

DOLE FOOD COMPANY INC
Form 10-Q
July 30, 2002

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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 June 15, 2002

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 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 23, 2002
Common Stock, No Par Value	56,035,991

DOLE FOOD COMPANY, INC.
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PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DOLE FOOD COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)
(in thousands, except per share amounts)

	Quarter Ended	
	June 15, 2002	June 16, 2001
Revenues	\$ 1,118,185	\$ 1,127,921
Cost of products sold	920,076	978,690

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	Quarter Ended	
	2002	2001
Gross margin	198,109	149,231
Selling, marketing and general and administrative expenses	89,840	89,540
Operating income	108,269	59,691
Interest income	2,452	938
Other (expense) income net	(3,010)	7,021
Earnings before interest expense and income taxes	107,711	67,650
Interest expense	19,466	17,880
Income from continuing operations before income taxes	88,245	49,770
Income taxes	21,397	16,485
Income from continuing operations	66,848	33,285
Income from discontinued operations, net of income taxes of \$912		3,683
Net income	66,848	36,968
Earnings per common share basic		
Continuing operations	\$ 1.19	\$ 0.59
Discontinued operations		0.07
Net income	1.19	0.66
Earnings per common share diluted		
Continuing operations	\$ 1.18	\$ 0.59
Discontinued operations		0.07
Net income	1.18	0.66
Weighted average number of common shares outstanding basic	56,036	55,891
Weighted average number of common shares outstanding diluted	56,775	56,036

See Notes to Condensed Consolidated Financial Statements

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DOLE FOOD COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share amounts)

	Half Year Ended	
	June 15, 2002	June 16, 2001
Revenues	\$ 2,177,600	\$ 2,159,404
Cost of products sold	1,798,387	1,866,927

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	Half Year Ended	
Gross margin	379,213	292,477
Selling, marketing and general and administrative expenses	174,341	170,198
Operating income	204,872	122,279
Interest income	4,600	2,135
Other (expense) income net	(4,466)	6,166
Earnings before interest expense and income taxes	205,006	130,580
Interest expense	33,997	36,353
Income from continuing operations before income taxes and cumulative effect of a change in accounting principle	171,009	94,227
Income taxes	47,883	31,487
Income from continuing operations	123,126	62,740
Income from discontinued operations, net of income taxes of \$2,248		8,947
Income before cumulative effect of a change in accounting principle	123,126	71,687
Cumulative effect of a change in accounting principle	(119,917)	
Net income	3,209	71,687
Earnings per common share basic		
Continuing operations	\$ 2.20	\$ 1.12
Discontinued operations		0.16
Cumulative effect of a change in accounting principle	(2.14)	
Net income	0.06	1.28
Earnings per common share diluted		
Continuing operations	\$ 2.17	\$ 1.12
Discontinued operations		0.16
Cumulative effect of a change in accounting principle	(2.11)	
Net income	0.06	1.28
Weighted average number of common shares outstanding basic	55,990	55,890
Weighted average number of common shares outstanding diluted	56,647	56,078

See Notes to Condensed Consolidated Financial Statements

DOLE FOOD COMPANY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands)

**June 15,
2002**

**December 29,
2001**

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Current assets		
Cash and cash equivalents	\$ 611,418	\$ 361,326
Receivables, net of allowances of \$90,032 and \$89,331	626,056	531,923
Inventories, net	389,483	386,099
Prepaid expenses	47,715	46,430
Total current assets	1,674,672	1,325,778
Investments	87,615	81,061
Property, plant and equipment, net of accumulated depreciation of \$868,587 and \$856,110	1,016,733	905,824
Goodwill, net of accumulated amortization of \$34,885 and \$49,764	136,109	255,946
Other assets	140,322	178,084
Total assets	3,055,451	2,746,693
Current liabilities		
Notes payable	\$ 66,281	\$ 17,347
Current portion of long-term debt	234,450	9,792
Accounts payable and accrued liabilities	743,593	787,236
Total current liabilities	1,044,324	814,375
Long-term debt	905,125	816,124
Other long-term liabilities	344,303	348,146
Minority interests	35,790	32,018
Commitments and contingencies (See Note 10)		
Shareholders' equity		
Preferred stock, no par value		
Authorized: 30 million shares, issued and outstanding: none		
Common stock, no par value		
Authorized: 80 million shares, 56.0 million shares issued and outstanding at June 15, 2002 and 55.9 million shares issued and outstanding at December 29, 2001	316,677	316,512
Additional paid-in capital	61,684	57,220
Retained earnings	433,107	446,689
Accumulated other comprehensive loss	(85,559)	(84,391)
Total shareholders' equity	725,909	736,030
Total liabilities and shareholders' equity	3,055,451	2,746,693

See Notes to Condensed Consolidated Financial Statements

DOLE FOOD COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(in thousands)

Half Year Ended

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	Half Year Ended	
	June 15, 2002	June 16, 2001
Operating activities		
Net income	\$ 3,209	\$ 71,687
Less: Income from discontinued operations, net of income taxes		(8,947)
Add: Cumulative effect of a change in accounting principle	119,917	
	<u>123,126</u>	<u>62,740</u>
Income from continuing operations	123,126	62,740
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47,683	57,536
Deferred income taxes	22,888	24,396
Asset write-downs		22,725
Gain on sale of available-for-sale securities		(8,173)
Equity earnings, net of distributions	(5,977)	(3,501)
Other	(2,331)	2,264
Change in operating assets and liabilities, net of effects from acquisitions, dispositions and non-cash transactions:		
Receivables	(94,373)	(42,949)
Inventories	645	39,621
Prepaid expenses and other assets	(1,522)	(8,354)
Accounts payable and accrued liabilities	(22,074)	19,945
Other	2,690	5,822
	<u>70,755</u>	<u>172,072</u>
Cash flow provided by operating activities of continuing operations	70,755	172,072
Cash flow provided by operating activities of discontinued operations		7,723
	<u>70,755</u>	<u>179,795</u>
Cash flow provided by operating activities	70,755	179,795
Investing activities		
Proceeds from sale of available-for-sale securities		34,411
Investments in available-for-sale securities		(26,238)
Proceeds from sales of assets	19,733	16,819
Capital additions	(156,014)	(35,427)
Investments and acquisitions, net of cash acquired	(515)	(2,030)
	<u>(136,796)</u>	<u>(12,465)</u>
Cash flow used in investing activities of continuing operations	(136,796)	(12,465)
Cash flow used in investing activities of discontinued operations		(7,188)
	<u>(136,796)</u>	<u>(19,653)</u>
Cash flow used in investing activities	(136,796)	(19,653)
Financing activities		
Repurchase of notes	(73,272)	
Short-term debt borrowings (repayments) net	11,693	(9,822)
Long-term debt borrowings (repayments) net	388,720	(122,371)
Cash dividends paid	(16,791)	(11,170)
Issuance of common stock	3,867	102
	<u>314,217</u>	<u>(143,261)</u>
Cash flow provided by (used in) financing activities of continuing operations	314,217	(143,261)
Cash flow used in financing activities of discontinued operations		(535)
	<u>314,217</u>	<u>(143,796)</u>
Cash flow provided by (used in) financing activities	314,217	(143,796)
Effect of foreign exchange rate changes on cash	1,916	(1,086)
	<u>250,092</u>	<u>15,260</u>
Increase in cash and cash equivalents	250,092	15,260

	Half Year Ended	
	<u> </u>	<u> </u>
Cash and cash equivalents at beginning of period	361,326	25,151
Cash and cash equivalents at end of period	<u>611,418</u>	<u>40,411</u>

See Notes to Condensed Consolidated Financial Statements

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

1. In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Dole Food Company, Inc. and its consolidated subsidiaries (the "Company" or "Dole") include all adjustments necessary, including adjustments that are of a normal recurring nature, to present fairly the Company's financial position as of June 15, 2002 and December 29, 2001, its results of operations for the quarters and half years ended June 15, 2002 and June 16, 2001 and its cash flows for the half years then ended. 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 ("10-K") for the year ended December 29, 2001.

Interim results are subject to significant 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. For additional information on market risks and related matters affecting the Company's financial position and results of operations, refer to Items 7 and 7A of the Company's 10-K for the year ended December 29, 2001.

Certain prior year amounts have been reclassified to conform with the 2002 presentation.

2. The Company has four reportable 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").

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

	Quarter Ended		Half Year Ended	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	June 15, 2002	June 16, 2001	June 15, 2002	June 16, 2001
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues				
Fresh fruit	\$ 738,262	\$ 727,051	\$ 1,389,002	\$ 1,390,007
Fresh vegetables	196,690	209,216	420,666	412,261
Packaged foods	130,046	123,887	257,934	224,163
Fresh-cut flowers	45,850	56,015	98,651	112,757
Other	7,337	11,752	11,347	20,216
	<u>1,118,185</u>	<u>1,127,921</u>	<u>2,177,600</u>	<u>2,159,404</u>
EBIT				
Fresh fruit	98,856	40,338	145,664	79,842
Fresh vegetables	13,289	27,105	57,013	52,030
Packaged foods	12,056	260	25,466	6,185

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	Quarter Ended		Half Year Ended	
Fresh-cut flowers	(1,880)	6,001	1,225	8,979
Total operating segments	122,321	73,704	229,368	147,036
Corporate and other	(14,610)	(6,054)	(24,362)	(16,456)
	107,711	67,650	205,006	130,580

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Corporate and other EBIT includes general and administrative costs not allocated to operating segments. In 2001, corporate and other EBIT included a gain on the sale of available-for-sale securities of \$8 million.

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

	June 15, 2002	December 29, 2001
Assets		
Fresh fruit	\$ 1,592,716	\$ 1,407,979
Fresh vegetables	328,139	340,975
Packaged foods	363,348	355,499
Fresh-cut flowers	169,933	288,142
Total operating segments	2,454,136	2,392,595
Corporate and other	601,315	354,098
	3,055,451	2,746,693

3.

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

	June 15, 2002	December 29, 2001
Inventories		
Finished products	\$ 190,846	\$ 168,426
Raw materials and work in progress	104,228	110,989
Crop growing costs	40,900	55,251
Operating supplies and other	64,440	62,083
Inventory reserves	(10,931)	(10,650)
	389,483	386,099

4.

The weighted average number of shares outstanding used to calculate diluted earnings per share include the dilutive effect of stock options. For the quarter and half year ended June 15, 2002, stock options for approximately 1.0 and 1.1 million shares, respectively,

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and for both the quarter and half year ended June 16, 2001, stock options for approximately 2.8 million shares were excluded from the diluted earnings per share calculation, as these options were anti-dilutive.

5.

The Company recognized comprehensive income as follows (in thousands):

	Quarter Ended		Half Year Ended	
	June 15, 2002	June 16, 2001	June 15, 2002	June 16, 2001
Net income	\$ 66,848	\$ 36,968	\$ 3,209	\$ 71,687
Unrealized foreign currency translation net gain (loss)	9,015	(1,612)	9,096	(9,043)
Unrealized net (loss) gain on cash flow hedging instruments	(10,944)	1,035	(10,264)	(944)
Other		376		
Comprehensive income	64,919	36,767	2,041	61,700

6.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143 ("FAS 143"), "Accounting for Asset Retirement Obligations." This standard provides accounting guidelines for the cost of legal obligations associated with the retirement

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of long-lived assets. FAS 143 requires that companies recognize the fair value of a liability for asset retirement obligations in the period in which the obligations are incurred and capitalize that amount as part of the book value of the long-lived asset. The resulting net cost is then depreciated over the remaining life of the underlying long-lived asset. FAS 143 is effective for fiscal years beginning after June 15, 2002. As required, the Company will adopt the provisions of FAS 143 on December 29, 2002, the first day of its 2003 fiscal year, and currently is in the process of evaluating the impact of adopting FAS 143.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("FAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and amends other guidance related to the accounting and reporting of long-lived assets. The Company adopted FAS 144 as of December 30, 2001, the first day of its 2002 fiscal year. The adoption of FAS 144 did not have a material impact on the Company's financial condition or results of operations.

In November 2001, the Emerging Issues Task Force ("EITF") of the FASB reached a consensus on EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" ("EITF 01-9"). This consensus requires companies to report certain consideration given by a vendor to a customer as a reduction in revenues rather than as marketing expense. This consensus was required to be adopted no later than the first quarter of 2002 and upon adoption, companies were required to retroactively reclassify such amounts in previously issued financial statements to comply with the income statement classification requirements of the consensus. The Company adopted the provisions of EITF 01-9 during the first quarter of 2002. The impact of the adoption was limited to reclassifications of costs previously included in selling, marketing and general and administrative expenses, as a reduction of revenues. The change in presentation had no impact on the Company's reported operating or net income. Prior year comparative amounts have been reclassified to comply with EITF 01-9. The effect of the adoption of EITF 01-9 was a reduction of \$35 million and \$60 million, respectively, in both revenues and selling, marketing and general and administrative expenses for the previously reported quarter and half year ended June 16, 2001.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("FAS 145"), "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." FAS 145 rescinds both Statement of Financial Accounting Standards No. 4 ("FAS 4"), "Reporting Gains and Losses from Extinguishment of Debt" and Statement of Financial

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Accounting Standards No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." In so doing, FAS 145 eliminates the requirement that gains and losses from the extinguishment of debt be aggregated, and if material, classified as an extraordinary item, net of the related income tax effect, unless the criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. FAS 145 amends Statement of Financial Accounting Standards No. 13 ("FAS 13"), "Accounting for Leases" to require that certain lease modifications that have economic effects similar to sale-leaseback transactions are accounted for in the same manner as sale-leaseback transactions. FAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The provisions of FAS 145 related to the rescission of FAS 4 are effective for fiscal years beginning after May 15, 2002. The provisions of FAS 145 related to the amendment of FAS 13 are effective for transactions occurring after May 15, 2002. All other provisions of FAS 145 are effective for financial statements issued on or after May 15, 2002. The Company has early adopted the provisions of FAS 145 and included a loss of approximately

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\$3 million from extinguishment of debt in the quarter ended June 15, 2002 in other expense in the Condensed Consolidated Statement of Income.

7.

In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141 ("FAS 141"), "Business Combinations" and No. 142 ("FAS 142"), "Goodwill and Other Intangible Assets." These statements, among other things, eliminate the pooling of interest method of accounting for business combinations as of June 30, 2001 and eliminate the amortization of goodwill for all fiscal years beginning after December 15, 2001. The Company adopted FAS 141 and FAS 142 with respect to new goodwill as of July 1,