. Flavor products are sold to the food and beverage industries for use in consumer products such as prepared foods, beverages, dairy, food and confectionery products. The Company is also a leading manufacturer of synthetic ingredients used in making fragrances.

Changing social habits resulting from such factors as increases in personal income and dual-earner households, leisure time, health concerns, urbanization and population growth stimulate demand for consumer products utilizing flavors and fragrances. These developments expand the market for products with finer fragrance quality, as well as the market for colognes and toiletries. Such developments also stimulate demand for convenience foods, soft drinks and low-fat food products that must conform to expected tastes. These developments necessitate the creation and development of flavors and fragrances and ingredients that are compatible with newly introduced materials and methods of application used in consumer products.

Flavors and fragrances are generally:

- created for the exclusive use of a specific customer;
- sold in solid or liquid form, in amounts ranging from a few kilograms to many tons depending on the nature of the end product in which they are used;
- a small percentage of the volume and cost of the end product sold to the consumer; and
- a major factor in consumer selection and acceptance of the product.

Flavors and fragrances have similar economic and operational characteristics, including research and development, the nature of the creative and production processes, the manner in which products are distributed and the type of customer; many of the Company's customers purchase both flavors and fragrances.

The flavor and fragrance industry is impacted by macroeconomic factors in all product categories and geographic regions. In addition, pricing pressure placed on the Company's customers by large and powerful retailers and distributors is inevitably passed along to the Company, and its competitors. Leadership in innovation and creativity mitigates the impact of pricing pressure. Success and growth in the industry is dependent upon creativity and innovation in meeting the many and varied needs of the customers' products in a cost-efficient and effective manner, and with a consistently high level of timely service and delivery.

The Company's strategic focus is:

- To improve customer service, in terms of both on-time deliveries and responsiveness to new product development initiatives, and to improve the win rate for new business with the Company's customers.
- To critically evaluate the profitability and growth potential of the Company's product portfolio, and to focus on those categories and customers considered to be the best opportunities for long-term profitable growth.
- To align resources of the Company with those of its major international key customers using the global reach of the Company to provide and enhance strategic partnerships.
- To focus research and development initiatives on those areas considered to be most likely, in the long-term, to yield the greatest value to the Company's customers and shareholders.

The Company has made strides to implement a number of these initiatives. On time delivery and continuous improvement in operations are supported by the global implementation of the enterprise requirements planning software package ("SAP"), and related initiatives, implementation of which was substantially completed at March 31, 2006. Product and category growth and strategic analysis of these objectives is a continual focus for management and a number of new ingredients are employed in flavor and fragrance compounds.

Operations

First quarter 2006 sales totaled $511.4 million, declining 2% in comparison to the prior year quarter. Reported sales for the 2006 quarter were affected by the strength of the U.S. dollar; had exchange rates remained constant, sales would have increased 3% in comparison to the 2005 quarter. Fragrance sales decreased 2% while flavor sales were flat; on a local currency basis, fragrance and flavor sales grew 2% and 4%, respectively. Fragrance sales were led by fine fragrance, which increased 2% in dollars and 8% in local currency; the fine fragrance performance reflected the benefit of a number of new product wins. Sales of functional fragrances declined 4% in dollars and were flat in local currency while fragrance ingredient sales declined 6% in dollars and 1% in local currency.

Sales performance by region for the 2006 quarter compared to the prior year follows:

- North American fragrance and flavor sales increased 6% and 4%, respectively; in total, regional sales increased 5%. Sales of fine fragrances increased 21%, benefiting both from new wins and strong demand for existing fragrance compounds. Fragrance ingredient sales increased 12%, while functional fragrance sales declined 8%. New wins of $3.7 million drove the fine fragrance performance. Functional fragrance price increases and new wins did not offset the volume decline in existing businesses. The flavor growth was primarily the result of new wins and to a smaller extent price increases.
- European fragrance sales decreased 11% while flavor sales declined 6%; in total, regional sales declined 9%. Reported sales were unfavorably impacted by the strength of the U.S. dollar against the Euro, Pound Sterling and Swiss Franc; local currency sales declined 1%. Local currency fragrance sales decreased 2%; fine and functional fragrance sales each increased 2%, with new wins exceeding erosion in the existing business. This growth was offset by a 12% decline in sales of fragrance ingredients. Local currency flavor sales increased 2%, mainly as a result of new wins.
- Latin American sales increased 11%, with fragrance and flavor sales increasing 8% and 19%, respectively. For the region, sales growth was strongest in Venezuela, Central America and Mexico which grew 32%, 22% and 16%, respectively; Brazil grew 6% for the quarter. Fragrance sales grew in all product categories and growth was fairly consistent across the region; fine and functional fragrance and fragrance ingredient sales increased 9%, 7% and 12%, respectively. Fine and functional fragrance sales benefited from new wins of $4.1 million and volume and price increases of $1.5 million which combined to offset the decline due to erosion. Flavor sales growth was also strong throughout the region led by increases of 20%, 79% and 11% in Brazil, Central America and Mexico, respectively. Flavor sale increases were primarily the result of new wins of $2.0 million and volume and price increases totaling approximately $1.9 million.
- Asia Pacific fragrance sales decreased 7% while flavor sales declined 3% compared to the 2005 quarter; in total, regional sales declined 5% in reported dollars. Local currency fragrance sales were led by a 3% increase in fine fragrances although this growth was offset by a 9% decline in functional fragrances; sales of fragrance ingredients were flat in local currency as were flavor sales. For the region, Thailand, South Korea and Singapore/Malaysia sales were strongest, with respective local currency sales increases of 14%, 14% and 6%. However, this growth was offset by weakness in the Philippines, Indonesia, Australia and Japan which declined 22%, 7%, 7% and 4%, respectively, in local currency. New flavor and fragrance wins of $3.4 million did not offset the volume and price erosion in existing products.
- India sales increased 16% in local currency and 14% in reported

dollars. Local currency fragrance sales increased 19%, resulting in a 17% increase in dollars. Flavor sales increased 12% in local currency and 11% in dollars. In both flavors and fragrances, the sales performance reflected the benefit of new product wins and continued strength of the region's economies.

The percentage relationship of cost of goods sold and other operating expenses to sales for the first quarter 2006 and 2005 are detailed below.

	First Three Months	
	2006	2005
Costs of Goods Sold	57.6%	59.0%
Research and Development Expenses	8.9%	8.6%
Selling and Adminstrative Expenses	16.7%	16.2%

Cost of goods sold, as a percentage of sales, decreased to 57.6% compared to 59.0% in the 2005 quarter. The decrease was attributable mainly to the local currency sales performance and improved manufacturing expense absorption, favorable product mix and the benefit of selling price increases. Gross margin in the 2005 quarter was also unfavorably impacted by lower expense absorption attributable to maintaining the Company's Dijon, France facility and the costs related to the transfer of production from Dijon to other manufacturing locations; production at the Dijon facility ceased in March 2005.

Research and development expenses, as a percentage of sales, were in line with planned spending. These expenses are expected to approximate 9.0% of sales on a full year basis.

Selling, General and Administrative ("SG&A") expenses, as a percentage of sales, increased to 16.7% in the 2006 first quarter from 16.2% in the 2005 first quarter. SG&A expenses were impacted by higher incentive plan accruals than in the prior year, driven by the improved local currency sales and operating performance. Operating expenses were also impacted by the adoption of Statement of Financial Accounting Standards No. 123(Revised 2004) "Share Based Payment" ("FAS 123R") which the Company adopted effective January 1, 2006. R&D and SG&A expense include $0.2 million and $0.7 million, respectively, of equity compensation expense related to the adoption of FAS 123R. See Note 6 of the Notes to the unaudited Consolidated Financial Statements.

Interest expense declined 4% due to a lower average interest rate on borrowings; the average interest rate on borrowings for the 2006 first quarter was 2.3% compared to 3.2% for the 2005 first quarter.

The effective tax rate for the 2006 quarter was 28.6%, compared to 31.2% in the prior year quarter; the rate for the 2006 quarter benefited from reversal of accruals no longer deemed necessary regarding certain overseas locations.

Restructuring and Other Charges

As described in Note 2 to the Consolidated Financial Statements in the Company's 2005 Annual Report, the Company has undertaken a significant reorganization, including management changes, consolidation of production facilities and related actions.

The Company undertook a plan to eliminate approximately 300 positions in manufacturing, selling, research and administration functions, principally in

its European and North American operating regions; the reductions represent 6% of the Company's workforce. As a result of these actions, the Company anticipates recording pre-tax restructuring charges of $25.0 million to $30.0 million relating primarily to employee separation expenses; of this, $23.3 million was recognized in 2005; $0.7 million was recognized in the first quarter of 2006. The remaining charges are expected to be recognized over the balance of 2006. Annual savings from these actions are expected to approximate $16.0 million to $18.0 million.

Movements in the liabilities related to the restructuring charges, included in restructuring and other charges or other liabilities as appropriate, were (in millions):

	Employee-Related	Asset-Related and Other	Total
Balance December 31, 2005	$ 29.5	$ 4.9	$ 34.4
Additional charges	0.2	0.5	0.7
Cash and other costs	(6.7)	(0.2)	(6.9)
Balance March 31, 2006	$ 23.0	$ 5.2	$ 28.2

Consistent with the original plan, the balance of the employee-related liabilities are expected to be utilized by 2008 as obligations are satisfied; the asset-related charges will be utilized in 2007 on final decommissioning and disposal of the affected equipment.

Equity Compensation Plans

Effective January 1, 2006, the Company adopted the provisions of FAS No. 123R using the modified prospective method, which requires measurement of compensation cost of all stock-based awards at fair value on the date of grant and recognition of compensation over the service periods for awards expected to vest. The Company will recognize the cost of all employee stock options on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures. The Company has selected the modified prospective method of transition; accordingly, prior periods have not been restated.

During 2004, the Company changed its equity-based management compensation program moving toward restricted stock units ("RSU's") and away from stock options. Prior to adopting FAS No. 123R, the Company applied APB Opinion No. 25 in accounting for stock-based compensation plans. All employee stock options were granted at 100% of the market price on the day the option is granted. In the first quarter of 2006, the Company expensed $1.3 million with respect to stock options granted in earlier periods; the Company expects to expense $2.9 million in 2006 and approximately $1.5 million in future periods.

The Company changed its valuation model used for estimating the fair value of options granted after January 1, 2006, from a Black-Scholes option-pricing model to a Binomial lattice-pricing model. This change was made as the Company determined that the Binomial model can provide a better estimate of fair value of an option due to the flexibility in the model used to compute and value employee stock options as compared to the Black-Scholes model. The flexibility of the simulated Binomial model stems from the ability to incorporate inputs that change over time, such as volatility and interest rates, and to allow for actual exercise behavior of option holders.

The determination of the fair value of share-based awards on the date of grant is affected by the Company's share price as well as assumptions regarding a number of complex and subjective variables. These variables include the price of the underlying shares, the Company's expected share price volatility over the expected term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and the expected annual dividend yield on the underlying shares.

Developing these assumptions requires significant judgment on the part of the Company and, generally, may involve analyzing all available historical data, considering whether historical data is relevant to predicting future behavior, making appropriate adjustments to historical data for future expectations, supplementing or replacing Company-specific historical data with data from other supportable sources and appropriately weighting each of the inputs. These assumptions are evaluated at each grant date. If factors change and the Company employs different assumptions for estimating share-based compensation expense in future periods or if the Company decides to use a different valuation model, the future periods may differ significantly from what the Company has recorded in the current period and could materially affect operating income, net income and net income per share. In addition, existing valuation models, including the Black-Scholes and Binomial lattice-pricing model, may not provide reliable measures of the fair values of the Company's share-based compensation. Consequently, there is a significant risk that the Company's estimates of the fair values of share-based compensation awards on the grant dates may not reflect the actual values realized upon the vesting, exercise, expiration, early termination or forfeiture of those share-based payments in the future. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models.

The future impact of the cost of share-based compensation on our results of operations, including net income and earnings per diluted share, will depend on, among other factors, the level of our equity awards as well as the market price of our shares at the time of award as well as various other assumptions used in valuing such awards.

See Note 6 of the Notes to the unaudited Consolidated Financial Statements for additional discussion of the impact of the adoption of, and the method of determining fair values under, FAS 123R.

Financial Condition

Cash, cash equivalents and short-term investments totaled $205.6 million at March 31, 2006. Working capital at March 31, 2005 was ($22.7) million compared to ($11.4) million at December 31, 2005. Gross additions to property, plant and equipment during the first quarter were $9.0 million. The Company expects additions to property, plant and equipment to approximate $60.0 to $65.0 million for the full year 2006.

At March 31, 2006, the Company had $935.9 million of debt outstanding, including $3.3 million in deferred gains on interest rate swap transactions. Debt, excluding the deferred swap gains, includes $499.3 million of 6.45% Notes maturing in May 2006, $304.7 million in bank borrowings and overdrafts and $128.6 million in long-term Japanese Yen denominated debt. The Company is exploring various alternatives with respect to the debt maturity; current cash balances and credit facilities in place are sufficient to fund the maturities of these notes.

In January 2006, the Company paid a quarterly cash dividend of $.185 per share

to shareholders, which was an increase from the prior year quarter of $.175 per share but unchanged from the prior dividend payment.

Under the share repurchase program of $200.0 million authorized in May 2005, the Company repurchased approximately 2.3 million shares in the first quarter of 2006 at a cost of $75.6 million. Repurchases will be made from time to time on the open market or through private transactions as market and business conditions warrant. Repurchased shares will be available for use in connection with the Company's employee benefit plans and for other general corporate purposes. At March 31, 2006, the Company had $101.7 million remaining under this repurchase plan.

The Company anticipates that its financing requirements will be funded from internal sources and credit facilities currently in place. As disclosed in the 2005 Annual Report, the Company and certain of its subsidiaries entered into a revolving credit agreement with certain banks which replaced existing credit facilities to meet short and long term financing requirements. Cash flows from operations and availability under its existing credit facilities are expected to be sufficient to fund the Company's anticipated normal capital spending, dividends and other expected requirements for at least the next twelve to eighteen months.

Non-GAAP Financial Measures

The discussion of the Company's 2006 first quarter results exclude the effects of exchange rate fluctuations. In discussing its historical and expected future results and financial condition, the Company believes it is meaningful for investors to be made aware of and to be assisted in a better understanding of, on a period-to-period comparative basis, the relative impact that exchange rate fluctuations may have on the Company's operating results and financial condition. In addition, management reviews the non-GAAP financial performance measure to evaluate performance on a comparative period-to-period basis in terms of absolute performance and trend performance related to the Company's core business. This non-GAAP financial measure should not be considered in isolation, or as a substitute for, or superior to, financial measures calculated in accordance with GAAP. This non-GAAP financial measure may also be calculated differently from similar measures disclosed by other companies.

Cautionary Statement Under The Private Securities Litigation Reform Act of 1995

Statements in this Quarterly Report, which are not historical facts or information, are "forward-looking statements" within the meaning of The Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on management's reasonable current assumptions and expectations. Such forward-looking statements which may be identified by such words as "expect," "anticipate," "outlook," "guidance," "may," and similar forward-looking terminology, involve significant risks, uncertainties and other factors, which may cause the actual results of the Company to be materially different from any future results expressed or implied by such forward-looking statements, and there can be no assurance that actual results will not differ materially from management's expectations. Such factors include, among others, the following: general economic and business conditions in the Company's markets, including economic, population health and political uncertainties; weather, geopolitical and region specific uncertainties; interest rates; the price, quality and availability of raw materials; the Company's ability to implement its business strategy, including the achievement of anticipated cost savings, profitability, growth and market share targets; the impact of currency fluctuation or devaluation in the Company's principal foreign markets and the success of the Company's hedging and risk management strategies; the impact of possible pension funding obligations and increased pension expense on the Company's cash flow and

results of operations; and the effect of legal and regulatory proceedings, as well as restrictions imposed on the Company, its operations or its representatives by foreign governments; and the fact that the outcome of litigation is highly uncertain and unpredictable and there can be no assurance that the triers of fact or law, at either the trial level or at any appellate level, will accept the factual assertions, factual defenses or legal positions of the Company or its factual or expert witnesses in any such litigation or other proceedings. The Company intends its forward-looking statements to speak only as of the time of such statements and does not undertake to update or revise them as more information becomes available or to reflect changes in expectations, assumptions or results.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There are no material changes in market risk from the information provided in the Company's 2005 Annual Report on Form 10-K.

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, with the assistance of other members of the Company's management, have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

The Company's Chief Executive Officer and Chief Financial Officer have also concluded that there have not been any changes in the Company's internal control over financial reporting during the quarter ended March 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As described in the Company's 2005 Annual Report, the Company is subject to various claims and legal actions in the ordinary course of its business. There are no significant updates or developments with regards to these claims and legal actions in the three months ended March 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)
January 1 - 31, 2006	91,500	$33.43	91,500

February	1 - 28, 2006	2,181,100	$33.23	2,181,100
March	1 - 31, 2006	-	-	-

(1) An aggregate of 2,272,600 shares of common stock were repurchased during the first quarter of 2006 under a repurchase program announced in May 2005. Under the program, the Board of Directors approved the repurchase by the Company of up to $200.0 million of its common stock.

Item 6. Exhibits

10.1 Separation Agreement dated as of January 13, 2006 between D. Wayne Howard, former Executive Vice President, Global Operations of the Company, and the Company (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on January 18, 2006)

10.2 Performance Criteria for 2006 under the Company's Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on March 10, 2006)

10.3 Performance Criteria for the 2006-2008 Cycle under the Company's Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed with the SEC on March 10, 2006)

10.4 Long Term Incentive Choice Program Summary (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed with the SEC on March 10, 2006)

10.5 Form of International Flavors & Fragrances Inc. 2000 Stock Award and Incentive Plan Purchased Restricted Stock Agreement (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed with the SEC on March 10, 2006)

10.6 Form of International Flavors & Fragrances Inc. 2000 Stock Award and Incentive Plan Stock Settled Appreciation Rights Agreement (incorporated by reference to Exhibit 10.5 to the Company's Form 8-K filed with the SEC on March 10, 2006)

10.7 Form of International Flavors & Fragrances Inc. 2000 Stock Award and Incentive Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.6 to the Company's Form 8-K filed with the SEC on March 10, 2006)

31.1 Certification of Richard A. Goldstein pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Douglas J. Wetmore pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of Richard A. Goldstein and Douglas J. Wetmore pursuant to 18 U.S.C. Section 1350 as adopted pursuant to the Sarbanes-Oxley Act of 2002.

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.

INTERNATIONAL FLAVORS & FRAGRANCES INC.

Dated: May 8, 2006 By: /s/ DOUGLAS J. WETMORE

Douglas J. Wetmore, Senior Vice President and Chief Financial Officer

Dated: May 8, 2006 By: /s/ DENNIS M. MEANY

Dennis M. Meany, Senior Vice President, General Counsel and Secretary

EXHIBIT INDEX

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Exhibit 31.1

CERTIFICATION

I, Richard A. Goldstein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of International Flavors & Fragrances Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 8, 2006

By: /s/ Richard A. Goldstein

Name: Richard A. Goldstein
Title: Chairman of the Board and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Douglas J. Wetmore, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of International Flavors & Fragrances Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 8, 2006

By: /s/ Douglas J. Wetmore

Name: Douglas J. Wetmore
Title: Senior Vice President and
Chief Financial Officer

Exhibit 32

CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of International Flavors & Fragrances Inc. (the "Company") for the quarterly period ended March 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Richard A. Goldstein, as Chief Executive Officer of the Company, and Douglas J. Wetmore, as Chief Financial Officer, each hereby certifies, pursuant to 18 U.S.C. (section) 1350, as adopted pursuant to (section) 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Richard A. Goldstein

Name: Richard A. Goldstein
Title: Chairman of the Board and
Chief Executive Officer

Dated: May 8, 2006

By: /s/ Douglas J. Wetmore

Name: Douglas J. Wetmore
Title: Senior Vice President and
Chief Financial Officer
Dated: May 8, 2006