DOLE FOOD CO INC
Form 10-Q
November 21, 2006

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

Form 10-Q

(Mark One)

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

For the quarterly period ended October 7, 2006

or

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

For the transition period from to

Commission file number 1-4455

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 þ No o

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 o Accelerated filer o Non-accelerated filer þ

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

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 16, 2006**
Common Stock, $0.001 Par Value	1,000

DOLE FOOD COMPANY, INC.

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PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DOLE FOOD COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)
(In thousands)

	Quarter Ended		Three Quarters Ended	
	October 7, 2006	October 8, 2005	October 7, 2006	October 8, 2005
Revenues, net	$ 1,797,576	$ 1,645,009	$ 4,786,619	$ 4,613,493
Cost of products sold	1,685,068	1,481,644	4,362,061	4,013,389
Gross margin	112,508	163,365	424,558	600,104
Selling, marketing and general and administrative expenses	134,484	136,642	350,859	358,842
Operating income (loss)	(21,976)	26,723	73,699	241,262
Other income (expense), net	19,661	18,136	14,546	(19,847)
Interest income	1,947	1,829	5,126	3,874
Interest expense	56,720	40,963	131,152	109,420
Income (loss) before income taxes, minority interests and equity earnings	(57,088)	5,725	(37,781)	115,869
Income taxes	(2,866)	(11,597)	5,987	51,513
Minority interests, net of income taxes	2,947	1,751	3,665	2,897
Equity in earnings of unconsolidated subsidiaries, net of income taxes	(1,022)	(2,033)	(3,867)	(5,627)
Net income (loss)	$ (56,147)	$ 17,604	$ (43,566)	$ 67,086

See Accompanying Notes to Condensed Consolidated Financial Statements

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DOLE FOOD COMPANY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	October 7, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	$ 56,393	$ 48,812
Receivables, net of allowances of $59,330 and $58,585, respectively	706,409	637,636
Inventories	633,866	623,497
Prepaid expenses	62,302	58,864
Deferred income tax assets	37,595	34,756
Assets held for sale	44,970	
Total current assets	1,541,535	1,403,565
Investments	84,605	76,753
Property, plant and equipment, net of accumulated depreciation of $813,904 and $705,115, respectively	1,451,776	1,508,597
Goodwill	540,280	540,280
Intangible assets, net	718,404	726,700
Other assets, net	153,007	153,832
Total assets	$ 4,489,607	$ 4,409,727
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	$ 389,836	$ 411,451
Accrued liabilities	485,695	431,037
Liabilities related to assets held for sale	8,772	
Return of capital payable	28,390	
Current portion of long-term debt	13,805	25,020
Notes payable		1,394
Total current liabilities	926,498	868,902
Long-term debt	2,259,681	2,000,843
Deferred income tax liabilities	326,730	355,647
Other long-term liabilities	574,810	546,305
Minority interests	23,618	21,487
Contingencies (Note 10)		
Shareholders equity		
Common stock $0.001 par value; 1,000 shares authorized, issued and outstanding		

Additional paid-in capital	409,032	440,032
Retained earnings (deficit)	(14,266)	192,991
Accumulated other comprehensive loss	(16,496)	(16,480)
Total shareholders equity	378,270	616,543
Total liabilities and shareholders equity	$ 4,489,607	$ 4,409,727

See Accompanying Notes to Condensed Consolidated Financial Statements

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DOLE FOOD COMPANY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Quarters Ended	
	October 7, 2006	**October 8, 2005**
Operating activities		
Net income (loss)	$ (43,566)	$ 67,086
Adjustments to reconcile net income (loss) to cash flow provided by operating activities:		
Depreciation and amortization	113,441	113,690
Foreign currency exchange gain	(13,328)	(27,091)
Asset write-offs, impairments and gain on sale of assets, net	26,565	(1,637)
Minority interests and equity earnings, net	(202)	(2,726)
Deferred income taxes	(30,647)	(16,200)
Premiums paid on early retirement of debt		33,047
Pension and other post-retirement benefit plan expense	11,308	13,505
Write-off of debt issuance costs	8,133	10,722
Amortization of debt issuance costs	3,463	4,789
Other	1,925	2,582
Changes in operating assets and liabilities:		
Receivables	(59,270)	(66,492)
Inventories	(22,312)	(62,916)
Prepaid expenses and other assets	(4,328)	(15,947)
Accounts payable	(27,043)	59,600
Accrued liabilities	43,434	(15,361)
Other long-term liabilities	6,434	2,677
Cash flow provided by operating activities	14,007	99,328
Investing activities		
Proceeds from sales of assets	9,399	8,968
Proceeds from sales of investments		6,100
Acquisitions and investments		(51,062)
Capital additions	(84,984)	(81,332)
Repurchase of common stock in the going-private merger transaction	(200)	(399)
Cash flow used in investing activities	(75,785)	(117,725)
Financing activities		
Short-term debt borrowings	51,908	18,168
Short-term debt repayments	(52,726)	(36,044)
Long-term debt borrowings, net of debt issuance costs	1,935,379	1,313,087
Long-term debt repayments	(1,697,162)	(1,213,099)
Capital contribution from parent	28,390	

Distribution to parent	(31,000)	
Dividends paid to minority shareholders	(1,665)	(2,694)
Dividends paid to parent	(163,691)	(73,850)
Cash flow provided by financing activities	69,433	5,568
Effect of foreign currency exchange rate changes on cash and cash equivalents	(74)	(1,927)
Increase (decrease) in cash and cash equivalents	7,581	(14,756)
Cash and cash equivalents at beginning of period	48,812	79,217
Cash and cash equivalents at end of period	$ 56,393	$ 64,461

See Accompanying Notes to Condensed Consolidated Financial Statements

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 October 7, 2006 and October 8, 2005 are sixteen 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. 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.

During September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1, *Accounting For Planned Major Maintenance Activities*, which eliminates the acceptability of the accrue-in-advance method of accounting for planned major maintenance activities. As a result, there are three alternative methods of accounting for planned major maintenance activities: direct expense, built-in-overhaul or deferral. The Company has been accruing for planned major maintenance activities associated with its vessel fleet under the accrue-in-advance method. The guidance in this FSP is effective for the Company at the beginning of fiscal 2007 and requires retrospective application for all financial statements presented. The Company is currently evaluating the impact of this FSP on its financial position and results of operations.

During September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB 108), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The Company does not expect the adoption of SAB 108 to materially impact its financial position or results of operations.

During September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) 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. FAS 157 is effective for the Company at the beginning of fiscal 2008 and will be applied on a prospective basis. The Company is currently evaluating the impact, if any, the adoption of FAS 157 will have on its financial position and results of operations.

DOLE FOOD COMPANY, INC.

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

During September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, (FAS 158). FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur as a component of comprehensive income. FAS 158 is effective for fiscal years ending after December 15, 2006, for companies with publicly traded equity securities and for all other companies, fiscal years ending after June 15, 2007, with earlier adoption encouraged. The Company is currently evaluating the impact that the adoption of FAS 158 will have on its financial position and results of operations. The standard also requires an employer to measure the funded status as of the date of its year-end statement of financial position. The Company complies with this requirement as it already uses its fiscal year end to measure all defined benefit obligations.

3. INCOME TAXES

Income tax expense for the three quarters ended October 7, 2006 of approximately $6 million reflects an expected effective income tax rate for the fiscal year ending December 30, 2006 of approximately 94.5% applied to the Company s year to date pre-tax income after excluding $44 million of foreign net operating losses for which no benefit is expected to be realized. Income tax expense for the three quarters ended October 8, 2005 of $12.3 million, which excludes the $39.2 million impact of the repatriation of certain foreign earnings, reflects the then expected effective income tax rate of approximately 10.4% for the fiscal year ended December 31, 2005.

For 2006, the Company s effective income tax rate is higher than the U.S. federal statutory rate primarily due to the accrual for certain tax-related contingencies partially offset by earnings from foreign jurisdictions that are taxed at a rate lower than the U.S. federal statutory rate. 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. Other than the taxes provided on the $570 million of repatriated foreign earnings in 2005, undistributed earnings from non-U.S. operations are currently intended to be reinvested indefinitely outside the U.S.

The increase in the effective income tax rate in 2006 versus the rate experienced in 2005 is principally due to earnings from operations decreasing by a larger relative percentage than the associated taxes, including the accrual for certain tax-related contingencies required to be provided on such earnings.

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.

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. 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

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DOLE FOOD COMPANY, INC.

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

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 is pursuing 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. The Honduran Supreme Court recently affirmed the decision of the Honduran intermediate appellate court that a statutory prerequisite to challenging the tax assessment on the merits is the payment of the tax assessment or the filing of a payment plan with the Honduran courts; Dole is now challenging the constitutionality of the statute requiring such payment or payment plan. No reserve has been provided for this tax assessment.

4. INVENTORIES

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

	October 7, 2006	December 31, 2005
Finished products	$ 315,834	$ 290,593
Raw materials and work in progress		