

FRESH DEL MONTE PRODUCE INC

Form 10-Q

April 30, 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 March 28, 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 Incorporation or Organization)	N/A (I.R.S Employer Identification No.)
Walker House, Mary Street P.O. Box 908GT George Town, Grand Cayman (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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

(Do not check if a 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 April 18, 2008, there were 63,347,620 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, (v) its plans for expansion of its businesses (including through acquisitions) and cost savings, (vi) the impact of competition and (vii) 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)

	March 28, 2008 (Unaudited)	December 28, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 28.7	\$ 30.2
Trade accounts receivable, net of allowance of \$20.1 and \$20.4, respectively	407.4	343.3
Other accounts receivables, net of allowance of \$15.6 and \$14.6, respectively	65.8	70.6
Inventories	423.1	406.9
Deferred income taxes	8.7	9.1
Prepaid expenses and other current assets	34.7	27.8
Total current assets	968.4	887.9
Investments in and advances to unconsolidated companies	8.9	10.6
Property, plant and equipment, net	854.3	851.8
Deferred income taxes	61.2	63.8
Other noncurrent assets	116.1	118.4
Goodwill	253.7	253.2
Total assets	\$ 2,262.6	\$ 2,185.7
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 414.3	\$ 358.5
Current portion of long-term debt and capital lease obligations	7.3	6.9
Deferred income taxes	20.2	20.2
Income taxes and other taxes payable	12.5	11.1
Total current liabilities	454.3	396.7
Long-term debt and capital lease obligations	189.8	231.7
Retirement benefits	58.9	57.2
Other noncurrent liabilities	37.0	34.9
Deferred income taxes	81.1	85.6
Total liabilities	821.1	806.1
Minority interests	15.7	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; 63,277,962 and 62,702,916 issued and outstanding, respectively	0.6	0.6
Paid-in capital	536.6	518.0
Retained earnings	870.5	806.9
Accumulated other comprehensive income	18.1	39.3
Total shareholders' equity	1,425.8	1,364.8
Total liabilities and shareholders' equity	\$ 2,262.6	\$ 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	
	March 28, 2008	March 30, 2007
Net sales	\$ 894.9	\$ 836.0
Cost of products sold	798.0	736.9
Gross profit	96.9	99.1
Selling, general and administrative expenses	39.4	42.2
Asset impairment and other charges (credits), net	4.6	(2.9)
Operating income	52.9	59.8
Interest expense	3.4	9.2
Interest income	0.3	0.2
Other income, net	12.5	3.9
Income before income taxes	62.3	54.7
Provision for (benefit from) income taxes	(1.3)	3.1
Net income	\$ 63.6	\$ 51.6
Net income per ordinary share - Basic	\$ 1.01	\$ 0.89
Net income per ordinary share - Diluted	\$ 1.00	\$ 0.89
Weighted average number of ordinary shares:		
Basic	62,859,064	57,699,889
Diluted	63,358,190	57,746,578

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)

	Quarter ended	
	March 28, 2008	March 30, 2007
Operating activities:		
Net income	\$ 63.6	\$ 51.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20.6	19.3
Gain on pension liability	(0.8)	(4.4)
Stock-based compensation expense	2.1	1.5
Asset impairment charges	0.5	
Change in uncertain tax positions	(1.6)	2.6
Gain on sale of assets	(2.2)	(1.9)
Equity in loss of unconsolidated companies	1.8	1.4
Deferred income taxes	(1.5)	(1.3)
Foreign currency translation adjustment	(4.6)	(0.9)
Changes in operating assets and liabilities:		
Receivables	(59.2)	(43.2)
Inventories	(15.6)	(24.1)
Prepaid expenses and other current assets	(8.1)	(8.0)
Accounts payable and accrued expenses	40.2	34.2
Other noncurrent assets and liabilities	4.5	(11.8)
Net cash provided by operating activities	39.7	15.0
Investing activities:		
Capital expenditures	(20.8)	(22.7)
Proceeds from sales of assets	5.3	6.9
Net cash used in investing activities	(15.5)	(15.8)
Financing activities:		
Proceeds from long-term debt	167.3	172.2
Payments on long-term debt	(208.9)	(167.2)
Proceeds from stock options exercised	16.5	0.1
Net cash (used in) provided by financing activities	(25.1)	5.1
Effect of exchange rate changes on cash	(0.6)	(0.1)
Net (decrease) increase in cash and cash equivalents	(1.5)	4.2
Cash and cash equivalents, beginning	30.2	39.8
Cash and cash equivalents, ending	\$ 28.7	\$ 44.0
Supplemental cash flow information:		
Cash paid for interest	\$ 2.8	\$ 9.3

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Cash paid for income taxes	\$ 0.1	\$ 0.6
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Non cash financing and investing activities

Purchase of assets under capital lease obligations	\$	\$ 9.5
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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 26.9% owned by IAT Group Inc., which is 100% beneficially owned by members of the Abu-Ghazaleh family. In addition, members of the Abu-Ghazaleh family directly own 7.8% of our outstanding ordinary shares.

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 March 28, 2008 and our operating results and cash flows for the three-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 is 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

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)(Unaudited)

2. Recently Issued Accounting Pronouncements (continued)

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 March 28, 2008. Refer to note 13, *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 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.

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.

Table of Contents**FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)(Unaudited)****3. Asset Impairment and Other Charges**

The following represents a summary of asset impairment and other charges (credits), net recorded during the quarter ended March 28, 2008 and March 30, 2007 (U.S. dollars in millions):

	Quarter ended	
	March 28, 2008	March 30, 2007
Charges related to asset impairments	\$ 0.5	\$
Other charges (credits) related to exit activities	4.1	(2.9)
Total asset impairment and other charges (credits), net	\$ 4.6	\$ (2.9)

The \$4.6 million in Asset impairment and other charges (credits), net for the quarter ended March 28, 2008 includes \$3.6 million in charges related to the closure of an under-utilized distribution center in the United Kingdom in the banana segment. Of the \$3.6 million, \$0.5 million relates to asset impairment and \$3.1 relates to one-time termination benefits and contract termination costs. Included in the \$4.6 million is a charge of \$1.4 million related to one-time termination benefits for the previously announced closure of a beverage production facility in the United Kingdom in the prepared food segment. Also included in the \$4.6 million is a net credit of \$0.4 million related to the previously announced decision to exit production activities in Hawaii in 2006 of which \$0.8 million relates to the amortization of deferred pension gains offset by \$0.4 million related to other exit activity charges in the other fresh produce segment.

As a result of the decision to exit all production activities in Hawaii in 2006, we recorded a net gain of \$2.9 million for the quarter ended March 30, 2007 in Asset impairment and other charges (credits), net in the Consolidated Statements of Income. Included in the \$2.9 million net credit is a curtailment gain of \$3.4 million and amortization of \$1.0 million related to the U.S. based post-retirement healthcare plan as a result of the recognition of a prior service credit due to employee turnover and actuarial gains for the quarter ended March 30, 2007 partially offset by a charge of \$1.6 million for additional one-time termination benefits as a result of legal proceedings and negotiations with the union in Hawaii.

Table of Contents**FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)(Unaudited)****3. Asset Impairment and Other Charges (continued)****Exit Activity Reserves**

The following represents a rollforward of 2008 activities related to exit activity reserves (U.S. dollars in millions):

	Exit activity reserve balance at December 28, 2007	Impact to Earnings	Cash Paid	Exit activity reserve balance at March 28, 2008
One time termination benefits	\$ 4.4	\$ 1.7	\$ (0.7)	\$ 5.4
Contract termination and other exit activity charges	2.6	3.2	(2.6)	3.2
	\$ 7.0	\$ 4.9	\$ (3.3)	\$ 8.6

Included in the exit activity reserve balance at March 28, 2008 are one-time termination benefits, contract termination costs and other exit activity charges related primarily to (1) the previously announced decision to exit the Hawaiian production operations included in the other fresh produce segment and (2) the closure of an under-utilized distribution center in the United Kingdom in the banana segment.

4. Uncertain Tax Positions

As of December 28, 2007, we had \$13.0 million of uncertain tax positions, including \$2.2 million of interest and penalties. During the quarter ended March 28, 2008, \$2.3 million of uncertain tax positions, including interest and penalties of \$1.0 million were reversed due to a lapse in the statute of limitation. In addition, there was an increase of \$0.7 million of uncertain tax positions, including interest and penalties of \$0.2 million, as a result of tax positions taken during a prior period. The change in uncertain tax positions for the quarter ended March 28, 2008 was a net benefit of \$1.6 million all of which will affect the effective tax rate.

The Company classifies interest and penalties on uncertain tax positions as a component of income tax expense in Consolidated Statements of Income.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)(Unaudited)