

Edgar Filing: Seneca Foods Corp - Form 10-Q

Seneca Foods Corp
Form 10-Q
November 07, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10 Q

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

For the Quarter Ended October 1, 2016 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 (I. R. S. Employer
incorporation or organization) Identification No.)

3736 South Main Street, Marion, New York 14505
(Address of principal executive offices) (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 registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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. 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 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:

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Class	Shares Outstanding at October 27, 2016
Common Stock Class A, \$.25 Par	7,884,911
Common Stock Class B, \$.25 Par	1,894,221

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Seneca Foods Corporation
Quarterly Report on Form 10-Q
Table of Contents

	Page
PART 1	FINANCIAL INFORMATION
Item 1	Financial Statements:
	<u>Condensed Consolidated Balance Sheets-October 1, 2016, September 26, 2015 and March 31, 2016</u>
	1
	<u>Condensed Consolidated Statements of Net Earnings-Three and Six Months Ended October 1, 2016 and September 26, 2015</u>
	2
	<u>Condensed Consolidated Statements of Comprehensive Income-Three and Six Months Ended October 1, 2016 and September 26, 2015</u>
	2
	<u>Condensed Consolidated Statements of Cash Flows-Six Months Ended October 1, 2016 and September 26, 2015</u>
	3
	<u>Condensed Consolidated Statement of Stockholders' Equity-Six Months Ended October 1, 2016</u>
	4
	<u>Notes to Condensed Consolidated Financial Statements</u>
	5
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	12
Item 3	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
	19
Item 4	<u>Controls and Procedures</u>
	20
PART II	OTHER INFORMATION
Item 1	<u>Legal Proceedings</u>
	21
Item 1A	<u>Risk Factors</u>
	21
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	21
Item 3	<u>Defaults Upon Senior Securities</u>
	21
Item 4	<u>Mine Safety Disclosures</u>
	21
Item 5	<u>Other Information</u>
	21
Item 6	<u>Exhibits</u>
	21
	<u>SIGNATURES</u>
	23

SENECA FOODS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Per Share Data)

	Unaudited October 1, 2016	Unaudited September 26, 2015	March 31, 2016
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$10,124	\$9,397	\$8,602
Accounts Receivable, Net	102,727	83,296	76,788
Assets Held For Sale	5,025	-	5,025
Inventories:			
Finished Goods	639,603	631,467	366,911
Work in Process	18,098	7,107	17,122
Raw Materials and Supplies	114,295	123,129	183,674
Total Inventories	771,996	761,703	567,707
Deferred Income Taxes, Net	-	6,674	-
Other Current Assets	15,157	13,251	15,765
Total Current Assets	905,029	874,321	673,887
Property, Plant and Equipment, Net	207,474	178,370	188,837
Deferred Income Tax Asset, Net	15,364	17,335	12,897
Other Assets	20,847	17,583	19,706
Total Assets	\$1,148,714	\$1,087,609	\$895,327
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes Payable	\$-	\$-	\$402
Accounts Payable	237,008	265,578	67,410
Accrued Vacation	11,936	11,499	11,792
Accrued Payroll	10,120	13,440	9,438
Other Accrued Expenses	39,243	25,732	27,627
Income Taxes Payable	4,172	3,886	2,974
Current Portion of Long-Term Debt and Capital Lease Obligations	9,987	307,080	279,815
Total Current Liabilities	312,466	627,215	399,458
Long-Term Debt, Less Current Portion	354,905	37,322	35,967
Capital Lease Obligations, Less Current Portion	18,425	-	4,988
Pension Liabilities	41,119	60,245	37,798
Other Long-Term Liabilities	11,559	3,222	11,942
Total Liabilities	738,474	728,004	490,153
Commitments and Contingencies			
Stockholders' Equity:			
Preferred Stock	1,338	1,344	1,344
Common Stock, \$.25 Par Value Per Share	3,024	3,023	3,023
Additional Paid-in Capital	97,395	97,373	97,373
Treasury Stock, at Cost	(66,730)	(62,913)	(65,709)
Accumulated Other Comprehensive Loss	(28,396)	(31,804)	(28,396)
Retained Earnings	403,609	352,582	397,539

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Total Stockholders' Equity	410,240	359,605	405,174
Total Liabilities and Stockholders' Equity	\$1,148,714	\$1,087,609	\$895,327

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

1

SENECA FOODS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS

(Unaudited)

(In Thousands, Except Per Share Data)

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Net Sales	\$357,247	\$313,202	\$609,861	\$539,460
Costs and Expenses:				
Cost of Product Sold	327,035	284,129	559,674	489,488
Selling, General and Administrative	18,702	17,394	35,907	32,450
Plant Restructuring Charge (Credit)	277	15	1,462	(66)
Other Operating Expense (Income)	31	(67)	19	(403)
Total Costs and Expenses	346,045	301,471	597,062	521,469
Operating Income	11,202	11,731	12,799	17,991
Loss (Earnings) From Equity Investment	270	86	(167)	86
Interest Expense, Net	2,151	1,889	4,295	3,581
Earnings Before Income Taxes	8,781	9,756	8,671	14,324
Income Taxes Expense	2,637	3,234	2,589	4,834
Net Earnings	\$6,144	\$6,522	\$6,082	\$9,490
Earnings Applicable to Common Stock	\$6,082	\$6,456	\$6,014	\$9,376
Basic Earnings per Common Share	\$0.62	\$0.65	\$0.61	\$0.95
Diluted Earnings per Common Share	\$0.62	\$0.65	\$0.61	\$0.94

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

SENECA FOODS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In Thousands)

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Comprehensive income:				
Net earnings	\$6,144	\$6,522	\$6,082	\$9,490
Change in pension and post retirement benefits (net of tax)	-	-	-	-
Total	\$6,144	\$6,522	\$6,082	\$9,490

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

2

SENECA FOODS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)

	Six Months Ended	
	October 1, 2016	September 26, 2015
Cash Flows from Operating Activities:		
Net Earnings	\$6,082	\$9,490
Adjustments to Reconcile Net Earnings to		
Net Cash Used in Operations:		
Depreciation & Amortization	12,018	10,487
Loss (Gain) on the Sale of Assets	48	(143)
Impairment Provision (Benefit)	1,462	(66)
(Earnings) Loss From Equity Investment	(167)	86
Deferred Income Tax Benefit	(2,467)	(2,183)
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(25,939)	(13,459)
Inventories	(204,289)	(289,291)
Other Current Assets	608	14,448
Income Taxes	1,198	2,099
Accounts Payable, Accrued Expenses and Other Liabilities	183,025	211,664
Net Cash Used in Operations	(28,421)	(56,868)
Cash Flows from Investing Activities:		
Additions to Property, Plant and Equipment	(14,518)	(3,111)
Proceeds from the Sale of Assets	13	155
Net Cash Used in Investing Activities	(14,505)	(2,956)
Cash Flow from Financing Activities:		
Long-Term Borrowing	183,744	154,763
Payments on Long-Term Debt	(136,613)	(84,525)
Payment on Notes Payable	(402)	(9,903)
Other Assets	(1,248)	(74)
Purchase of Treasury Stock	(1,021)	(1,636)
Dividends	(12)	(12)
Net Cash Provided by Financing Activities	44,448	58,613
Net Increase (Decrease) in Cash and Cash Equivalents	1,522	(1,211)
Cash and Cash Equivalents, Beginning of the Period	8,602	10,608
Cash and Cash Equivalents, End of the Period	\$10,124	\$9,397

Supplemental Disclosures of Cash Flow Information:

Noncash Transactions:

Property, Plant and Equipment Purchased Under Capital Lease Obligations \$15,416 \$-

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

SENECA FOODS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 (Unaudited)
 (In Thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings
Balance March 31, 2016	\$ 1,344	\$ 3,023	\$ 97,373	\$(65,709)	\$ (28,396)) \$397,539
Net earnings	-	-	-	-	-	6,082
Cash dividends paid						
on preferred stock	-	-	-	-	-	(12)
Equity incentive program	-	-	17	-	-	-
Preferred stock conversion	(6)	1	5	-	-	-
Purchase treasury stock	-	-	-	(1,021)	-	-
Balance October 1, 2016	\$ 1,338	\$ 3,024	\$ 97,395	\$(66,730)	\$ (28,396)) \$403,609

	Preferred Stock			Common Stock		
	6	% 10	%	2003 Series	Class A	Class B
	Cumulative Par Value \$.25 Callable at Par Voting	Cumulative Par Value \$.025 Convertible Voting	Participating Convertible Par Value \$.025	Participating Convertible Par Value \$.025	Common Stock Par Value \$.25	Common Stock Par Value \$.25
Shares authorized and designated:						
October 1, 2016	200,000	1,400,000	90,351	500	20,000,000	10,000,000
Shares outstanding:						
October 1, 2016	200,000	807,240	90,351	500	7,885,485	1,894,321

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

SENECA FOODS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

October 1, 2016

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 October 1, 2016 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, 2016 balance sheet was derived from the audited consolidated financial statements.

The results of operations for the three and six month periods ended October 1, 2016 are not necessarily indicative of the results to be expected for the full year.

During the six months ended October 1, 2016, the Company sold \$54,146,000 of Green Giant finished goods inventory to B&G Foods, Inc. for cash, on a bill and hold basis, as compared to \$32,765,000 for the six months ended September 26, 2015. Under the terms of the bill and hold agreement, title to the specified inventory transferred to B&G. 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 Company's 2016 Annual Report on Form 10-K.

Other footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States 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 2016 Annual Report on Form 10-K.

All references to years are fiscal years ended or ending March 31 unless otherwise indicated. Certain percentage tables may not foot due to rounding.

Reclassifications—Certain previously reported amounts have been reclassified to conform to the current period classification.

Acquisitions

On October 30, 2015, the Company completed the acquisition of 100% of the stock of Gray & Company. The business, based in Hart, Michigan, is a processor of maraschino cherries and a provider of glaze or candied fruit products. This acquisition includes a plant in Dayton, Oregon. The purchase price was approximately \$23,784,000 (net of cash acquired) plus the assumption of certain liabilities. In conjunction with the closing, the Company paid off \$12,034,000 of liabilities acquired. The rationale for the acquisition was twofold: (1) the business is a complementary fit with our existing business and (2) it provides an extension of our product offerings. This acquisition was financed with proceeds from the Company's revolving credit facility. The purchase price to acquire Gray & Company was allocated based on the internally developed fair value of the assets acquired and liabilities assumed and the independent valuation of inventory, intangibles, and property, plant, and equipment. The purchase price of \$23,784,000 has been allocated as follows (in thousands):

SENECA FOODS CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

October 1, 2016

Purchase Price (net of cash received) \$23,784

Allocated as follows:

Current assets	\$36,647
Other long-term assets	1,395
Property, plant and equipment	13,654
Deferred taxes	(7,710)
Other long-term liabilities	(4,120)
Current liabilities	(16,082)
Total	\$23,784

In February 2016, the Company completed the acquisition of 100% of the stock of Diana Fruit Co., Inc. The business, based in Santa Clara, California, is a processor of maraschino cherries and cherries for fruit cocktail. The purchase price was approximately \$15,011,000 (net of cash acquired) plus the assumption of certain liabilities. In conjunction with the closing, the Company paid off \$1,441,000 of liabilities acquired. The rationale for the acquisition was the business is a complementary fit with the recent acquisition of Gray & Company. This acquisition was financed with proceeds from the Company's revolving credit facility. The purchase price to acquire Diana was allocated based on the internally developed fair value of the assets acquired and liabilities assumed and the independent valuation of inventory, intangibles, and property, plant, and equipment. The purchase price of \$15,011,000 has been allocated as follows (in thousands):

Purchase Price (net of cash received) \$15,011

Allocated as follows:

Current assets	\$16,834
Other long-term assets	509
Property, plant and equipment	872
Deferred taxes	428
Current liabilities	(3,632)
Total	\$15,011

Inventories

First-In, First-Out ("FIFO") based inventory costs exceeded LIFO based inventory costs by \$143,650,000 as of the end of the second quarter of fiscal 2017 as compared to \$162,480,000 as of the end of the second quarter of fiscal 3.2016. The change in the LIFO Reserve for the three months ended October 1, 2016 was an increase of \$2,476,000 as compared to an increase of \$50,000 for the three months ended September 26, 2015. The LIFO Reserve increased by \$4,375,000 in the first six months of fiscal 2017 compared to a decrease of \$1,587,000 in the first six months of fiscal 2016. This reflects the projected impact of an overall cost increase expected in fiscal 2017 versus fiscal 2016.

4. Revolving Credit Facility

The Company completed the closing of a new five-year revolving credit facility ("Revolver") on July 5, 2016.

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Maximum borrowings under the Revolver total \$400,000,000 from April through July and \$500,000,000 from August through March. The Revolver balance as of October 1, 2016 was \$342,935,000 and is included in Long-Term Debt in the accompanying Condensed Consolidated Balance Sheet since the Revolver matures on July 5, 2021. The Company utilizes its Revolver for

6

SENECA FOODS CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

October 1, 2016

general corporate purposes, including seasonal working capital needs, to pay debt principal and interest obligations, and to fund capital expenditures and acquisitions. Seasonal working capital needs are affected by the growing cycles of the vegetables and fruits the Company processes. The majority of vegetable and fruit inventories are produced during the months of June through November and are then sold over the following year. Payment terms for vegetable and fruit produce are generally three months but can vary from a few days to seven months. Accordingly, the Company's need to draw on the Revolver may fluctuate significantly throughout the year.

The increase in average amount of Revolver borrowings during the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was attributable to the acquisitions of \$38,795,000 made during the last year ended March 2016, the pay off of \$22,596,000 of Industrial Revenue Bonds, Accounts Receivables which are \$19,431,000 higher than the same period last year and total Inventories which are \$10,293,000 higher than the same period last year, partially offset by operating results in the last year ended October 1, 2016 of \$51,050,000.

General terms of the Revolver include payment of interest at LIBOR plus a defined spread.

The following table documents the quantitative data for Revolver borrowings during the second quarter and year-to-date periods of fiscal 2017 and fiscal 2016:

	Second Quarter		Year-to-Date	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Reported end of period:				
Outstanding borrowings	\$342,935	\$304,468	\$342,935	\$304,468
Weighted average interest rate	1.88 %	1.99 %	1.88 %	1.99 %
Reported during the period:				
Maximum amount of borrowings	\$361,800	\$304,468	\$361,800	\$304,468
Average outstanding borrowings	\$314,102	\$242,255	\$	\$