

DOLE FOOD COMPANY INC

Form 10-Q

August 01, 2006

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 17, 2006

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

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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.

Large accelerated filer 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

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 28, 2006
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 Income – Quarters and Half Years Ended June 17, 2006 and June 18, 2005</u>	3
<u>Condensed Consolidated Balance Sheets – June 17, 2006 and December 31, 2005</u>	4
<u>Condensed Consolidated Statements of Cash Flows – Half Years Ended June 17, 2006 and June 18, 2005</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4.</u>	
<u>Controls and Procedures</u>	35
<u>PART II</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	35
<u>Item 6.</u>	
<u>Exhibits and Reports on Form 8-K</u>	38
<u>Signatures</u>	39
<u>Exhibit Index</u>	40
Certification by the Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act	
Certification by the Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act	
Certification by the Chairman and Chief Executive Office pursuant to Section 906 of the Sarbanes-Oxley Act	
Certification by the Vice President and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act	
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32.1</u>	
<u>EXHIBIT 32.2</u>	

Table of Contents

PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DOLE FOOD COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)
(In thousands)

	Quarter Ended		Half Year Ended	
	June 17, 2006	June 18, 2005	June 17, 2006	June 18, 2005
Revenues, net	\$ 1,589,037	\$ 1,526,351	\$ 2,989,043	\$ 2,968,484
Cost of products sold	1,407,448	1,305,559	2,676,993	2,531,745
Gross margin	181,589	220,792	312,050	436,739
Selling, marketing and general and administrative expenses	108,909	107,382	216,375	222,200
Operating income	72,680	113,410	95,675	214,539
Other income (expense), net	(4,029)	(40,933)	(5,115)	(37,983)
Interest income	1,705	970	3,179	2,045
Interest expense	40,007	32,398	74,432	68,457
Income before income taxes, minority interests and equity earnings	30,349	41,049	19,307	110,144
Income taxes	13,071	9,689	8,853	63,110
Minority interests, net of income taxes	101	647	718	1,146
Equity in earnings of unconsolidated subsidiaries, net of income taxes	(1,323)	(1,615)	(2,845)	(3,594)
Net income	\$ 18,500	\$ 32,328	\$ 12,581	\$ 49,482

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)

	June 17, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	\$ 51,303	\$ 48,812
Receivables, net of allowances of \$57,366 and \$58,585, respectively	806,231	637,636
Inventories	632,613	623,497
Prepaid expenses	67,938	58,864
Deferred income tax assets	37,595	34,756
Total current assets	1,595,680	1,403,565
Investments	82,853	76,753
Property, plant and equipment, net of accumulated depreciation of \$782,190 and \$705,115, respectively	1,505,254	1,508,597
Goodwill	540,280	540,280
Intangible assets, net	724,680	726,700
Other assets, net	148,826	153,832
Total assets	\$ 4,597,573	\$ 4,409,727
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	\$ 461,552	\$ 411,451
Accrued liabilities	447,812	431,037
Current portion of long-term debt	14,643	25,020
Notes payable	34,819	1,394
Total current liabilities	958,826	868,902
Long-term debt	2,205,767	2,000,843
Deferred income tax liabilities	355,634	355,647
Other long-term liabilities	556,541	546,305
Minority interests	20,947	21,487
Contingencies (Note 10)		
Shareholders' equity		
Common stock \$0.001 par value; 1,000 shares authorized, issued and outstanding		
Additional paid-in capital	468,422	440,032
Retained earnings	41,881	192,991
Accumulated other comprehensive loss	(10,445)	(16,480)
Total shareholders' equity	499,858	616,543

Total liabilities and shareholders equity	\$ 4,597,573	\$ 4,409,727
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See Accompanying Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

(In thousands)

	Half Year Ended	
	June 17, 2006	June 18, 2005
Operating activities		
Net income	\$ 12,581	\$ 49,482
Adjustments to reconcile net income to cash flow provided by (used in) operating activities:		
Depreciation and amortization	66,656	67,779
Foreign currency exchange loss (gain)	3,051	(3,648)
Asset write-offs and gain on sale of assets, net	(215)	(3,041)
Minority interests and equity earnings, net	(2,127)	(2,448)
Deferred income taxes	(3,447)	(750)
Premiums paid on early retirement of debt		33,047
Pension and other post-retirement benefit plan expense	6,688	6,790
Write-off of debt issuance costs	8,133	10,722
Amortization of debt issuance costs	2,174	3,289
Other	1,741	2,647
Changes in operating assets and liabilities:		
Receivables	(174,637)	(154,887)
Inventories	(6,416)	(24,703)
Prepaid expenses and other assets	(7,982)	(7,682)
Accounts payable	31,675	123,167
Accrued liabilities	13,415	(22,451)
Other long-term liabilities	5,539	(3,627)
Cash flow provided by (used in) operating activities	(43,171)	73,686
Investing activities		
Proceeds from sales of assets	2,285	7,006
Acquisitions and investments		(51,010)
Capital additions	(44,724)	(44,478)
Repurchase of common stock in the going-private merger transaction	(100)	(349)
Cash flow used in investing activities	(42,539)	(88,831)
Financing activities		
Short-term debt borrowings	51,360	6,971
Short-term debt repayments	(18,421)	(21,621)
Long-term debt borrowings, net of debt issuance costs	1,562,061	1,190,649
Long-term debt repayments	(1,378,558)	(1,155,052)
Capital contributions	28,390	
Dividends paid to minority shareholders	(1,296)	(2,382)

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Dividends paid to parent	(163,691)	(12,300)
Cash flow provided by financing activities	79,845	6,265
Effect of foreign currency exchange rate changes on cash and cash equivalents	8,356	(1,761)
Increase (decrease) in cash and cash equivalents	2,491	(10,641)
Cash and cash equivalents at beginning of period	48,812	79,217
Cash and cash equivalents at end of period	\$ 51,303	\$ 68,576

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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, results of operations and cash flows. The Company operates under a 52/53-week year. The quarters ended June 17, 2006 and June 18, 2005 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 31, 2005.

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 with the 2006 presentation.

2. RECENT ACCOUNTING PRONOUNCEMENTS

During June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)* which is effective for fiscal years beginning after December 15, 2006 with earlier adoption encouraged. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is in the process of evaluating the impact of this interpretation.

3. INCOME TAXES

Income tax expense for the half year ended June 17, 2006 of \$8.9 million reflects the Company's expected effective income tax rate of approximately 45.9% for the full fiscal year ending December 30, 2006. Income tax expense for the half year ended June 18, 2005 of approximately \$24 million, which excludes the \$39.1 million impact of the repatriation of certain foreign earnings, reflects the Company's then expected effective income tax rate of approximately 21% for the full fiscal year ended December 31, 2005.

For 2005, 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. For 2006, the Company's effective income tax rate is higher than the U.S. federal statutory rate primarily due to the accrual of tax related contingencies partially offset by earnings from foreign jurisdictions that are taxed at a rate lower than the U.S. federal statutory rate. Other than the taxes provided on the \$570 million of repatriated foreign earnings, no U.S. taxes have been provided on foreign earnings because such earnings are intended to be indefinitely invested outside the U.S.

Section 965 Repatriation: During October 2004, the American Jobs Creation Act of 2004 was signed into law, adding Section 965 to the Internal Revenue Code. Section 965 provided a special one-time deduction of 85% of certain foreign earnings that are repatriated under a domestic reinvestment plan, as defined therein. The effective federal tax rate on any qualified foreign earnings repatriated under Section 965 equals 5.25%. Taxpayers could elect to apply this provision to a qualified earnings repatriation made during calendar year 2005.

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

During the second quarter of fiscal 2005, the Company repatriated \$570 million of earnings from its foreign subsidiaries, of which approximately \$489 million qualified for the 85% dividends received deduction under Section 965.

Income Tax Audits: The Company believes its tax positions comply with the applicable tax laws and that it is adequately provided for all tax-related matters. The Company is subject to examination by taxing authorities in the various jurisdictions in which it files tax returns. Specifically, the Company is routinely under examination by the Internal Revenue Service. The current examination includes the years 1995 through 2001. Matters raised upon audit may involve substantial amounts and could result in material cash payments if resolved unfavorably; however, the Company does not believe that any material payments will be made related to these matters within the next twelve months. In addition, the Company considers it unlikely that the resolution of these matters will have a material adverse effect on its results of operations.

Internal Revenue Service Audit: On June 29, 2006, the IRS completed an examination of the Company's federal income tax returns for the years 1995 to 2001 and issued a Revenue Agent's Report (RAR) that includes various proposed adjustments. The net tax deficiency associated with the RAR is \$175 million, plus interest and penalties. The Company timely filed a protest letter contesting the proposed adjustments contained in the RAR on July 6, 2006 and will pursue resolution of these issues with the Appeals Division of the IRS. The Company believes that its U.S. federal income tax returns were completed in accordance with applicable laws and regulations and disagrees with the proposed adjustments. The Company also believes that it is adequately reserved with respect to this matter. Management does not believe that any material payments will be made related to these matters within the next twelve months. In addition, management considers it unlikely that the resolution of these matters will have a material adverse effect on its results of operations.

Honduran Tax Case: In 2005, the Company received a tax assessment from Honduras of approximately \$137 million (including the claimed tax, penalty, and interest through the date of assessment) relating to the disposition of all of the Company's interest in Cervecería Hondureña, S.A in 2001. The Company believes the assessment is without merit and filed an appeal with the Honduran tax authorities, which was denied. As a result of the denial in the administrative process, in order to negate the tax assessment, on August 5, 2005, the Company proceeded to the next stage of the appellate process by filing a lawsuit against the Honduran government, in the Honduran Administrative Tax Trial Court. The Honduran government is seeking dismissal of the lawsuit and attachment of assets, which the Company is challenging. No reserve has been provided for this assessment.

4. INVENTORIES

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

	June 17, 2006	December 31, 2005
Finished products	\$ 314,931	\$ 290,593

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Raw materials and work in progress	155,208	145,146
Crop-growing costs	109,301	139,271
Operating supplies and other	53,173	48,487
	\$ 632,613	\$ 623,497

Table of Contents**DOLE FOOD COMPANY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)**5. GOODWILL AND INTANGIBLE ASSETS**

Goodwill has been allocated to the Company's reporting segments as follows (in thousands):

	Fresh Fruit	Fresh Vegetables	Packaged Foods	Fresh-cut Flowers	Other	Total
Balance as of June 17, 2006 and December 31, 2005	\$ 376,355	\$ 97,868	\$ 66,057	\$	\$	\$ 540,280