

DOLE FOOD COMPANY INC

Form 10-Q

November 18, 2004

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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 October 9, 2004

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 an accelerated filer (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 November 18, 2004
Common Stock, \$0.001 Par Value	1,000

DOLE FOOD COMPANY, INC.

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On March 28, 2003, Dole Food Company, Inc. and its consolidated subsidiaries (the “Company”) completed the going-private merger transaction with DHM Holding Company, Inc. (“HoldCo”) described in Note 1 to the Condensed Consolidated Financial Statements. As a result of this transaction, the Company’s results of operations, financial position and cash flows prior to the date of the going-private merger transaction are presented as the “Predecessor.” The going-private merger transaction and the Company’s results of operations, financial position and cash flows thereafter are presented as the “Successor.”

Table of Contents**PART I.****FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

	Quarter Ended	
	October 9, 2004	October 4, 2003
	Successor	Successor
Revenues, net	\$ 1,521,504	\$ 1,357,861
Cost of products sold	1,351,926	1,176,299
	169,578	181,562
Gross margin		
Selling, marketing and general and administrative expenses	125,042	125,664
	44,536	55,898
Operating income		
Other income (expense), net	(59)	409
Interest income	1,417	1,755
Interest expense	47,426	48,993
	(1,532)	9,069
Income (loss) before income taxes		
Income taxes	(6,465)	1,539
	\$ 4,933	\$ 7,530
Net income		

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**DOLE FOOD COMPANY, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**(Unaudited)
(In thousands)

	Three Quarters Ended October 9, 2004	Two Quarters Ended October 4, 2003	Quarter Ended March 22, 2003
	Successor	Successor	Predecessor
Revenues, net	\$4,092,047	\$2,574,683	\$1,073,170
Cost of products sold	3,502,479	2,225,059	895,039
Gross margin	589,568	349,624	178,131
Selling, marketing and general and administrative expenses	319,836	225,147	89,341
Operating income	269,732	124,477	88,790
Other income (expense), net	(792)	(9,778)	2,045
Interest income	3,213	2,867	2,700
Interest expense	116,820	86,772	19,647
Income before income taxes	155,333	30,794	73,888
Income taxes	21,623	5,363	13,100
Net income	<u>\$ 133,710</u>	<u>\$ 25,431</u>	<u>\$ 60,788</u>

See Accompanying Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

(In thousands, except share data)

	October 9, 2004	January 3, 2004
	Successor	Successor
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 80,355	\$ 33,482
Receivables, net of allowances of \$67,614 and \$70,596	595,728	560,249
Inventories	474,564	409,805
Prepaid expenses	47,393	54,562
Deferred income tax assets	45,506	48,075
	<hr/>	<hr/>
Total current assets	1,243,546	1,106,173
Investments	87,380	83,059
Property, plant and equipment, net of accumulated depreciation of \$552,386 and \$393,965	1,497,510	1,469,879
Goodwill and intangible assets, net	1,234,740	1,188,610
Other assets, net	142,321	140,163
	<hr/>	<hr/>
Total assets	\$4,205,497	\$3,987,884
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 732,073	\$ 779,242
Current portion of long-term debt	30,871	45,627
Notes payable	1,602	1,948
	<hr/>	<hr/>
Total current liabilities	764,546	826,817
Long-term debt	1,837,855	1,803,525
Deferred income tax liabilities	422,859	451,431
Other long-term liabilities	477,145	422,924
Minority interests	29,425	26,759
Contingencies (Note 10)		
Shareholders' equity:		
Common stock \$0.001 par value; 1,000 shares authorized, issued and outstanding		
Additional paid-in capital	440,032	340,032
Retained earnings	225,437	118,033
Accumulated other comprehensive income (loss)	8,198	(1,637)
	<hr/>	<hr/>
Total shareholders' equity	673,667	456,428
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$4,205,497	\$3,987,884
	<hr/>	<hr/>

See Accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Quarters Ended October 9, 2004	Two Quarters Ended October 4, 2003	Quarter Ended March 22, 2003
	Successor	Successor	Predecessor
Operating activities			
Net income	\$ 133,710	\$ 25,431	\$ 60,788
Adjustments to reconcile net income to cash flow provided by operating activities:			
Depreciation and amortization	109,783	73,794	25,051
Purchase accounting step-up of inventory	3,739	50,431	
Net (gain) loss on disposal of assets	(6,135)	(305)	1,884
Equity earnings	(8,042)	(4,754)	(2,922)
Provision for deferred income taxes	1,333	11,437	2,201
Write-off of debt issuance costs	2,656	12,552	
Amortization of debt issuance costs	6,935	4,629	244
Other	8,988	5,625	2,616
Changes in operating assets and liabilities, net of effects from non-cash transactions:			
Receivables	(41,914)	77,487	(78,749)
Inventories	(23,149)	49,329	(6,195)
Prepaid expenses and other assets	3,308	(1,770)	(5,254)
Accounts payable and accrued liabilities	(27,489)	(7,187)	5,253
Other long-term liabilities	14,724	3,501	(3,104)
Cash flow provided by operating activities	<u>178,447</u>	<u>300,200</u>	<u>1,813</u>
Investing activities			
Proceeds from sales of assets	9,168	49,128	1,743
Investments and acquisitions	(172,764)	6,532	
Capital additions	(57,503)	(62,668)	(4,235)
Repurchase of common stock and settlement of stock options in going-private merger transaction	(1,300)	(1,470,184)	
Transaction costs paid in going-private merger transaction	(345)	(66,494)	
Cash flow used in investing activities	<u>(222,744)</u>	<u>(1,543,686)</u>	<u>(2,492)</u>
Financing activities			
Short-term debt borrowings	31,387	5,224	7,936
Short-term debt repayments	(31,697)	(14,537)	(6,834)
Long-term debt borrowings, net of debt issuance costs	589,689	1,797,112	5,034
Long-term debt repayments	(570,702)	(1,241,274)	(6,777)
Capital contributions	100,000	125,000	
Proceeds from issuance of common stock			2,768
Dividends paid to minority shareholders	(5,464)	(5,331)	
Dividends paid	(20,000)		(8,440)
Cash flow provided by (used in) financing activities	<u>93,213</u>	<u>666,194</u>	<u>(6,313)</u>
	(2,043)	3,358	1,025

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Effect of foreign exchange rate changes on cash and cash equivalents

Increase (decrease) in cash and cash equivalents	46,873	(573,934)	(5,967)
Cash and cash equivalents at beginning of period	33,482	641,000	646,967
Cash and cash equivalents at end of period	\$ 80,355	\$ 67,066	\$ 641,000

See Accompanying Notes to Condensed Consolidated Financial Statements

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DOLE FOOD COMPANY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 as of October 9, 2004 and January 3, 2004; its results of operations for the quarters ended October 9, 2004 and October 4, 2003 and three quarters ended October 9, 2004, two quarters ended October 4, 2003 and quarter ended March 22, 2003; and its cash flows for the three quarters ended October 9, 2004, two quarters ended October 4, 2003 and quarter ended March 22, 2003. The Company operates under a 52/ 53-week year. The quarters ended October 9, 2004 and October 4, 2003 are sixteen weeks in duration. For a summary of significant accounting policies used in the preparation of these 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 January 3, 2004.

On March 28, 2003, the Company completed the going-private merger transaction with DHM Holding Company, Inc. (HoldCo) described in the Company's Form 10-K for the year ended January 3, 2004. As a result of this transaction, the Company's results of operations, financial position and cash flows prior to the date of the going-private merger transaction are presented as the Predecessor. The going-private merger transaction and the Company's results of operations, financial position and cash flows thereafter are presented as the Successor.

The going-private merger transaction has been accounted for as a purchase at the HoldCo level with the related purchase accounting pushed down to the Company. For convenience, the allocation of the purchase price was done as of March 23, 2003, the first day of the Company's 2003 second fiscal quarter.

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 currency exchange rates in both sourcing and selling locations as well as economic crises and security risks in developing countries. For additional information on market risks and related matters affecting the Company's financial position and results of operations, refer to the Company's Form 10-K for the year ended January 3, 2004.

Certain prior year amounts have been reclassified to conform with the 2004 presentation.

2. INCOME TAXES

As a result of the consummation of the going-private merger transaction described in Note 1, income tax expense of \$13.1 million for the quarter ended March 22, 2003 was based on earnings for the period from December 29, 2002 through March 22, 2003, to reflect the final separate financial reporting period for the Company in its predecessor form. After the consummation of the going-private merger transaction, the results of operations are attributable to the new successor company.

For the periods presented, the Company's effective income tax rate differs from the U.S. federal statutory rate primarily due to earnings from operations being taxed in foreign jurisdictions at a net effective rate lower than the U.S. rate. No U.S. taxes have been provided on these earnings because such earnings are intended to be indefinitely invested outside the U.S.

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DOLE FOOD COMPANY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

3. INVENTORIES

The major classes of inventories were as follows (in thousands):

	October 9, 2004	January 3, 2004
	Successor	Successor
Finished products	\$234,079	\$175,049
Raw materials and work in progress	120,126	101,621
Crop-growing costs	69,843	81,106
Operating supplies and other		