

SENECA FOODS CORP /NY/

Form 10-Q

August 07, 2008

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Form 10-Q

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended June 28, 2008 Commission File Number 0-01989

Seneca Foods Corporation

(Exact name of Company as specified in its charter)

New York

16-0733425

(State or other jurisdiction of  
incorporation or organization)

(I. R. S. Employer  
Identification No.)

3736 South Main Street, Marion, New York  
(Address of principal executive offices)

14505  
(Zip Code)

Company's telephone number, including area code 315/926-8100

Not Applicable

Former name, former address and former fiscal year,  
if changed since last report

Indicate by check mark whether the Company (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 Company 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 Company is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of each of the issuer's classes of common stock at the latest practical date are:

Class	Shares Outstanding at July 31, 2008
Common Stock Class A, \$.25 Par	4,830,518
Common Stock Class B, \$.25 Par	2,760,905



PART I ITEM 1 FINANCIAL INFORMATION  
 SENECA FOODS CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In Thousands, Except Per Share Data)

	Unaudited June 28, 2008	March 31, 2008
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 7,830	\$ 10,322
Accounts Receivable, Net	49,535	62,012
<b>Inventories:</b>		
Finished Goods	155,025	274,543
Work in Process	19,525	28,277
Raw Materials and Supplies	129,145	92,919
Off-Season Reserve (Note 3)	69,977	-
Total Inventory	373,672	395,739
Deferred Income Tax Asset, Net	6,507	6,685
Other Current Assets	17,558	10,722
Total Current Assets	455,102	485,480
Property, Plant and Equipment, Net	179,518	183,051
Deferred Income Tax Asset, Net	721	1,196
Other Assets	2,193	2,346
Total Assets	\$ 637,534	\$ 672,073
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 67,650	\$ 49,400
Other Accrued Expenses	41,019	46,428
Accrued Vacation	9,656	9,390
Current Portion of Long-Term Debt	10,213	10,160
Total Current Liabilities	128,538	115,378
Long-Term Debt, Less Current Portion	203,843	250,039
Other Long-Term Liabilities	27,791	27,226
Total Liabilities	360,172	392,643
<b>Commitments</b>		
10% Preferred Stock, Series A, Voting, Cumulative, Convertible, \$.025 Par Value Per Share	102	102
10% Preferred Stock, Series B, Voting, Cumulative, Convertible, \$.025 Par Value Per Share	100	100
6% Preferred Stock, Voting, Cumulative, \$.25 Par Value Convertible, Participating Preferred Stock, \$12.00 Stated Value Per Share	50	50
Convertible, Participating Preferred Stock, \$15.50 Stated Value Per Share	35,600	35,600
Convertible, Participating Preferred Stock, \$24.39	8,596	8,596

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Stated Value Per Share	25,000	25,000
Common Stock \$.25 Par Value Per Share	3,079	3,079
Additional Paid-in Capital	28,466	28,460
Accumulated Other Comprehensive Loss	(3,613)	(3,628)
Retained Earnings	179,982	182,071
Stockholders' Equity	277,362	279,430
Total Liabilities and Stockholders' Equity	\$ 637,534	\$ 672,073

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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SENECA FOODS CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS  
(Unaudited)  
(In Thousands, Except Per Share Data)

	Three Months Ended	
	June 28, 2008	June 30, 2007
Net Sales	\$ 216,713	\$ 189,442
Costs and Expenses:		
Cost of Product Sold	200,851	168,532
Selling, General, and Administrative	15,864	14,131
Plant Restructuring	-	86
Other Operating Income	(271)	(176)
Total Costs and Expenses	216,444	182,573
Operating Income	269	6,869
Interest Expense	3,752	4,024
(Loss) Earnings Before Income Taxes	(3,483)	2,845
Income Taxes (Benefit) Expense	(1,406)	1,115
Net (Loss) Earnings	\$ (2,077)	\$ 1,730
(Loss) Earnings Applicable to Common Stock	\$ (1,301)	\$ 1,075
Basic (Loss) Earnings per Common Share	\$ (0.17)	\$ 0.14
Diluted (Loss) Earnings per Common Share	\$ (0.17)	\$ 0.14

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SENECA FOODS CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In Thousands)

	Three Months Ended	
	June 28, 2008	June 30, 2007
Cash Flows from Operating Activities:		
Net (Loss) Earnings	\$ (2,077)	\$ 1,730
Adjustments to Reconcile Net (Loss) Earnings to Net Cash Provided by Operations:		
Depreciation & Amortization	5,503	5,497
Gain on the Sale of Assets	(271)	(121)
Deferred Tax Expense (Benefit)	653	(3,831)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	12,477	6,117
Inventories	92,044	21,983
Off-Season Reserve	(69,977)	(47,671)
Other Current Assets	(2,405)	(261)
Income Taxes	9	2,994
Accounts Payable, Accrued Expenses and Other Liabilities	13,524	28,184
Net Cash Provided by Operations	49,480	14,621
Cash Flows from Investing Activities:		
Additions to Property, Plant and Equipment	(6,304)	(12,857)
Proceeds from the Sale of Assets	358	121
Net Cash Used in Investing Activities	(5,946)	(12,736)
Cash Flow from Financing Activities:		
Long-Term Borrowing	24,661	45,248
Payments on Long-Term Debt and Capital Lease Obligations	(70,804)	(49,933)
Other	129	129
Dividends	(12)	(12)
Net Cash Used in Financing Activities	(46,026)	(4,568)
Net Decrease in Cash and Cash Equivalents	(2,492)	(2,683)
Cash and Cash Equivalents, Beginning of the Period	10,322	8,552
Cash and Cash Equivalents, End of the Period	\$ 7,830	\$ 5,869

SENECA FOODS CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

June 28, 2008

1. Unaudited Condensed Consolidated Financial Statements

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are normal and recurring in nature, necessary to present fairly the financial position of Seneca Foods Corporation (the "Company") as of June 28, 2008 and results of its operations and its cash flows for the interim periods presented. All significant intercompany transactions and accounts have been eliminated in consolidation. The March 31, 2008 balance sheet was derived from the audited consolidated financial statements. The June 30, 2007 results have been restated to reflect the Company's change to the LIFO inventory valuation method which occurred during fiscal 2008. As previously reported in the 2008 Seneca Foods Corporation Report on Form 10-K, this resulted in Cost of Sales increasing \$5,637,000, which reduced Net Earnings by \$3,664,000 or \$.30 per diluted share.

The results of operations for the three month period ended June 28, 2008 are not necessarily indicative of the results to be expected for the full year.

In the three months ended June 30, 2007, the Company sold product for cash, on a bill and hold basis of \$1,449,000 of Green Giant finished goods inventory to General Mills Operations, LLC ("GMOL"). There was no similar sale for the three months ended June 28, 2008. Under the terms of the bill and hold agreement, title to the specified inventory transferred to GMOL. The Company believes it has met the criteria required for bill and hold treatment.

The accounting policies followed by the Company are set forth in Note 1 to the Company's Consolidated Financial Statements in the 2008 Seneca Foods Corporation Annual Report on Form 10-K.

Other footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company's 2008 Annual Report on Form 10-K.

2. The Company implemented the LIFO inventory valuation method during 2008. FIFO based inventory costs exceeded LIFO based inventory costs by \$38,441,000 as of the end of the first fiscal quarter of 2009. The change in the LIFO Reserve for the first quarter ended June 28, 2008 was \$10,276,000 as compared to \$5,637,000 for the first quarter ended June 30, 2007 and reflects the impact on the quarter of significant inflationary cost increases expected throughout fiscal 2009.
3. The seasonal nature of the Company's food processing business results in a timing difference between expenses (primarily overhead expenses) incurred and absorbed into product cost. All Off-Season Reserve balances, which essentially represent a contra-inventory account, are zero at fiscal year end. Depending on the time of year, the Off-Season Reserve is either the excess of absorbed expenses over incurred expenses to date or the excess of incurred expenses over absorbed expenses to date. Other than at the end of the first and fourth fiscal quarter of each year, absorbed expenses exceed incurred expenses due to timing of production.
4. In 2006, the Company announced the phase out of the Salem labeling operation which resulted in restructuring charges. During the quarter ended June 30, 2007, the Company moved out of the facility and recorded an \$86,000



additional charge, which is included under Plant Restructuring in the Unaudited Condensed Consolidated Statements of Net Earnings. There were no similar charges for the three months ended June 28, 2008.

5. During the three-month period ended June 28, 2008; there were 250 shares or \$3,000 of Convertible Participating Preferred Stock converted to Class A Common Stock.
6. Comprehensive income (loss) equaled Net Earnings (Loss) for the three months ended June 28, 2008 and June 30, 2007.
7. The only changes in Stockholders' Equity accounts for the three months period ended June 28, 2008, is a reduction of \$2,077,000 for Net Loss and a reduction of \$12,000 for preferred cash dividends.
8. The net periodic benefit cost for Company's pension plan consist of:

	Three Months Ended	
	June 28, 2008	June 30, 2007
Service Cost	\$ 756	\$ 1,111
Interest Cost	1,435	1,202
Expected Return on Plan Assets	(1,474)	(1,654)
Amortization of Transition Asset	(69)	(69)
Net Periodic Benefit Cost	\$ 648	\$ 590

No pension contributions are required during fiscal 2009.

9. The following table summarizes the restructuring and related asset impairment charges recorded and the accruals established:

	Severance	Long-Lived Asset	Other Costs	Total
		Charges		
Total expected restructuring charge	\$ 1,248	\$ 5,749	\$ 3,914	\$ 10,911
Balance March 31, 2008	\$ -	\$ 250	\$ 1,286	\$ 1,536
Cash payments/write offs	-	-	(62)	(62)
Balance June 28, 2008	\$ -	\$ 250	\$ 1,224	\$ 1,474
Total costs incurred to date	\$ 1,248	\$ 5,499	\$ 2,690	\$ 9,437

The restructuring costs above relate to the phase out of the labeling operation of the leased distribution facility in Oregon, the closure of corn plants in Wisconsin and Washington and of a green bean plant in upstate New York plus the removal of canned meat production from a plant in Idaho. The corn plant in Washington has been sold. The restructuring is complete in the Idaho plant and the New York plant. The Wisconsin plant is closed and is being operated as a warehouse.

The other costs relate to outstanding lease payments which will be paid over the remaining lives of the corresponding lease terms, which are up to five years.

10. During the three months ended June 28, 2008, the Company sold some unused fixed assets which resulted in gains totaling \$271,000. During the three months ended June 30, 2007, the Company sold some unused fixed assets which resulted in a gain of \$176,000. Both gains are included in Other Operating Income in the Unaudited Condensed Consolidated Statements of Net Earnings.
11. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Standards SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 redefines fair value, establishes a framework for measuring fair value and expands the disclosure requirements regarding fair value measurement. SFAS 157 was initially effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB approved the issuance of FASB Staff Position (FSP) FAS 157-b. FSP FAS 157-b defers the effective date of SFAS 157 until April 1, 2009 (for the Company) for nonfinancial assets and nonfinancial liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. The Company does not expect that the adoption of SFAS 157 will have a material impact on its results of operations or financial position; however, additional disclosures will be required under SFAS 157. Through June 28, 2008, SFAS 157 had no effect on the Company's consolidated results of operations or financial position with respect to its financial assets and liabilities. Effective April 1, 2009, the Company will apply the fair value measurement and disclosure provisions of SFAS 157 to its nonfinancial assets and liabilities measured on a nonrecurring basis. This is not expected to have a material impact on the Company's consolidated results of operations or financial position. The Company measures the fair value of long-lived assets on a nonrecurring basis.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has assessed the impact of SFAS 159 and has determined it is immaterial to the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," ("SFAS 141(R)") to further enhance the accounting and financial reporting related to business combinations. SFAS 141(R) establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Therefore, the effects of the Company's adoption of SFAS 141(R) will depend upon the extent and magnitude of acquisitions after March 2009.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. generally accepted accounting principles (GAAP). SFAS 162 directs the GAAP hierarchy to the entity, not the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from the auditing standards. The Company does not expect SFAS 162 to have a material impact on its consolidated financial statements

