

FRESH DEL MONTE PRODUCE INC
Form 10-Q
October 28, 2008
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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 September 26, 2008

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 1-14706

FRESH DEL MONTE PRODUCE INC.

(Exact Name of Registrant as Specified in Its Charter)

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The Cayman Islands
(State or Other Jurisdiction of

N/A
(I.R.S Employer

Incorporation or Organization)

Identification No.)

c/o Walkers SPV Limited

Walker House, 87 Mary Street

George Town, Grand Cayman, KY1-9002

Cayman Islands
(Address of Registrant's Principal Executive Office)

N/A
(Zip Code)

(305) 520-8400

(Registrant's telephone number including area code)

Please send copies of notices and communications from the Securities and Exchange Commission to:

c/o Del Monte Fresh Produce Company

241 Sevilla Avenue

Coral Gables, Florida 33134

(Address of Registrant's U.S. Executive Office)

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of October 17, 2008, there were 63,533,211 ordinary shares of Fresh Del Monte Produce Inc. issued and outstanding.

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Forward-Looking Statements

This report, information included in future filings by Fresh Del Monte Produce Inc. (Fresh Del Monte) and information contained in written material, press releases and oral statements issued by or on behalf of Fresh Del Monte contain, or may contain, statements that constitute forward-looking statements. In this report, these statements appear in a number of places and include statements regarding the intent, belief or current expectations of Fresh Del Monte or its officers (including statements preceded by, followed by or that include the words believes, expects, anticipates or similar expressions) with respect to various matters, including (i) Fresh Del Monte's anticipated needs for, and the availability of, cash, (ii) its liquidity and financing plans, (iii) its ability to successfully integrate acquisitions into its operations, (iv) trends affecting its financial condition or results of operations, including anticipated fresh produce sales price levels and anticipated expense levels, in particular, higher production and fuel costs and the impact of weather and other factors, including the availability of sufficient labor during peak growing and harvesting seasons, on crop quality and yields and the cost and availability of the products we sell, (v) its plans for expansion of its businesses (including through acquisitions) and cost savings, (vi) the impact of foreign currency fluctuations, (vii) the impact of competition and (viii) the resolution of certain legal and environmental proceedings. All forward-looking statements in this report are based on information available to Fresh Del Monte on the date hereof, and Fresh Del Monte assumes no obligation to update any such forward-looking statements.

The forward-looking statements are not guarantees of future performance and involve risks and uncertainties. It is important to note that Fresh Del Monte's actual results may differ materially from those in the forward-looking statements as a result of various factors. The accompanying information contained in this report identifies important factors that could cause Fresh Del Monte's actual results to differ materially from those in the forward-looking statements.

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Table of Contents**PART I: FINANCIAL INFORMATION****Item 1. Financial Statements****FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(U.S. dollars in millions, except share and per share data)

	September 26, 2008 (Unaudited)	December 28, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 28.4	\$ 30.2
Trade accounts receivable, net of allowance of \$16.4 and \$20.4, respectively	318.7	343.3
Other accounts receivable, net of allowance of \$14.1 and \$14.6, respectively	52.3	70.6
Inventories	449.9	406.9
Deferred income taxes	8.3	9.1
Prepaid expenses and other current assets	42.6	27.8
Total current assets	900.2	887.9
Investments in and advances to unconsolidated companies	7.8	10.6
Property, plant and equipment, net	1,078.5	851.8
Deferred income taxes	64.0	63.8
Other noncurrent assets	145.3	118.4
Goodwill	418.5	253.2
Total assets	\$ 2,614.3	\$ 2,185.7
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 399.4	\$ 358.5
Current portion of long-term debt and capital lease obligations	7.2	6.9
Deferred income taxes	22.5	20.2
Income taxes and other taxes payable	12.2	11.1
Total current liabilities	441.3	396.7
Long-term debt and capital lease obligations	439.3	231.7
Retirement benefits	56.3	57.2
Other noncurrent liabilities	47.6	34.9
Deferred income taxes	92.6	85.6
Total liabilities	1,077.1	806.1
Minority interests	17.5	14.8
Commitments and contingencies		
Shareholders equity:		

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Preferred shares, \$0.01 par value; 50,000,000 shares authorized; none issued or outstanding		
Ordinary shares, \$0.01 par value; 200,000,000 shares authorized; 63,533,211 issued and outstanding and 62,702,916 issued and outstanding, respectively	0.6	0.6
Paid-in capital	547.7	518.0
Retained earnings	941.7	806.9
Accumulated other comprehensive income	29.7	39.3
Total shareholders' equity	1,519.7	1,364.8
Total liabilities and shareholders' equity	\$ 2,614.3	\$ 2,185.7

See accompanying notes.

Table of Contents**FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

(U.S. dollars in millions, except share and per share data)

	Quarter ended		Nine months ended	
	September 26, 2008	September 28, 2007	September 26, 2008	September 28, 2007
Net sales	\$ 832.9	\$ 757.1	\$ 2,700.0	\$ 2,517.3
Cost of products sold	753.9	689.3	2,424.5	2,230.8
Gross profit	79.0	67.8	275.5	286.5
Selling, general and administrative expenses	41.3	41.7	123.5	131.3
Asset impairment and other charges (credits), net	(0.2)	0.2	16.0	2.2
Operating income	37.9	25.9	136.0	153.0
Interest expense	4.1	6.4	10.0	23.6
Interest income	0.5	0.8	1.3	1.6
Other income (expense), net	(2.4)	7.3	12.5	11.4
Income before income taxes	31.9	27.6	139.8	142.4
Provision for (benefit from) income taxes	2.6	(2.3)	5.0	(3.0)
Net income	\$ 29.3	\$ 29.9	\$ 134.8	\$ 145.4
Net income per ordinary share - Basic	\$ 0.46	\$ 0.52	\$ 2.13	\$ 2.51
Net income per ordinary share - Diluted	\$ 0.46	\$ 0.51	\$ 2.12	\$ 2.50
Weighted average number of ordinary shares:				
Basic	63,553,299	57,995,596	63,279,692	57,821,513
Diluted	63,695,040	58,384,312	63,609,428	58,052,393

See accompanying notes.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(U.S. dollars in millions)

	Nine months ended	
	September 26, 2008	September 28, 2007
Operating activities:		
Net income	\$ 134.8	\$ 145.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63.6	59.1
Gain on pension liability	(2.1)	(4.7)
Stock-based compensation expense	7.9	4.3
Asset impairment charges	12.6	5.3
Change in uncertain tax positions	(0.6)	(10.5)
Gain on sale of assets	(7.5)	(11.8)
Equity in loss of unconsolidated companies	2.8	3.2
Deferred income taxes	(0.9)	(1.4)
Foreign currency translation adjustment	(6.3)	7.4
Changes in operating assets and liabilities:		
Receivables	43.0	(11.2)
Inventories	(20.3)	(10.1)
Prepaid expenses and other current assets	(9.1)	4.5
Accounts payable and accrued expenses	32.2	1.0
Other noncurrent assets and liabilities	(8.8)	(14.4)
Net cash provided by operating activities	241.3	166.1
Investing activities:		
Capital expenditures	(72.3)	(61.8)
Proceeds from sales of assets	16.5	14.8
Purchase of subsidiaries, net of cash acquired	(414.1)	
Other investing activities, net		(2.0)
Net cash used in investing activities	(469.9)	(49.0)
Financing activities:		
Proceeds from long-term debt	766.8	398.9
Payments on long-term debt	(559.3)	(518.7)
Proceeds from stock options exercised	21.8	10.0
Net cash provided by (used in) financing activities	229.3	(109.8)
Effect of exchange rate changes on cash	(2.5)	(0.4)
Net (decrease) increase in cash and cash equivalents	(1.8)	6.9
Cash and cash equivalents, beginning	30.2	39.8
Cash and cash equivalents, ending	\$ 28.4	\$ 46.7

Supplemental cash flow information:

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Cash paid for interest	\$ 8.3	\$ 23.7
Cash paid for income taxes	\$ 0.9	\$ 1.6
Non cash financing and investing activities		
Purchase of subsidiaries	\$ 12.7	\$
Purchase of assets under capital lease obligations	\$ 0.5	\$ 9.8
Retirement of treasury stock	\$	\$ 5.8

See accompanying notes.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. General

References in this report to Fresh Del Monte, we, our, us, and the Company refer to Fresh Del Monte Produce Inc. and its subsidiaries, unless the context indicates otherwise.

We were incorporated under the laws of the Cayman Islands on August 29, 1996 and are 26.8% owned by IAT Group Inc. as of September 26, 2008, which is 100% beneficially owned by members of the Abu-Ghazaleh family. In addition, members of the Abu-Ghazaleh family directly own 7.7% of our outstanding ordinary shares as of September 26, 2008.

Prior to March 31, 2008, we qualified as a foreign private issuer for purposes of filing and disclosure requirements under the United States securities laws. As a foreign private issuer under the Securities and Exchange Act of 1934, as amended (the Exchange Act), we filed our annual report with the United States Securities and Exchange Commission (SEC) on Form 20-F. Effective March 31, 2008, we no longer satisfied the definition of a foreign private issuer under the Exchange Act and we are now required to file our annual reports on Form 10-K and our quarterly reports on Form 10-Q.

In our opinion, the accompanying unaudited consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to present fairly our financial position as of September 26, 2008 and our operating results and cash flows for the quarter and nine-month period then ended. Interim results are subject to significant seasonal variations and may not be indicative of the results of operations that may be expected for the entire 2008 year.

Certain prior year amounts have been reclassified to conform to the current period presentation.

For additional information, see our consolidated financial statements included in our annual report on Form 20-F for the year ended December 28, 2007.

2. Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS No. 157 was effective for us beginning on December 29, 2007, the first day of our 2008 year.

Additionally on February 6, 2008, the FASB finalized FASB Staff Position 157-2, *Fair Value Measurements* (FSP 157-2) and agreed to defer the effective date of SFAS No. 157 until years beginning after November 15, 2008 for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The deferral applies to the annual assessment of fair value performed for goodwill and indefinite-lived intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*, long-lived assets measured at fair value for an impairment assessment under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, asset retirement obligations accounted for under SFAS No. 143, *Accounting for Asset Retirement Obligations* and liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. In accordance with SFAS No. 157 and FSP 157-2, we have adopted the provisions of SFAS No. 157 with respect to our financial assets and liabilities that are measured at fair value within the consolidated financial statements commencing on December 29, 2007, the first day of our 2008 year. Our adoption of SFAS No. 157 has not had any material impact on our consolidated financial statements as of September 26, 2008. Refer to note 14, *Fair Value Measurements*. We are currently evaluating the impact of adopting the items deferred by FSP 157-2 on our consolidated financial statements.

On December 4, 2007, the FASB issued Statement No. 141(R), *Business Combinations* and Statement No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51*. These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS No. 160 requires classification of noncontrolling interests as a component of consolidated shareholder's equity and the elimination of minority interest accounting in results of operations. Earnings attributable to noncontrolling interests are required to be reported as part of consolidated earnings and not as a separate component of income or expense. However, earnings attributable to the noncontrolling interests are required to be disclosed on the face of the income statement. SFAS No. 141(R) and SFAS No. 160 are required to be adopted

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simultaneously and are effective on the first day of our 2009 year. Earlier adoption is prohibited. We are currently evaluating the impact of adopting SFAS No. 141(R) and SFAS No. 160 on our consolidated financial statements.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

2. Recently Issued Accounting Pronouncements (continued)

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 161 requires entities to provide greater transparency in derivative disclosures by requiring qualitative disclosure about objectives and strategies for using derivatives and quantitative disclosures about fair value amounts of and gains and losses on derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We will be required to comply with the disclosure requirements of SFAS No. 161 in our 2009 first quarter financial statements and expect to provide moderately increased disclosures.

3. Acquisitions

Caribana acquisition

On June 6, 2008, we completed the acquisition for 100% of the shares of Desarrollo Agroindustrial de Frutales, S.A., a producer of high quality bananas in Costa Rica; Frutas de Exportacion, S.A., a major provider of gold pineapples in Costa Rica; and an affiliated sales and marketing company, collectively known as Caribana, for a purchase price of \$405.9 million, which includes \$2.9 million in acquisition related expenses. The acquisition was funded with \$88.5 million in cash on hand and drawings under our Credit Facility (as defined in note 8, *Long-Term Debt and Capital Lease Obligations*).

As a result of the acquisition, our current land holdings in Costa Rica increased by approximately