

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.

<b>Class</b>	<b>Shares Outstanding at November 18, 2004</b>
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
Gross margin	169,578	181,562
Selling, marketing and general and administrative expenses	125,042	125,664
Operating income	44,536	55,898
Other income (expense), net	(59)	409
Interest income	1,417	1,755
Interest expense	47,426	48,993
Income (loss) before income taxes	(1,532)	9,069
Income taxes	(6,465)	1,539
Net income	\$ 4,933	\$ 7,530

*See Accompanying Notes to Condensed Consolidated Financial Statements*

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

(Unaudited)

(In thousands)

	<b>Three Quarters Ended October 9, 2004</b>	<b>Two Quarters Ended October 4, 2003</b>	<b>Quarter Ended March 22, 2003</b>
	<b>Successor</b>	<b>Successor</b>	<b>Predecessor</b>
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)

	<b>October 9, 2004</b>	<b>January 3, 2004</b>
	<b>Successor</b>	<b>Successor</b>
<b>ASSETS</b>		
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/>
<b>Total assets</b>	<b>\$4,205,497</b>	<b>\$3,987,884</b>
	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
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/>
<b>Total liabilities and shareholders' equity</b>	<b>\$4,205,497</b>	<b>\$3,987,884</b>
	<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
<b>Operating activities</b>			
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	178,447	300,200	1,813
<b>Investing activities</b>			
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	(222,744)	(1,543,686)	(2,492)
<b>Financing activities</b>			
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	93,213	666,194	(6,313)
	(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	50,516	52,029
	<u>\$ 474,564</u>	<u>\$ 409,805</u>

**4. BUSINESS ACQUISITION AND ALLOCATION OF PURCHASE PRICE**

In June 2004, the Company acquired all of the outstanding capital stock of Wood Holdings, Inc. ( JR Wood ), a privately held frozen fruit producer and manufacturer. The acquisition of JR Wood allows the Company to expand its packaged foods product line and is a natural extension of the Dole brand into the frozen fruit section of the produce industry. The total purchase price, including transaction expenses, was \$171.7 million in cash. This amount includes an estimate of \$2.1 million payable to the selling shareholders for the reimbursement of certain tax liabilities incurred by the sellers as a result of the transaction. The results of operations of JR Wood have been included in the Company's consolidated results of operations from June 8, 2004, the effective date of acquisition. Pro forma financial information is not presented, as it is not material.

The following represents the estimated preliminary values attributable to the assets acquired and liabilities assumed as of the date of the acquisition (in thousands):

Current assets	\$ 61,248
Property, plant and equipment	78,330
Intangible assets	10,150
Goodwill	41,706
Other assets	105
	<u>191,539</u>
Total assets acquired	191,539
Current liabilities	19,741
Other long-term liabilities	87
	<u>19,828</u>
Total liabilities assumed	19,828
	<u>\$ 171,711</u>
Net assets acquired	<u>\$ 171,711</u>

Expected synergies of the combined operations and the ability to readily leverage the Dole brand in the frozen fruit business were the primary factors that contributed to a purchase price that resulted in the recognition of goodwill. Goodwill has been included in the Company's packaged foods segment and is fully deductible for tax purposes over a 15-year period.

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The \$10.1 million allocated to intangible assets is a valuation of customer relationships with finite lives. It is expected that these customer relationships will be amortized over approximately 12 years. Refer to Note 5 for additional information on goodwill and acquired intangible assets.

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

**5. GOODWILL AND INTANGIBLE ASSETS**

Goodwill and intangible assets were as follows (in thousands):

	October 9, 2004	January 3, 2004
	Successor	Successor
Goodwill	\$ 493,460	\$ 448,751
Intangible assets	741,280	739,859
	<u>\$ 1,234,740</u>	<u>\$ 1,188,610</u>

The change in the carrying amount of goodwill is attributable to the following (in thousands):

Balance at January 3, 2004	\$ 448,751
Acquisition of JR Wood (Note 4)	41,706
Adjustment related to valuation allowances in going-private merger transaction (Note 1)	2,970
Other changes	33
	<u>\$ 493,460</u>

Details of the Company's intangible assets were as follows (in thousands):

	October 9, 2004	January 3, 2004
	Successor	Successor
Amortized intangible assets:		
Customer relationships	\$ 38,501	\$ 28,351
Licenses	20,688	20,688
Other amortized intangible assets	9,330	9,039
	<u>68,519</u>	<u>58,078</u>
Accumulated amortization customer relationships	(4,693)	(2,181)
Accumulated amortization licenses	(11,493)	(5,747)
Other accumulated amortization	(5,571)	(4,809)
	<u>(21,757)</u>	<u>(12,737)</u>
Accumulated amortization intangible assets	(21,757)	(12,737)
Intangible assets, net	46,762	45,341
Unamortized intangible assets:		
Trademark, trade names and other related intangibles	694,518	694,518
	<u>694,518</u>	<u>694,518</u>

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Total intangible assets, net	\$ 741,280	\$ 739,859
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Amortization expense of intangible assets totaled \$3.6 million, \$8.9 million, \$3.1 million and \$5.5 million for the quarter and three quarters ended October 9, 2004, quarter ended October 4, 2003 and two quarters ended October 4, 2003, respectively. There was no amortization expense related to intangible assets during the quarter ended March 22, 2003. As of October 9, 2004, the estimated remaining amortization expense associated with the Company's intangible assets in each of the next five fiscal years is as follows (in thousands):

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

(In thousands) Fiscal Year	Amount
2004	\$ 2,734
2005	\$ 11,848
2006	\$ 4,323
2007	\$ 3,677
2008	\$ 3,677

The Company performed its annual impairment review of goodwill and indefinite-lived intangible assets pursuant to Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, during the second quarter of fiscal 2004. This review indicated no impairment to goodwill or any of the Company's indefinite-lived intangible assets.

**6. LONG-TERM DEBT**

Long-term debt consisted of the following amounts (in thousands):

	October 9, 2004	January 3, 2004
	Successor	Successor
Unsecured debt:		
8.625% notes due 2009	\$ 400,000	\$ 400,000
7.25% notes due 2010	400,000	400,000
8.875% notes due 2011	475,000	475,000
8.75% debentures due 2013	155,000	155,000
Secured debt:		
Revolving credit facility		20,000
Term loan facilities	348,078	305,000
Notes due 2005 - 2009, at a weighted-average interest rate of 7.95% (5.64% in 2003)	3,073	2,598
Capital lease obligations	89,313	93,550
Unamortized debt discount	(1,738)	(1,996)
	1,868,726	1,849,152
Current maturities	(30,871)	(45,627)
	\$ 1,837,855	\$ 1,803,525

The Company amortized deferred debt issuance costs of \$2.7 million, \$6.9 million, \$2.5 million, \$4.6 million and \$0.2 million during the quarter and three quarters ended October 9, 2004, the quarter and two quarters ended October 4, 2003 and the quarter ended March 22, 2003, respectively. The weighted-average interest rate on the term loan facilities was approximately 4.5% at October 9, 2004. At October 9, 2004, the Company had approximately \$203.9 million available under the \$300 million revolving credit portion of the senior secured credit facilities.

In February 2004, the Company executed a fourth amendment to its senior secured credit facility agreement. Under the fourth amendment, HoldCo transferred all of the outstanding capital stock of the Company to a new intermediate holding company, Dole Holding Company, LLC. The fourth amendment also permits Dole Holding Company, LLC to issue up to \$250 million of senior notes that would be structurally subordinated to Dole's existing senior notes and debentures. The proceeds of any such senior note offerings would be required to promptly be either: (a) contributed or loaned to the Company to repay its revolving loans or for its other working capital or general corporate purposes, or

(b) loaned or dividended to DHM Holding Company, Inc.



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

for investment in a company formed by DHM Holding Company, Inc. for the development, construction and operation of a wellbeing center/hotel/spa/conference center/studio and reasonably related extensions thereof. In addition, among other provisions, the amendment permits the Company to pay dividends, subject to certain restrictions, as defined in the amendment.

In May 2004, the Company executed a fifth amendment to its senior secured revolving credit facility agreement. The fifth amendment: (a) permitted the Company to enter into a new \$175 million term loan ( Term Loan E ) to finance the acquisition of JR Wood, (b) reduced the interest rate by 25 basis points on the pre-existing term loan, (c) increased the permitted acquisition basket and the incremental term loan size, and (d) increased the bank debt leverage ratio. Term Loan E matures in September 2008 and has substantially the same terms as the pre-existing term loan, except that the term loan is repayable in a lump sum on the maturity date.

In July 2004, Dole Holding Company, LLC borrowed \$150 million under a Second Lien Senior Credit Agreement. As collateral for borrowing under this agreement, Dole Holding Company, LLC has granted a second lien on the Company's capital stock. Amounts borrowed under this agreement may be distributed to HoldCo or contributed and/or loaned to the Company. During the third quarter of 2004, \$100 million of these borrowings were contributed to the Company. It is anticipated that all or substantially all of this amount will, at subsequent dates, be distributed by the Company back to Dole Holding Company, LLC for further distribution to HoldCo for investment in a subsidiary for the development of a wellbeing center.

During the quarter and three quarters ended October 9, 2004, the Company wrote off approximately \$1.2 million and \$2.7 million, respectively, of deferred debt issuance costs as a result of term loan prepayments.

At October 9, 2004, the Company was in compliance with all applicable covenants under the senior secured credit facilities and the indentures to the Company's senior notes and debentures.

**7. SHAREHOLDERS' EQUITY***Capital Contribution*

During the quarter ended October 9, 2004, the Company received a capital contribution of \$100 million from its parent company, Dole Holding Company, LLC. All or substantially all of this contribution is expected to be distributed by the Company back to Dole Holding Company, LLC at subsequent dates.

*Comprehensive Income*

The components of comprehensive income were as follows in each period (in thousands):

	Quarter Ended	
	October 9, 2004	October 4, 2003
	Successor	Successor
Net income	\$ 4,933	\$ 7,530
Unrealized foreign currency translation gain, net	2,798	2,590
Reclassification of realized cash flow hedging losses to net income	2,442	2,915
Reclassification of translation losses realized upon the disposition of foreign entities		2,423
Unrealized net gain (loss) on cash flow hedging instruments	896	(8,256)
Comprehensive income	\$ 11,069	\$ 7,202

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

	Three Quarters Ended October 9, 2004	Two Quarters Ended October 4, 2003	Quarter Ended March 22, 2003
	Successor	Successor	Predecessor
<b>(In thousands)</b>			
Net income	\$ 133,710	\$ 25,431	\$ 60,788
Unrealized foreign currency translation gain (loss), net	(5,045)	15,667	(195)
Reclassification of realized cash flow hedging losses to net income	9,047	3,433	586
Reclassification of translation losses realized upon the disposition of foreign entities		2,423	
Unrealized net gain (loss) on cash flow hedging instruments	5,833	(18,022)	3,606
Comprehensive income	\$ 143,545	\$ 28,932	\$ 64,785

*Dividends*

During the quarter and three quarters ended October 9, 2004, the Company paid cash dividends of \$10 million and \$20 million, respectively, to its parent company, Dole Holding Company, LLC. In addition, during the quarter ended October 9, 2004, the Company entered into a transaction with a related party to exchange similarly valued land. The Company subsequently leased the land to another affiliated company to be used in the construction of a wellbeing center by a subsidiary of HoldCo. Due to its terms, the lease is treated for accounting purposes as a distribution of land and reflected as a non-cash dividend of \$6.3 million to Dole Holding Company, LLC in the accompanying condensed consolidated financial statements. The non-cash dividend represents the tax adjusted value of land to be used in the construction of a wellbeing center by HoldCo. Dole Holding Company, LLC is a Delaware limited liability company and a direct, wholly owned subsidiary of HoldCo. No dividends were declared during the two quarters ended October 4, 2003. With respect to the Predecessor, during the quarter ended March 22, 2003, the Company declared and paid dividends of approximately \$8.4 million on its common shares representing a quarterly dividend of 15 cents per share. The Company's ability to declare future dividends is restricted under the terms of its senior secured credit facilities and bond indentures.

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

**8. EMPLOYEE BENEFIT PLANS**

The components of net periodic benefit cost for the Company's U.S. and international pension plans and other postretirement benefit (OPRB) plans were as follows (in thousands):

	<b>Pension Plans</b>		<b>OPRB Plans</b>	
	<b>Quarter Ended</b>		<b>Quarter Ended</b>	
	<b>October 9, 2004</b>	<b>October 4, 2003</b>	<b>October 9, 2004</b>	<b>October 4, 2003</b>
	<b>Successor</b>	<b>Successor</b>	<b>Successor</b>	<b>Successor</b>
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 2,040	\$ 1,821	\$ 28	\$ 26
Interest cost	6,853	6,529	1,586	1,450
Expected return on plan assets	(5,857)	(7,524)		
Amortization of:				
Unrecognized net loss	118	46	8	7
Unrecognized prior service cost (benefit)	23	21	(72)	(41)
Unrecognized net transition obligation	12	11		
Settlements	3,279			
Other		32		
	<u>\$ 6,468</u>	<u>\$ 936</u>	<u>\$ 1,550</u>	<u>\$ 1,442</u>

	<b>Pension Plans</b>			<b>OPRB Plans</b>		
	<b>Three Quarters Ended October 9, 2004</b>	<b>Two Quarters Ended October 4, 2003</b>	<b>Quarter Ended March 22, 2003</b>	<b>Three Quarters Ended October 9, 2004</b>	<b>Two Quarters Ended October 4, 2003</b>	<b>Quarter Ended March 22, 2003</b>
	<b>Successor</b>	<b>Successor</b>	<b>Predecessor</b>	<b>Successor</b>	<b>Successor</b>	<b>Predecessor</b>
<b>Components of net periodic benefit cost</b>						
Service cost	\$ 5,188	\$ 3,187	\$ 1,462	\$ 72	\$ 46	\$ 21
Interest cost	17,049	11,426	5,552	3,966	2,537	1,238
Expected return on plan assets	(14,643)	(13,167)	(6,266)			
Amortization of:						
Unrecognized net loss	236	81	160	20	12	56
Unrecognized prior service cost (benefit)	25	37	76	(181)	(72)	(147)
Unrecognized net transition obligation	31	19	22			
Settlements	3,279					
Other		56	1,017			

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	\$ 11,165	\$ 1,639	\$ 2,023	\$3,877	\$2,523	\$1,168

In the third quarter of 2004, the Company terminated certain employees in Ecuador following a restructuring of one of the Company's business units. In connection with this restructuring, the Company made severance payments and settled all pension benefit obligations in cash. As a result of these payments, the Company recognized expense of \$5.8 million, of which \$3.3 million relates to a settlement loss in accordance with

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

Financial Accounting Standards Board ( FASB ) Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

In May 2004, the FASB issued FASB Staff Position No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* ( FSP 106-2 ) in response to a new law regarding prescription drug benefits under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans. The Company has determined that the benefits provided by certain of its postretirement health care plans are actuarially equivalent to Medicare Part D and thus qualify for the subsidy under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ( the Act ). The Company has concluded, however, that the enactment of the Act was not a significant event pursuant to FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*, and accordingly the effects of the Act will be incorporated in the year-end measurement of plan assets and obligations.

**9. SEGMENT INFORMATION**

The Company has four primary reportable operating segments: fresh fruit, fresh vegetables, packaged foods and fresh-cut flowers. These reportable segments are managed separately due to differences in their products, production processes, distribution channels and customer bases.

Management evaluates and monitors segment performance primarily through earnings before interest expense and income taxes ( EBIT ). EBIT is calculated by adding income taxes and interest expense to net income. Management believes that segment EBIT provides useful information for analyzing the underlying business results as well as allowing investors a means to evaluate the financial results of each segment in relation to the Company as a whole. EBIT is not defined under accounting principles generally accepted in the United States ( GAAP ) and should not be considered in isolation or as a substitute for net income or cash flow measures prepared in accordance with GAAP or as a measure of the Company's profitability or liquidity. Additionally, the Company's computation of EBIT may not be comparable to other similarly titled measures computed by other companies, because not all companies calculate EBIT in the same fashion.

Revenues from external customers and EBIT for the reportable operating segments and corporate and other were as follows (in thousands):

	Quarter Ended	
	October 9, 2004	October 4, 2003
	Successor	Successor
Revenues from external customers:		
Fresh fruit	\$ 985,570	\$ 874,682
Fresh vegetables	260,033	257,151
Packaged foods	224,563	175,567
Fresh-cut flowers	41,277	40,763
Other operating segments	10,061	9,698
	<u>\$ 1,521,504</u>	<u>\$ 1,357,861</u>

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

	Quarter Ended	
	October 9, 2004	October 4, 2003
	Successor	Successor
<b>(In thousands)</b>		
EBIT:		
Fresh fruit	\$ 47,237	\$ 52,937
Fresh vegetables	9,715	24,724
Packaged foods	12,098	7,090
Fresh-cut flowers	(5,447)	(3,546)
Other operating segments	72	275
	<hr/>	<hr/>
Total operating segments	63,675	81,480
Corporate and other	(17,781)	(23,418)
Interest expense	47,426	48,993
	<hr/>	<hr/>
Income (loss) before income taxes	\$ (1,532)	\$ 9,069
	<hr/>	<hr/>

	Three Quarters Ended October 9, 2004	Two Quarters Ended October 4, 2003	Quarter Ended March 22, 2003
	Successor	Successor	Predecessor
<b>(In thousands)</b>			
Revenues from external customers:			
Fresh fruit	\$2,769,066	\$1,705,415	\$ 725,115
Fresh vegetables	672,634	457,124	176,865
Packaged foods	491,357	310,049	116,712
Fresh-cut flowers	136,821	84,964	48,506
Other operating segments	22,169	17,131	5,972
	<hr/>	<hr/>	<hr/>
	\$4,092,047	\$2,574,683	\$1,073,170
	<hr/>	<hr/>	<hr/>

	Three Quarters Ended October 9, 2004	Two Quarters Ended October 4, 2003	Quarter Ended March 22, 2003
	Successor	Successor	Predecessor

**(In thousands)**

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EBIT:

Fresh fruit	\$221,864	\$133,891	\$ 70,174
Fresh vegetables	50,158	43,085	16,703
Packaged foods	42,410	1,272	11,693
Fresh-cut flowers	3,801	(4,656)	6,394
Other operating segments	261	31	65
	<u>          </u>	<u>          </u>	<u>          </u>
Total operating segments	318,494	173,623	105,029
Corporate and other	(46,341)	(56,057)	(11,494)
Interest expense	116,820	86,772	19,647
	<u>          </u>	<u>          </u>	<u>          </u>
Income before income taxes	\$155,333	\$ 30,794	\$ 73,888
	<u>          </u>	<u>          </u>	<u>          </u>



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

Total assets for the reportable operating segments and corporate and other were as follows (in thousands):

	<b>October 9, 2004</b>	<b>January 3, 2004</b>
	<b>Successor</b>	<b>Successor</b>
Fresh fruit	\$2,175,332	\$2,177,541
Fresh vegetables	381,475	382,451
Packaged foods	572,511	376,936
Fresh-cut flowers	141,703	144,199
Other operating segments	9,465	10,926
	<hr/>	<hr/>
Total operating segments	3,280,486	3,092,053
Corporate and other	925,011	895,831
	<hr/>	<hr/>
	\$4,205,497	\$3,987,884
	<hr/>	<hr/>

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

	<b>October 9, 2004</b>	<b>January 3, 2004</b>
	<b>Successor</b>	<b>Successor</b>
Fresh fruit	\$343,833	\$341,540
Fresh vegetables	89,615	89,025
Packaged foods	60,012	18,186
Fresh-cut flowers		
Other operating segments		
	<hr/>	<hr/>
	\$493,460	\$448,751
	<hr/>	<hr/>

**10. CONTINGENCIES**

The Company is a guarantor of indebtedness of some of its key fruit suppliers and other entities integral to its operations. As of October 9, 2004 and January 3, 2004, these guarantees primarily consisted of guarantees for bank loans to its growers and other affiliates of \$4.4 million and \$6.7 million, respectively. Grower guarantees represent guarantees of amounts advanced, under third party bank agreements, to independent growers that supply the Company with product. The Company has not historically experienced any significant losses associated with these guarantees.

As part of its normal business activities, the Company and its subsidiaries also provide guarantees to various regulatory authorities, primarily in Europe, in order to comply with foreign regulations when operating businesses overseas. These guarantees relate to customs duties and banana import license fees that are granted to the European Union member states' agricultural authority. These guarantees are obtained from commercial banks in the form of letters of credit or bank guarantees. In addition, the Company issues letters of credit and bonds through major banking institutions and insurance companies as required by certain vendor and other operating agreements. As of October 9, 2004 and January 3, 2004, total letters of credit and bonds outstanding were \$128.1 million and \$91.7 million, respectively.

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The Company also provides various guarantees, mostly to foreign banks, in the course of its normal business operations to support the borrowings, leases and other obligations of its subsidiaries. The Company guaranteed \$151.4 million and \$148.1 million of its subsidiaries obligations to their suppliers and other third parties as of October 9, 2004 and January 3, 2004, respectively.

The Company has change of control agreements with certain key executives, under which severance payments and benefits would become payable in the event of specified terminations of employment following a change of control (as defined) of the Company.

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

The Company is involved from time to time in claims and legal actions incidental to its operations, both as plaintiff and defendant. The Company has established what management currently believes to be adequate reserves for pending legal matters. These reserves are established as part of an ongoing worldwide assessment of claims and legal actions that takes into consideration such items as changes in the pending case load (including resolved and new matters), opinions of legal counsel, individual developments in court proceedings, changes in the law, changes in business focus, changes in the litigation environment, changes in opponent strategy and tactics, new developments as a result of ongoing discovery, and past experience in defending and settling similar claims. In the opinion of management, after consultation with outside counsel, the claims or actions to which the Company is a party are not expected to have a material adverse effect, individually or in the aggregate, on the Company's financial condition or results of operations.

A significant portion of the Company's legal exposure relates to lawsuits pending in the United States and in several foreign countries, alleging injury as a result of exposure to the agricultural chemical DBCP (1,2-dibromo-3-chloropropane). DBCP was manufactured by several chemical companies including Dow and Shell and registered by the U.S. government for use on food crops. The Company and other growers applied DBCP on banana farms in Latin America and the Philippines and on pineapple farms in Hawaii. Specific periods of use varied among the different locations. The Company halted all purchases of DBCP, including for use in foreign countries, when the U.S. EPA cancelled the registration of DBCP for use in the United States in 1979. That cancellation was based in part on a 1977 study by a manufacturer which indicated an apparent link between male sterility and exposure to DBCP among factory workers producing the product, as well as early product testing done by the manufacturers showing testicular effects on animals exposed to DBCP. To date, there is no reliable evidence demonstrating that field application of DBCP led to sterility among farm workers, although that claim is made in the pending lawsuits. Nor is there any reliable scientific evidence that DBCP causes any other injuries in humans, although plaintiffs in the various actions assert claims based on cancer, birth defects and other general illnesses.

Currently there are 572 lawsuits, in various stages of proceedings, alleging injury as a result of exposure to DBCP. Twelve of these lawsuits are currently pending in various jurisdictions in the United States, including one new case in the Superior Court for the County of Los Angeles involving 36 Nicaraguan claimants and another case in the U.S. District Court, Central District of California involving 2,624 Costa Ricans, both seeking unspecified damages. In one of the lawsuits pending in the Dallas County (116<sup>th</sup> Judicial District) Texas state court involving 378 Costa Ricans, trial is scheduled for March 7, 2005 with an initial five plaintiff-panel. The remaining cases are pending in Latin America and the Philippines, including 442 labor cases pending in Costa Rica under that country's national insurance program and one new case filed in the First Civil Trial Court in Tegulcigalpa, Honduras on behalf of 367 Hondurans seeking \$110 million in damages. Claimed damages in DBCP cases worldwide total approximately \$22.5 billion, with the lawsuits in Nicaragua representing approximately 80% of this amount. In almost all of these cases, the Company is a joint defendant with the major DBCP manufacturers and, typically, other banana growers. Except as described below, none of these lawsuits has resulted in a verdict or judgment against the Company.

In Nicaragua, 103 cases have been filed, with the majority of the lawsuits brought pursuant to Law 364, an October 2000 Nicaraguan statute that contains substantive and procedural provisions that Nicaragua's Attorney General formally opined are unconstitutional. In October 2003, the Supreme Court of Nicaragua issued an advisory opinion, not connected with any litigation, that Law 364 is constitutional.

Fourteen cases filed in a civil trial court in Managua, Nicaragua have resulted in judgments for the claimants: \$489.4 million (nine cases with 468 claimants) on December 11, 2002; \$82.9 million (one case with 58 claimants) on February 25, 2004; \$15.7 million (one case with 20 claimants) on May 25, 2004; \$4 million (one case with 4 claimants) on May 25, 2004; \$56.5 million (one case with 72 claimants) on June 14, 2004; and \$64.8 million (one case with 86 claimants) on June 15, 2004. Active cases are currently pending in civil trial courts in Managua (5), Chinendega (7) and Puerto Cabezas (2). In all of those cases, the Company has

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

sought to have the cases returned to the United States pursuant to Law 364. Notwithstanding, the Chinendega court denied the Company's request in cases pending there; the Managua court denied the Company's request with respect to two of the 5 cases pending there; and the court in Puerto Cabezas denied the Company's request with respect to the two cases there. The Company's requests as to the remaining 3 cases in Managua are still pending and the Company has appealed the two decisions of the court in Puerto Cabezas.

The claimants' attempted enforcement of the December 11, 2002 judgment for \$489.4 million in the United States resulted in a dismissal with prejudice of that action by the United States District Court for the Central District of California on October 20, 2003. The claimants have appealed that decision to the United States Court of Appeals for the Ninth Circuit. Dole expects to prevail in that appeal.

The claimants have attempted to enforce the other five Nicaraguan judgments in Ecuador. On September 28, 2004, the Ecuador Supreme Court issued a ruling refusing to consider the action to enforce the June 14, 2004 Nicaraguan judgment for \$56.5 million, stating that it was not a court of competent jurisdiction for enforcement.

The Company believes that none of the Nicaraguan civil trial courts' judgments will be enforceable against any Dole entity in the U.S. or in any other country, because Nicaragua's Law 364 is unconstitutional and violates international principles of due process. Among other things, Law 364 is an improper special law directed at particular parties; it requires defendants to pay large, non-refundable deposits in order to even participate in the litigation; it provides a severely truncated procedural process; it establishes an irrebuttable presumption of causation that is contrary to the evidence and scientific data; and it sets unreasonable minimum damages that must be awarded in every case.

As to all the DBCP matters, the Company has denied liability and asserted substantial defenses. Although no assurance can be given concerning the outcome of these cases, in the opinion of management, after consultation with legal counsel and based on past experience defending and settling DBCP claims, the pending lawsuits are not expected to have a material adverse effect on the Company's financial condition or results of operations.

**11. GUARANTOR FINANCIAL INFORMATION**

In connection with the issuance of the 2011 Notes in March 2003 and the 2010 Notes in May 2003, the Company and all of its wholly-owned domestic subsidiaries (Guarantors) have fully and unconditionally guaranteed, on a joint and several basis, the Company's obligations under the related indentures (the Guarantees). Each Guarantee is subordinated in right of payment to the Guarantors' existing and future senior debt, including obligations under the senior secured credit facility, and will rank pari passu with all senior subordinated indebtedness of the applicable Guarantor. All Guarantors are 100% owned by the Company.

The accompanying guarantor condensed consolidating financial information is presented on the equity method of accounting for all periods presented. Under this method, investments in subsidiaries are recorded at cost and adjusted for the Company's share in the subsidiaries' cumulative results of operations, capital contributions and distributions and other changes in equity. Elimination entries relate primarily to the elimination of investments in subsidiaries and associated intercompany balances and transactions. Certain prior year amounts have been reclassified, including investments in consolidated subsidiaries, to conform with the 2004 presentation.

The following are condensed consolidating statements of operations of the Company for the quarter and three quarters ended October 9, 2004, quarter and two quarters ended October 4, 2003 and quarter ended March 22, 2003; condensed consolidating balance sheets as of October 9, 2004 and January 3, 2004; and condensed consolidating statements of cash flows for the three quarters ended October 9, 2004, two quarters ended October 4, 2003 and quarter ended March 22, 2003.

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

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**

**SUCCESSOR**  
**For the Quarter Ended October 9, 2004**

	<b>Dole Food Company, Inc.</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Eliminations</b>	<b>Total</b>
(In thousands)					
Revenues, net	\$ 145,731	\$ 571,260	\$ 1,096,677	\$ (292,164)	\$ 1,521,504
Cost of products sold	119,602	516,444	997,585	(281,705)	1,351,926
Gross margin	26,129	54,816	99,092	(10,459)	169,578
Selling, marketing and general and administrative expenses	28,674	41,121	65,706	(10,459)	125,042
Operating income (loss)	(2,545)	13,695	33,386		44,536
Equity in subsidiary income	17,832	26,260		(44,092)	
Other income (expense), net	(380)	(2,164)	2,485		(59)
Interest income	65	97	1,255		1,417
Interest expense	41,404	74	5,948		47,426
Income before income taxes	(26,432)	37,814	31,178	(44,092)	(1,532)
Income taxes	(31,365)	20,086	4,814		(6,465)
Net income	\$ 4,933	\$ 17,728	\$ 26,364	\$ (44,092)	\$ 4,933

**SUCCESSOR****For the Quarter Ended October 4, 2003**

	<b>Dole Food Company, Inc.</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Eliminations</b>	<b>Total</b>
(In thousands)					
Revenues, net	\$ 138,478	\$ 523,186	\$ 986,513	\$ (290,316)	\$ 1,357,861
Cost of products sold	120,898	466,269	879,448	(290,316)	1,176,299
Gross margin	17,580	56,917	107,065		181,562
Selling, marketing and general and administrative expenses	38,422	30,573	56,669		125,664
Operating income (loss)	(20,842)	26,344	50,396		55,898
Equity in subsidiary income	66,614	48,008		(114,622)	
Other income (expense), net	(611)	704	316		409
Interest income	58	38	1,659		1,755
Interest expense	42,101	489	6,403		48,993
Income before income taxes	3,118	74,605	45,968	(114,622)	9,069
Income taxes	(4,412)	7,973	(2,022)		1,539

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Net income	\$ 7,530	\$ 66,632	\$ 47,990	\$(114,622)	\$ 7,530
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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

**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS**

**SUCCESSOR**  
**For the Three Quarters Ended October 9, 2004**

	<b>Dole Food Company, Inc.</b>	<b>Guarantors</b>	<b>Non Guarantors</b>	<b>Eliminations</b>	<b>Total</b>
(In thousands)					
Revenues, net	\$ 361,426	\$ 1,522,875	\$ 3,049,061	\$ (841,315)	\$ 4,092,047
Cost of products sold	283,020	1,354,516	2,694,574	(829,631)	3,502,479
Gross margin	78,406	168,359	354,487	(11,684)	589,568
Selling, marketing and general and administrative expenses	82,273	87,133	162,114	(11,684)	319,836
Operating income (loss)	(3,867)	81,226	192,373		269,732
Equity in subsidiary income	208,039	171,672		(379,711)	
Other income (expense), net	(866)	(2,366)	2,440		(792)
Interest income	121	227	2,865		3,213
Interest expense					