

DOLE FOOD CO INC
Form 10-Q
July 29, 2008

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 14, 2008
or
 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 1-4455

Dole Food Company, Inc.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

99-0035300
*(I.R.S. Employer
Identification No.)*

One Dole Drive, Westlake Village, California 91362
(Address of principal executive offices and zip code)

**Registrant's telephone number, including area code:
(818) 879-6600**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a 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):

Edgar Filing: DOLE FOOD CO INC - Form 10-Q

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding at July 17, 2008
Common Stock, \$0.001 Par Value	1,000

DOLE FOOD COMPANY, INC.

INDEX

	Page Number
<u>PART I</u>	
	<u>Financial Information</u>
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>
	<u>Condensed Consolidated Statements of Operations – Quarters and Half Years Ended June 14, 2008 and June 16, 2007</u>
	3
	<u>Condensed Consolidated Balance Sheets – June 14, 2008 and December 29, 2007</u>
	4
	<u>Condensed Consolidated Statements of Cash Flows – Half Years Ended June 14, 2008 and June 16, 2007</u>
	5
	<u>Notes to Condensed Consolidated Financial Statements</u>
	7
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>
	32
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	42
<u>Item 4.</u>	<u>Controls and Procedures</u>
	42
<u>PART II</u>	
	<u>Other Information</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>
	43
<u>Item 6.</u>	<u>Exhibits</u>
	43
	<u>Signatures</u>
	44
	<u>Exhibit Index</u>
	45
	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
	Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act

Table of Contents

PART I.
FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

DOLE FOOD COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Quarter Ended		Half Year Ended	
	June 14, 2008	June 16, 2007	June 14, 2008	June 16, 2007
	(In thousands)			
Revenues, net	\$ 1,994,943	\$ 1,735,302	\$ 3,723,288	\$ 3,252,708
Cost of products sold	(1,751,868)	(1,550,351)	(3,308,749)	(2,926,019)
Gross margin	243,075	184,951	414,539	326,689
Selling, marketing and general and administrative expenses	(121,411)	(109,988)	(239,515)	(218,188)
Operating income	121,664	74,963	175,024	108,501
Other income (expense), net (Note 4)	23,653	13,758	(5,058)	15,337
Interest income	1,109	1,907	2,878	3,509
Interest expense	(41,245)	(44,722)	(84,742)	(88,924)
Income from continuing operations before income taxes, minority interests and equity earnings	105,181	45,906	88,102	38,423
Income taxes	69,577	7,086	60,200	4,572
Minority interests, net of income taxes	(655)	(821)	(1,326)	(1,161)
Equity in earnings of unconsolidated subsidiaries	2,333	904	3,336	1,579
Income from continuing operations	176,436	53,075	150,312	43,413
Income (loss) from discontinued operations, net of income taxes	4,318	(4,020)	1,497	(4,573)
Net income	\$ 180,754	\$ 49,055	\$ 151,809	\$ 38,840

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**DOLE FOOD COMPANY, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	June 14, 2008	December 29, 2007
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$ 77,356	\$ 97,061
Receivables, net of allowances of \$49,718 and \$61,720, respectively	1,016,631	839,153
Inventories	782,633	750,675
Prepaid expenses	75,135	71,296
Deferred income tax assets	17,955	12,085
Assets held-for-sale	235,308	76,244
Total current assets	2,205,018	1,846,514
Investments	75,597	69,336
Property, plant and equipment, net of accumulated depreciation of \$1,012,239 and \$980,390, respectively	1,191,288	1,340,139
Goodwill	432,788	509,518
Intangible assets, net	718,769	721,790
Other assets, net	134,337	155,587
Total assets	\$ 4,757,797	\$ 4,642,884
 LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	\$ 594,319	\$ 542,959
Liabilities related to assets held-for-sale	22,762	
Accrued liabilities	533,170	514,584
Current portion of long-term debt	363,828	14,171
Notes payable	80,511	81,018
Total current liabilities	1,594,590	1,152,732
Long-term debt	1,960,761	2,316,208
Deferred income tax liabilities	269,452	277,824
Other long-term liabilities	414,357	541,234
Minority interests	29,865	29,878
Contingencies (Note 13)		
Shareholders equity		
Common stock \$0.001 par value; 1,000 shares authorized, issued and outstanding		
Additional paid-in capital	409,907	409,907
Retained earnings (deficit)	66,926	(84,883)
Accumulated other comprehensive income (loss)	11,939	(16)

Edgar Filing: DOLE FOOD CO INC - Form 10-Q

Total shareholders' equity	488,772	325,008
Total liabilities and shareholders' equity	\$ 4,757,797	\$ 4,642,884

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**DOLE FOOD COMPANY, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)

	Half Year Ended	
	June 14, 2008	June 16, 2007
	(In thousands)	
Operating Activities		
Net income	\$ 151,809	\$ 38,840
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	65,608	71,319
Net unrealized foreign currency exchange (gains) losses	5,806	(10,290)
Asset write-offs, impairments and net (gain) loss on sale of assets	(11,597)	6,617
Minority interests and equity earnings, net	(2,161)	(888)
Amortization of debt issuance costs	1,895	1,895
Provision for deferred income taxes	(24,634)	(32,205)
Unrecognized tax benefits on federal income tax audit settlement (Note 6)	(61,083)	
Pension and other postretirement benefit plan expense	9,227	7,993
Other	(159)	504
Changes in operating assets and liabilities:		
Receivables	(165,145)	(148,703)
Inventories	(36,584)	17,104
Prepaid expenses and other assets	(11,875)	(7,915)
Accounts payable	74,728	107,928
Accrued liabilities	12,954	(32,204)
Other long-term liabilities	(11,371)	5,487
Cash flow provided by (used in) operating activities	(2,582)	25,482
Investing Activities		
Proceeds from sales of assets	31,976	32,742
Capital additions	(35,312)	(44,040)
Repurchase of common stock in going-private merger transaction	(137)	(203)
Cash flow used in investing activities	(3,473)	(11,501)
Financing Activities		
Short-term debt borrowings	52,906	40,790
Short-term debt repayments	(62,902)	(40,855)
Long-term debt borrowings, net of debt issuance costs	603,849	534,675
Long-term debt repayments	(607,225)	(532,694)
Dividends paid to minority shareholders	(1,194)	(8,942)
Cash flow used in financing activities	(14,566)	(7,026)
Effect of foreign currency exchange rate changes on cash	916	1,214

Edgar Filing: DOLE FOOD CO INC - Form 10-Q

Increase (decrease) in cash and cash equivalents	(19,705)	8,169
Cash and cash equivalents at beginning of period	97,061	92,414
Cash and cash equivalents at end of period	\$ 77,356	\$ 100,583

Table of Contents

DOLE FOOD COMPANY, INC.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS Continued
(Unaudited)**

Supplemental cash flow information

At June 14, 2008 and December 29, 2007, accounts payable included approximately \$2.7 million and \$17.8 million, respectively, for capital expenditures. Of the \$17.8 million of capital expenditures included in accounts payable at December 29, 2007, approximately \$14 million had been paid during the half year ended June 14, 2008.

During the half year ended June 14, 2008, the Company recorded approximately \$75 million of tax-related adjustments that resulted from changes to unrecognized tax benefits that existed at the time of the going-private merger transaction. This tax-related adjustment resulted in a decrease to goodwill and a decrease to the liability for unrecognized tax benefits. Refer to Note 8 Goodwill and Intangible Assets for additional information.

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

DOLE FOOD COMPANY, INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

NOTE 1 BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Dole Food Company, Inc. and its consolidated subsidiaries (Dole or the Company) include all adjustments necessary, which are of a normal recurring nature, to present fairly the Company's financial position, results of operations and cash flows. The Company operates under a 52/53-week year. The quarters ended June 14, 2008 and June 16, 2007 are twelve weeks in duration. For a summary of significant accounting policies and additional information relating to the Company's financial statements, refer to the Notes to Consolidated Financial Statements in Item 8 of the Company's Annual Report on Form 10-K (Form 10-K) for the year ended December 29, 2007.

In March 2003, the Company completed a going-private merger transaction (going-private merger transaction). The privatization resulted from the acquisition by David H. Murdock, the Company's Chairman, of the approximately 76% of the Company that he and his affiliates did not already own. As a result of the transaction, the Company became wholly-owned by Mr. Murdock through DHM Holding Company, Inc.

Interim results are subject to seasonal variations and are not necessarily indicative of the results of operations for a full year. The Company's operations are sensitive to a number of factors including weather-related phenomena and their effects on industry volumes, prices, product quality and costs. Operations are also sensitive to fluctuations in foreign currency exchange rates in both sourcing and selling locations as well as economic crises and security risks in developing countries.

Certain amounts in the prior year financial statements and related footnotes have been reclassified to conform to the 2008 presentation. As discussed in Note 5 Discontinued Operations, the Company reclassified the operating results of its fresh-cut flowers operating segment and its North American citrus and pistachio operations to discontinued operations.

NOTE 2 2009 DEBT MATURITY

During the quarter ended June 14, 2008, the Company reclassified to current liabilities its \$350 million 8.625% notes due May 2009 (2009 Notes). As of June 14, 2008, the Company had cash and cash equivalents of \$77.4 million and borrowing capacity of \$165.7 million under its existing revolving credit facility. After the end of the second fiscal quarter, the Company closed three asset sale transactions (see Note 14) that generated approximately \$100 million in cash to the Company and that were part of the Company's asset sale program. The proceeds were used to pay down the Company's Term Loan B (\$34 million) and revolving credit facility (\$66 million). These sales brought the Company's total asset sales for 2008 to date to approximately \$132 million. In addition, the Company anticipates the sale of additional assets with a net book value of approximately \$118 million within the next year (see Note 14). Nonetheless, the Company is anticipating the need to refinance at least some portion of the 2009 Notes when they become due. The Company's current plan is to obtain replacement unsecured financing, which the Company plans to complete by the end of calendar 2008. Alternatives would include amendment of the Company's secured credit facilities, additional equity from its stockholder, or other financing. A failure by the Company to timely pay the 2009 Notes at or before maturity could lead to an event of default with potential serious impact on the Company's liquidity.

The Company believes that available borrowings under the revolving credit facility and subsidiaries' uncommitted lines of credit, together with its existing cash balances, future cash flow from operations, planned asset sales, refinancing of the 2009 Notes and access to capital markets will enable it to meet its working capital, capital expenditure, debt maturity and other commitments and funding requirements. Management's plan is dependent upon the occurrence of future events which will be impacted by a number of factors including the availability of refinancing, the general economic environment in which the Company operates, the Company's ability to generate cash flows from its operations, and its ability to attract buyers for assets being marketed for sale. The accompanying condensed consolidated financial statements do not include any adjustments in respect of such factors.

Table of Contents

DOLE FOOD COMPANY, INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)**

NOTE 3 RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

During May 2008, the Financial Accounting Standards Boards (FASB) issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (FAS 162). FAS 162 identifies the sources of accounting principles and the framework for selecting principles to be used in the preparation and presentation of financial statements in accordance with generally accepted accounting principles. This statement will be effective 60 days after the Securities and Exchange Commission approves the Public Company Accounting Oversight Board's amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* . The Company does not anticipate that the adoption of FAS 162 will have an effect on its consolidated financial statements.

During March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures About Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* (FAS 161). This new standard requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008, and will be applicable to the Company in the first quarter of fiscal 2009. The Company is evaluating the potential impacts that the adoption of FAS 161 may have on its consolidated financial statements.

During December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (FAS 160). FAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries in the same way as equity in the consolidated financial statements. The Company is required to adopt FAS 160 for the first fiscal year beginning after December 15, 2008. The Company is currently evaluating the impact, if any, the adoption of FAS 160 will have on its financial position and results of operations.

During December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (FAS 141R). FAS 141R provides revised guidance for recognizing and measuring assets acquired and liabilities assumed in a business combination. It establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed and also requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Changes in acquired tax contingencies, including those existing at the date of adoption, will be recognized in earnings if outside the maximum allocation period (generally one year). FAS 141R will be applied prospectively to business combinations with acquisition dates on or after January 1, 2009. Following the date of adoption of FAS 141R, the resolution of such items at values that differ from recorded amounts will be adjusted through earnings, rather than goodwill.

During September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. FAS 157 requires companies to disclose the fair value of financial instruments according to a fair value hierarchy as defined in the standard. In February 2008, the FASB issued FASB Staff Position 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* (FSP 157-1) and FSP 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2). FSP 157-1 amends FAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the

effective date of FAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and was adopted by the Company, as it applies to its financial instruments, effective December 30, 2007. The impact of adoption of FAS 157 is discussed in Note 15 Derivative Financial Instruments.

Table of Contents**DOLE FOOD COMPANY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)**NOTE 4 OTHER INCOME (EXPENSE), NET**

Included in other income (expense), net in the Company's condensed consolidated statements of operations for the quarters and half years ended June 14, 2008 and June 16, 2007 are the following items:

	Quarter Ended		Half Year Ended	
	June 14, 2008	June 16, 2007	June 14, 2008	June 16, 2007
	(In thousands)			
Unrealized gain (loss) on the cross currency swap	\$ 19,001	\$ 10,388	\$ (13,353)	\$ 8,578
Realized gain on the cross currency swap	2,696	3,122	5,619	6,449
Gain (loss) on the vessel obligation	1,584	(199)	2,075	(233)
Other	372	447	601	543
Other income (expense), net	\$ 23,653			