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Seneca Foods Corp  
Form 10-Q  
February 02, 2015  
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 December 27, 2014 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 January 23, 2015
Common Stock Class A, \$.25 Par	8,717,440
Common Stock Class B, \$.25 Par	2,015,673

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# Edgar Filing: Seneca Foods Corp - Form 10-Q

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

	Page	
PART 1	FINANCIAL INFORMATION	
Item 1	Financial Statements:	
	Condensed Consolidated Balance Sheets-December 27, 2014, December 28, 2013 and March 31, 2014	1
	Condensed Consolidated Statements of Net Earnings-Three and Nine Months Ended December 27, 2014 and December 28, 2013	2
	Condensed Consolidated Statements of Comprehensive Income-Three and Nine Months Ended December 27, 2014 and December 28, 2013	2
	Condensed Consolidated Statements of Cash Flows-Nine Months Ended December 27, 2014 and December 28, 2013	3
	Condensed Consolidated Statements of Stockholders' Equity-Nine Months Ended December 27, 2014	4
	Notes to Condensed Consolidated Financial Statements	5
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3	Quantitative and Qualitative Disclosures about Market Risk	17
Item 4	Controls and Procedures	18
PART II	OTHER INFORMATION	
Item 1	Legal Proceedings	19
Item 1A	Risk Factors	19
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	19
Item 3	Defaults Upon Senior Securities	19
Item 4	Mine Safety Disclosures	19
Item 5	Other Information	19
Item 6	Exhibits	19
SIGNATURES		21



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

	Unaudited December 27, 2014	Unaudited December 28, 2013	March 31, 2014
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 23,006	\$ 17,891	\$ 13,839
Accounts Receivable, Net	71,652	73,034	76,964
Inventories			
Finished Goods	405,598	444,627	304,955
Work in Process	26,304	14,053	12,353
Raw Materials and Supplies	115,247	92,043	133,942
Total Inventories	547,149	550,723	451,250
Deferred Income Taxes, Net	9,549	7,507	8,412
Refundable Income Taxes	-	704	-
Other Current Assets	21,824	27,037	33,594
Total Current Assets	673,180	676,896	584,059
Property, Plant and Equipment, Net	186,358	182,206	183,917
Deferred Income Tax Asset, Net	4,262	6,525	-
Other Assets	17,289	929	877
Total Assets	\$ 881,089	\$ 866,556	\$ 768,853
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current Liabilities:			
Notes Payable	\$ 5,989	\$ 4,392	\$ 12,255
Accounts Payable	102,640	118,022	71,219
Accrued Vacation	10,993	10,920	10,997
Accrued Payroll	4,868	5,884	7,516
Other Accrued Expenses	31,574	32,881	26,111
Income Taxes Payable	4,881	-	913
Current Portion of Long-Term Debt	2,484	2,136	2,277
Total Current Liabilities	163,429	174,235	131,288
Long-Term Debt, Less Current Portion	294,303	266,416	216,239
Deferred Income Taxes, Net	-	-	339
Other Long-Term Liabilities	31,672	44,561	27,355
Total Liabilities	489,404	485,212	375,221
Commitments and Contingencies			
Stockholders' Equity:			
Preferred Stock	2,119	5,410	5,332
Common Stock, \$.25 Par Value Per Share	3,010	2,955	2,958
Additional Paid-in Capital	96,553	93,160	93,260
Treasury Stock, at Cost	(39,095 )	(31,878 )	(29,894 )
Accumulated Other Comprehensive Loss	(11,252 )	(22,548 )	(11,252 )
Retained Earnings	340,350	334,245	333,228
Total Stockholders' Equity	391,685	381,344	393,632
Total Liabilities and Stockholders' Equity	\$ 881,089	\$ 866,556	\$ 768,853

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

1

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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		Nine Months Ended	
	December	December	December	December
	27,	28,	27,	28,
	2014	2013	2014	2013
Net Sales	\$456,207	\$477,694	\$1,008,411	\$1,046,449
Costs and Expenses:				
Cost of Product Sold	430,123	446,516	948,527	973,212
Selling and Administrative	18,759	20,271	50,681	52,046
Restructuring	889	-	889	501
Other Operating (Income) Loss	(5,033 )	365	(4,839 )	(423 )
Total Costs and Expenses	444,738	467,152	995,258	1,025,336
Operating Income	11,469	10,542	13,153	21,113
Loss (Earnings) From Equity Investment	55	-	(231 )	-
Interest Expense, Net	1,431	1,424	3,917	4,799
Earnings Before Income Taxes	9,983	9,118	9,467	16,314
Income Taxes	2,164	2,272	2,333	1,518
Net Earnings	\$7,819	\$6,846	\$7,134	\$14,796
Earnings Attributable to Common Stock	\$7,711	\$6,622	\$6,995	\$14,307
Basic Earnings per Common Share	\$0.72	\$0.62	\$0.65	\$1.33
Diluted Earnings per Common Share	\$0.71	\$0.61	\$0.65	\$1.32

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		Nine Months Ended	
Ended		December	December
December	December	December	December
27,	28,	27,	28,
2014	2013	2014	2013

Comprehensive income:				
Net				
earnings	\$ 6,846	\$ 7,134	\$ 14,796	
Change				
in				
pension				
and				
post				
retirement				
benefits				
(net				
of				
tax)-	-	-	-	
Total	\$ 6,846	\$ 7,134	\$ 14,796	

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

(Unaudited)

(In Thousands)

	Nine Months Ended	
	December	December
	27, 2014	28, 2013
Cash Flows from Operating Activities:		
Net Earnings	\$7,134	\$14,796
Adjustments to Reconcile Net Earnings to		
Net Cash (Used in) Provided by Operations:		
Depreciation & Amortization	16,495	17,543
Gain on the Sale of Assets	(89 )	(348 )
Impairment Provision	889	501
Deferred Income Tax Benefit	(5,738 )	(2,535 )
Changes in Operating Assets and Liabilities:		
Accounts Receivable	5,312	9,899
Inventories	(95,899 )	(71,153 )
Other Current Assets	11,770	(1,738 )
Income Taxes	3,968	(4,804 )
Accounts Payable, Accrued Expenses and Other Liabilities	37,653	50,409
Net Cash (Used in) Provided by Operations	(18,505 )	12,570
Cash Flows from Investing Activities:		
Additions to Property, Plant and Equipment	(19,232 )	(12,058 )
Proceeds from the Sale of Assets	326	996
Purchase Equity Method Investment	(16,308 )	-
Net Cash Used in Investing Activities	(35,214 )	(11,062 )
Cash Flow from Financing Activities:		
Long-Term Borrowing	326,381	362,048
Payments on Long-Term Debt	(248,110)	(363,682)
(Payment) Borrowings on Notes Payable	(6,266 )	4,392
Other	94	207
Purchase of Treasury Stock	(9,201 )	(674 )
Dividends	(12 )	(12 )
Net Cash Provided by Financing Activities	62,886	2,279
Net Increase in Cash and Cash Equivalents	9,167	3,787
Cash and Cash Equivalents, Beginning of the Period	13,839	14,104
Cash and Cash Equivalents, End of the Period	\$ 23,006	\$17,891

The  
accompanying  
notes are an  
integral part of  
these  
unaudited

condensed  
consolidated  
financial  
statements.

3

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SENECA FOODS CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS STOCKHOLDERS' EQUITY

(Unaudited)  
(In Thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings
Balance March 31, 2014	\$ 5,332	\$ 2,958	\$ 93,260	\$(29,894)	\$ (11,252	) \$333,228
Net earnings	-	-	-	-	-	7,134
Cash dividends paid						
on preferred stock	-	-	-	-	-	(12 )
Equity incentive program	-	-	75	-	-	-
Stock issued for profit sharing plan	-	1	56	-	-	-
Preferred stock conversion	(3,213 )	51	3,162	-	-	-
Purchase treasury stock	-	-	-	(9,201 )	-	-
Balance December 27, 2014	\$ 2,119	\$ 3,010	\$ 96,553	\$(39,095)	\$ (11,252	) \$340,350

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

4

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SENECA FOODS CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
December 27, 2014

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 December 27, 2014 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, 2014 balance sheet was derived from the audited consolidated financial statements.

The results of operations for the three and nine month periods ended December 27, 2014 are not necessarily indicative of the results to be expected for the full year.

In the nine months ended December 27, 2014, the Company sold \$138,034,000 of Green Giant finished goods inventory to General Mills Operations, LLC ("GMOL") for cash, on a bill and hold basis, as compared to \$150,345,000 for the nine months ended December 28, 2013. 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 Company's 2014 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 2014 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.

2. In April 2014, the Company purchased a 50% equity interest in Truitt Bros. Inc. ("Truitt") for \$16,308,000. The purchase agreement grants the Company the right to acquire the remaining 50% ownership of Truitt in the future under certain conditions. Truitt is known for its industry innovation related to packing shelf stable foods in trays, pouches and bowls. Truitt has two state-of-the-art plants located in Oregon and Kentucky. This investment is included in Other Assets in the Condensed Consolidated Balance Sheets. This is a level 3 investment and is accounted for using the equity method of accounting.

3. First-In, First-Out ("FIFO") based inventory costs exceeded LIFO based inventory costs by \$164,269,000 as of the end of the third quarter of fiscal 2015 as compared to \$155,126,000 as of the end of the third quarter of fiscal 2014. The change in the LIFO Reserve for the three months ended December 27, 2014 was an increase of \$5,315,000 as compared to an increase of \$7,676,000 for the three months ended December 28, 2013. The change in the LIFO

Reserve for the nine months ended December 27, 2014 was an increase of \$10,885,000 as compared to an increase of \$22,111,000 for the nine months ended December 28, 2013. This reflects the projected impact of an overall lower cost increase expected in fiscal 2015 versus fiscal 2014.

SENECA FOODS CORPORATION AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)  
 December 27, 2014

4. Maximum borrowings under the Revolver total \$300,000,000 from April through July and \$400,000,000 from August through March. The Revolver balance as of December 27, 2014 was \$255,000,000 and is included in Long-Term Debt in the accompanying Condensed Consolidated Balance Sheet since the Revolver matures on July 20, 2016. The Company utilizes its Revolver for 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 nine months of fiscal 2015 compared to the first nine months of fiscal 2014 was attributable to the Truitt investment of \$16,308,000 made in the first quarter of fiscal 2015 and reduced operating results.

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 third quarter and year-to-date periods of fiscal 2015 and fiscal 2014:

	Third Quarter		Year-to-Date	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Reported end of period:				
Outstanding borrowings	\$255,000	\$226,000	\$255,000	\$226,000
Weighted average interest rate	1.91 %	1.42 %	1.91 %	1.42 %
Reported during the period:				
Maximum amount of borrowings	\$323,646	\$318,601	\$323,646	\$318,601
Average outstanding borrowings	239,585	259,683	228,730	214,884
Weighted average interest rate	1.57 %	1.53 %	1.52 %	1.64 %

5. During the nine month period ended December 27, 2014, there were 207,365 shares, or \$3,213,000, of Participating Preferred Stock (at Stated Value), converted to Class A Common Stock. During the nine month period ended December 27, 2014, the Company repurchased 292,395 shares of its Class A Common Stock as Treasury Stock at an aggregate purchase price of \$9,201,000. As of December 27, 2014, there are 1,307,439 shares of Treasury Stock purchased for \$39,095,000 in the aggregate. These shares are not considered outstanding. During the three-month period ended June 28, 2014, there were 1,720 shares, or \$56,000 of Class B Common Stock issued in lieu of cash compensation under the Company's Profit Sharing Bonus Plan.

SENECA FOODS CORPORATION AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)  
 December 27, 2014

6. The net periodic benefit cost for the Company's pension plan consisted of:

	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(In thousands)			
Service Cost	\$2,030	\$ 1,863	\$6,089	\$ 5,588
Interest Cost	2,059	1,890	6,177	5,670
Expected Return on Plan Assets	(2,739)	(2,373 )	(8,217)	(7,118 )
Amortization of Actuarial Loss	87	584	263	1,752
Net Periodic Benefit Cost	\$1,437	\$ 1,964	\$4,312	\$ 5,892

A contribution of \$350,000 was made to the Pension Plan during the three month period ended December 27, 2014 and a contribution of \$2,000,000 was made during the three month period ended December 28, 2013.

7. The following table summarizes the restructuring charges recorded and the accruals established:

	Long-Lived Asset Severance Charges		Other Costs	Total
	(In thousands)	(In thousands)		
Balance March 31, 2014	\$10	\$ -	\$-	\$10
Third Quarter Charge	533	316	40	889
Cash payments/write offs	(8 )	-	-	(8 )
Balance December 27, 2014	\$535	\$ 316	\$40	\$891
Balance March 31, 2013	\$20	\$ 1,174	\$307	\$1,501
First Quarter Charge	-	-	154	154
Second Quarter Charge	-	341	6	347
Cash payments/write offs	(8 )	-	(400)	(408 )
Balance December 28, 2013	\$12	\$ 1,515	\$67	\$1,594

During the third quarter of fiscal 2015, the Company recorded a restructuring charge of \$889,000 related to the closing of a plant in the Midwest of which \$533,000 was related to severance cost, \$316,000 was related to equipment costs (contra fixed assets), and \$40,000 was related to estimated equipment relocation costs.

8. During the quarter ended December 27, 2014, the Company recorded a gain of \$5,000,000 related to a contractual payment received in connection with the closing of a Midwest plant (see Note 7 above). During the nine months ended December 27, 2014, the Company recorded a charge of \$250,000 for environmental costs related to a Company-owned plant in New York State. During the nine months ended December 27, 2014 and December 28,

2013, the Company sold some unused fixed assets which resulted in a gain of \$89,000 and \$423,000, respectively. These gains and the charge are included in other operating income in the Unaudited Condensed Consolidated Statements of Net Earnings.

7

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SENECA FOODS CORPORATION AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

December 27, 2014

9. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on April 1, 2017 (beginning of fiscal 2018). Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting. There were no other recently issued accounting pronouncements that impacted the Company's condensed consolidated financial statements. In addition, the Company did not adopt any new accounting pronouncements during the quarter ended December 27, 2014.

10. Earnings per share for the Quarters Ended December 27, 2014 and December 28, 2013 are as follows:

	Q U A R T E R		Y E A R T O D A T E	
	Fiscal 2015	Fiscal 2014	Fiscal 2015	Fiscal 2014
	(In thousands, except per share amounts)			
Basic				
Net earnings	\$7,819	\$6,846	\$7,134	\$14,796
Deduct preferred stock dividends paid	6	6	17	17
Undistributed earnings	7,813	6,840	7,117	14,779
Earnings attributable to participating preferred	102	218	122	472
Earnings attributable to common shareholders	\$7,711	\$6,622	\$6,995	\$14,307
Weighted average common shares outstanding	10,733	10,743	10,769	10,748
Basic earnings per common share	\$0.72	\$0.62	\$0.65	\$1.33
Diluted				
Earnings attributable to common shareholders	\$7,711	\$6,622	\$6,995	\$14,307
Add dividends on convertible preferred stock	5	5	15	15
Earnings attributable to common stock on a diluted basis	\$7,716	\$6,627	\$7,010	\$14,322
Weighted average common shares outstanding-basic	10,733	10,743	10,769	10,748
Additional shares issuable related to the equity compensation plan	4	5	4	5
Additional shares to be issued under full conversion of preferred stock	67	67	67	67

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Total shares for diluted	10,804	10,815	10,840	10,820
Diluted earnings per common share	\$0.71	\$0.61	\$0.65	\$1.32
8				

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SENECA FOODS CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

December 27, 2014

11. As required by Accounting Standards Codification ("ASC") 825, "Financial Instruments," the Company estimates the fair values of financial instruments on a quarterly basis. The estimated fair value for long-term debt (classified as Level 2 in the fair value hierarchy) is determined by the quoted market prices for similar debt (comparable to the Company's financial strength) or current rates offered to the Company for debt with the same maturities. Long-term debt, including current portion had a carrying amount of \$296,787,000 and an estimated fair value of \$297,556,000 as of December 27, 2014. As of March 31, 2014, the carrying amount was \$218,516,000 and the estimated fair value was \$219,981,000. The fair values of all the other financial instruments approximate their carrying value due to their short-term nature.

12. In June 2010, the Company received a Notice of Violation of the California Safe Drinking Water and Toxic Enforcement Act of 1986, commonly known as Proposition 65, from the Environmental Law Foundation ("ELF"). This notice was made to the California Attorney General and various other government officials, and to 49 companies including Seneca Foods Corporation whom ELF alleges manufactured, distributed or sold packaged peaches, pears, fruit cocktail and fruit juice that contain lead without providing a clear and reasonable warning to consumers. Under California law, proper notice must be made to the State and involved firms at least 60 days before any suit under Proposition 65 may be filed by private litigants like ELF. That 60-day period has expired and to date neither the California Attorney General nor any appropriate district attorney or city attorney has initiated an action against the Company. However, private litigant ELF filed an action against the Company and 27 other named companies on September 28, 2011, in Superior Court of Alameda County, California, alleging violations of Proposition 65 and seeking various measures of relief, including injunctive and declaratory relief and civil penalties. The Company, along with the other named companies, vigorously defended the claim. A responsive answer was filed, the discovery process was completed and a trial on liability was held beginning in April of 2013 in accordance with court schedules. The trial was completed on May 16, 2013 and, on July 15, 2013 the judge issued a tentative and proposed statement of decision agreeing with the Company, and the other defendants, that the "safe harbor" defense had been met under the regulations relating to Proposition 65 and the Company will not be required to place a Proposition 65 warning label on the products at issue in the case. The trial decision was finalized and the decision was appealed by ELF with a filing dated October 3, 2013. The appeal is progressing in accordance with the schedule set by the California Court of Appeal, First Appellate District, Division One and the appeal hearing is schedule for oral argument on February 3, 2015. The Company is unable to determine the scope or the likelihood of success of the appeal. The Company, along with other defendants are planning on vigorously defending the appeal filed by ELF. With the successful defense of the case, the remedies portion of the case was not litigated. So far, our portion of legal fees in defense of this action have been sizable, as would be expected with litigation resulting in trial, and the appeal, but have not had a material adverse impact on the Company's financial position, results of operations, or cash flows. Additionally, in the ordinary course of its business, the Company is made party to certain legal proceedings seeking monetary damages, including proceedings invoking product liability claims, either directly or through indemnification obligations, and we are not able to predict the probability of the outcome or estimate of loss, if any, related to any such matter.

SENECA FOODS CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
December 27, 2014

13. The effective tax rate was 24.6% and 9.3% for the nine month periods ended December 27, 2014 and December 28, 2013, respectively. The 15.3 percentage point increase in the effective tax rate represents an increase in tax expense as a percentage of book income when compared to the same period last year. The major contributors to this increase are first, the re-establishment of the valuation allowance related to the New York State Investment Tax Credit (5.9 percentage points). The valuation allowance was re-established due to a change in the law. This is a discrete item and therefore was required to be booked in the quarter ended June 28, 2014. Secondly, the expiration of the California enterprise zone credit and the California hiring credit (4.9 percentage points).

14. During the second and fourth quarters of fiscal 2014, the Company entered into some interim lease notes which financed down payments for various equipment orders at market rates. As of December 27, 2014, some of these interim notes had not been converted into operating leases since the equipment was not placed in service. These notes, which total \$5,989,000 and \$4,392,000 as of December 27, 2014 and December 28, 2013, respectively, are included in Notes Payable in the accompanying Condensed Consolidated Balance Sheets. These notes are expected to be converted into operating leases within the next twelve months.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 27, 2014

Seneca Foods Corporation (the "Company") is a leading provider of packaged fruits and vegetables, with facilities located throughout the United States. The Company's product offerings include canned, frozen and bottled produce and snack chips. Its products are sold under private label as well as national and regional brands that the Company owns or licenses, including Seneca®, Libby's®, Aunt Nellie's®, READ®, and Seneca Farms®. The Company's canned fruits and vegetables are sold nationwide by major grocery outlets, including supermarkets, mass merchandisers, limited assortment stores, club stores and dollar stores. The Company also sells its products to foodservice distributors, industrial markets, other food processors, export customers in over 80 countries and federal, state and local governments for school and other food programs. In addition, the Company packs Green Giant®, Le Sueur® and other brands of canned vegetables as well as select Green Giant® frozen vegetables for General Mills Operations, LLC ("GMOL") under a long-term Alliance Agreement.

The Company's raw product is harvested mainly between June through November. The Company experienced unfavorable growing conditions related to our pea and green bean harvest this summer reflecting a combination of high temperatures and uneven moisture. These difficult growing conditions unfavorably impacted pea and green bean crop yields and plant recovery rates which resulted in unfavorable manufacturing variances.

Investment—In April 2014, the Company purchased a 50% equity interest in Truitt Bros. Inc. ("Truitt") for \$16,308,000. The purchase agreement grants the Company the right to acquire the remaining 50% ownership of Truitt in the future under certain conditions. Truitt is known for its industry innovation related to packing shelf stable foods in trays, pouches and bowls. Truitt has two state-of-the-art plants located in Oregon and Kentucky.

Results of Operations:

Sales:

Third fiscal quarter 2015 results include net sales of \$456,207,000, which represents a 4.5% decrease, or \$21,487,000, from the third quarter of fiscal 2014. The decrease in sales is attributable to a sales volume decrease of \$32,317,000 partially offset by higher selling prices/sales mix of \$10,830,000. The decrease in sales is primarily from a \$12,377,000 decrease in Canned Fruit sales, an \$8,326,000 decrease in Canned Vegetable sales, and a \$4,965,000 decrease in Frozen sales, partially offset by \$3,417,000 increase in GMOL sales and a \$751,000 increase in Other sales. The Canned Fruit sales decrease is primarily as a result of the second short pack in a row.

Nine months ended December 27, 2014 include net sales of \$1,008,411,000, which represents a 3.6% decrease, or \$38,038,000, from the first nine months of fiscal 2014. The decrease in sales is attributable to a sales volume decrease of \$70,494,000 partially offset by higher selling prices/sales mix of \$32,456,000. The decrease in sales is primarily from a \$23,200,000 decrease in Canned Fruit sales, a \$16,267,000 decrease in GMOL sales and a \$6,968,000 decrease in Frozen sales partially offset by \$4,057,000 increase in Canned Vegetable sales and a \$3,778,000 increase in Other sales.

The following table presents sales by product category (in millions):

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
December 27, 2014

	Three Months		Nine Months Ended	
	Ended December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
Canned Vegetables	\$245.1	\$ 253.5	\$575.8	\$ 571.8
Green Giant Alliance	105.5	102.0	160.1	176.4
Frozen	23.4	28.4	70.7	77.6
Fruit Products	71.9	84.3	172.5	195.7
Snack	2.7	2.7	9.0	8.5
Other	7.6	6.8	20.3	16.4
	\$456.2	\$ 477.7	\$1,008.4	\$ 1,046.4

Operating Income:

The following table presents components of operating income as a percentage of net sales:

	Three Months Ended		Nine Months Ended		
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013	
Gross Margin	5.7	% 6.5	% 5.9	% 7.0	%
Selling	2.3	% 2.4	% 2.7	% 2.7	%
Administrative	1.8	% 1.8	% 2.3	% 2.2	%
Restructuring	0.2	% -	% 0.1	% -	%
Other Operating Income	-1.1	% 0.1	% -0.5	% -	%
Operating Income	2.5	% 2.2	% 1.3	% 2.1	%
Interest Expense, Net	0.3	% 0.3	% 0.4	% 0.5	%

For the three month period ended December 27, 2014, the gross margin decreased from the prior year quarter from 6.5% to 5.7% due primarily to lower net selling prices in the current year as compared to the prior year. The LIFO charge for the third quarter ended December 27, 2014 was \$5,315,000 as compared to \$7,676,000 for the third quarter ended December 28, 2013 and reflects the impact on the current quarter of the current reduced inflationary cost increases expected in fiscal 2015, compared to fiscal 2014. On an after-tax basis, LIFO reduced net earnings by \$3,455,000 for the quarter ended December 27, 2014 and \$4,989,000 for the quarter ended December 28, 2013, based on the statutory federal income tax rate.

For the nine month period ended December 27, 2014, the gross margin decreased from the prior year period from 7.0% to 5.9% due primarily to lower net selling prices (after considering promotions) compared to the prior year, partially offset by a lower LIFO charge in the current year as compared to prior year. The LIFO charge for the nine months ended December 27, 2014 was \$10,885,000 as compared to a charge of \$22,111,000 for the nine months ended December 28, 2013 and reflects the impact on the nine months of decreased inflationary cost increases expected

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in fiscal 2015, compared to fiscal 2014. On an after-tax basis, LIFO decreased net earnings by \$7,075,000 for the nine months ended December 27, 2014 and decreased net earnings by \$14,372,000 for the nine months ended December 28, 2013, based on the statutory federal income tax rate.

For the three month period ended December 27, 2014, selling costs as a percentage of sales decreased slightly from 2.4% to 2.3% from the same period in the prior year. For the nine month period ended December 27, 2014, selling costs as a percentage of sales remained unchanged at 2.7% from the same period in the prior year.

For the three month period ended December 27, 2014, administrative expense as a percentage of sales was unchanged at 1.8% compared to the same period in the prior year. For the nine month period ended December 27, 2014, administrative expense as a percentage of sales increased from 2.2% for the third quarter ended December 28, 2013 to 2.3%. Administrative expense increased for the nine month period ended December 27, 2014 as a percentage of sales due primarily to lower net sales in the current year as compared to the same period in the prior year.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
December 27, 2014

During the third quarter of fiscal 2015, the Company recorded a restructuring charge of \$889,000 related to the closing of a plant in the Midwest of which \$533,000 was related to severance cost, \$316,000 was related to equipment costs (contra fixed assets), and \$40,000 was related to estimated equipment relocation costs. This charge is included in restructuring in the Unaudited Condensed Consolidated Statements of Net Earnings.

During the quarter ended December 27, 2014, the Company recorded a gain of \$5,000,000 related to a contractual payment received in connection with the closing of a Midwest plant (see Note 8 above). During the nine months ended December 27, 2014, the Company recorded a charge of \$250,000 for environmental costs related to a Company-owned plant in New York State. During the nine months ended December 27, 2014, the Company sold some unused fixed assets which resulted in a gain of \$89,000. During the nine months ended December 28, 2013, the Company sold some unused fixed assets which resulted in a gain of \$423,000. These gains are included in other operating income in the Unaudited Condensed Consolidated Statements of Net Earnings.

Interest expense for the three months ended December 27, 2014, as a percentage of sales, remained unchanged at 0.3% from the three months ended December 28, 2013. Interest expense for the nine months ended December 27, 2014, as a percentage of sales, decreased from 0.5% to 0.4% from the third quarter ended December 28, 2013. This decrease was due to lower interest expense related to the Company's Revolver and decreased long-term debt interest attributable to scheduled debt payments.

Income Taxes:

The effective tax rate was 24.6% and 9.3% for the nine month periods ended December 27, 2014 and December 28, 2013, respectively. The 15.3 percentage point increase in the effective tax rate represents an increase in tax expense as a percentage of book income when compared to the same period last year. The major contributors to this increase are first the re-establishment of the valuation allowance related to the New York State Investment Tax Credit (5.9 percentage points). The valuation allowance was re-established due to a change in the law. This is a discrete item and therefore was required to be booked in the quarter ended June 28, 2014. Secondly, the expiration of the California enterprise zone credit and the California hiring credit (4.9 percentage points).

Earnings per Share:

Basic earnings per share was \$0.72 and \$0.62 for the three months ended December 27, 2014 and December 28, 2013, respectively. Diluted earnings per share was \$0.71 and \$0.61 for the three months ended December 27, 2014 and December 28, 2013, respectively. Basic earnings per share was \$0.65 and \$1.33 for the nine months ended December 27, 2014 and December 28, 2013, respectively. Diluted earnings per share was \$0.65 and \$1.32 for the nine months ended December 27, 2014 and December 28, 2013, respectively. For details of the calculation of these amounts, refer to footnote 10 of the Notes to Condensed Consolidated Financial Statements.

Liquidity and Capital Resources:

The financial condition of the Company is summarized in the following table and explanatory review:





ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 27, 2014

	December 27, 2014	December 28, 2013	March 31, 2014	March 31, 2013
Working capital:				
Balance	\$509,751	\$502,661	\$452,771	\$446,899
Change during quarter	(39,999 )	(48,688 )		
Long-term debt, less current portion	294,303	266,416	216,239	230,016
Total stockholders' equity per equivalent common share (see Note)	35.80	34.16	35.25	32.83
Stockholders' equity per common share	36.30	35.00	36.12	33.62
Current ratio	4.12	3.88	4.45	3.80

Note: Equivalent common shares are either common shares or, for convertible preferred shares, the number of common shares that the preferred shares are convertible into. See Note 8 of the Notes to Consolidated Financial Statements of the Company's 2014 Annual Report on Form 10-K for conversion details.

As shown in the Condensed Consolidated Statements of Cash Flows, net cash used in operating activities was \$18,505,000 in the first nine months of fiscal 2015, compared to net cash provided by operating activities of \$12,570,000 in the first nine months of fiscal 2014. The \$31,075,000 decrease in cash provided is primarily attributable to a \$24,746,000 higher increase in inventory in the first nine months of fiscal 2015 as compared to the first nine months of fiscal 2014, a \$12,821,000 decrease in the cash provided by Accounts Payable, Accrued Expenses and Other Liabilities, a \$4,587,000 decrease in cash provided by accounts receivable, decreased net earnings of \$7,662,000 as previously discussed, partially offset by a \$13,508,000 decrease in cash used by other current assets, and a \$5,569,000 decrease in cash used by income taxes.

As compared to December 28, 2013, inventory decreased \$3,574,000 to \$547,149,000 at December 27, 2014. The components of the inventory decrease reflect a \$39,029,000 decrease in finished goods, a \$12,251,000 increase in work in process and a \$23,204,000 increase in raw materials and supplies. The finished goods decrease reflects lower inventory quantities and decreased sales volume as compared to the prior year. The raw materials and supplies increase is primarily due to an increase in cans and raw steel quantities compared to the prior year. FIFO based inventory costs exceeded LIFO based inventory costs by \$164,269,000 as of the end of the third quarter of 2015 as compared to \$155,126,000 as of the end of the third quarter of 2014.

Cash used in investing activities was \$35,214,000 in the first nine months of fiscal 2015 compared to cash used in investing activities of \$11,062,000 in the first nine months of fiscal 2014. Additions to property, plant and equipment were \$19,232,000 in the first nine months of fiscal 2015 as compared to \$12,058,000 in the first nine months of fiscal 2014. In April 2014, the Company purchased a 50% equity interest in Truitt Bros. Inc. for \$16,308,000.

Cash provided by financing activities was \$62,886,000 in the first nine months of fiscal 2015, which included borrowings of \$326,381,000 and the repayment of \$248,110,000 of long-term debt, principally consisting of borrowing and repayment on the revolving credit facility ("Revolver"). Other than borrowings under the Revolver, there was no new long-term debt during the first nine months of fiscal 2015. During the nine months ended December 27, 2014, the Company repurchased \$9,201,000 of its Class A Common Stock as treasury stock. In addition, the Company paid down Notes Payable of \$6,266,000 during the nine month period ended December 27, 2014 related to

some interim notes which became operating leases.

Available borrowings on the Revolver total \$300,000,000 from April through July and \$400,000,000 from August through March with a maturity date of July 20, 2016. The interest rate on the Revolver is based on LIBOR plus an applicable margin based on excess availability and the Company's fixed charge coverage ratio. As of December 27, 2014, the interest rate was approximately 1.91% on a balance of \$255,000,000. We believe that cash flows from operations, availability under our Revolver and other financing sources will provide adequate funds for our working capital needs, planned capital expenditures, and debt obligations for at least the next 12 months.

## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 27, 2014

The Company's credit facilities contain standard representations and warranties, events of default, and certain affirmative and negative covenants, including various financial covenants. At December 27, 2014, the Company was in compliance with all such financial covenants.

### New Accounting Standards

Refer to footnote 9 of the Notes to Condensed Consolidated Financial Statements.

### Seasonality

The Company's revenues are typically higher in the second and third fiscal quarters. This is due in part because the Company sells, on a bill and hold basis, Green Giant canned and frozen vegetables to GMOL at the end of each pack cycle, which typically occurs during these quarters. GMOL buys the product from the Company at cost plus a specified fee for each equivalent case. See the Critical Accounting Policies section below for further details. The Company's non-Green Giant sales also exhibit seasonality with the third fiscal quarter generating the highest retail sales due to holidays that occur during that quarter.

### Forward-Looking Information

The information contained in this report contains, or may contain, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of the Company 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) the Company's anticipated needs for, and the availability of, cash, (ii) the Company's liquidity and financing plans, (iii) the Company's ability to successfully integrate acquisitions into its operations, (iv) trends affecting the Company's financial condition or results of operations, including anticipated sales price levels and anticipated expense levels, in particular higher production, fuel and transportation costs, (v) the Company's plans for expansion of its business (including through acquisitions) and cost savings, and (vi) the impact of competition.

Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Investors are cautioned not to place undue reliance on such statements, which speak only as of the date the statements were made. Among the factors that could cause actual results to differ materially are:

- general economic and business conditions;
- cost and availability of commodities and other raw materials such as vegetables, steel and packaging materials;
- transportation costs;
- climate and weather affecting growing conditions and crop yields;
- the availability of financing;
- leverage and the Company's ability to service and reduce its debt;
- foreign currency exchange and interest rate fluctuations;
- effectiveness of the Company's marketing and trade promotion programs;
- changing consumer preferences;
- competition;
- product liability claims;
- the loss of significant customers or a substantial reduction in orders from these customers;

changes in, or the failure or inability to comply with, U.S., foreign and local governmental regulations, including environmental and health and safety regulations; and  
· other risks detailed from time to time in the reports filed by the Company with the SEC.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 27, 2014

Except for ongoing obligations to disclose material information as required by the federal securities laws, the Company does not undertake any obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of the filing of this report or to reflect the occurrence of unanticipated events.

Critical Accounting Policies

During the nine months ended December 27, 2014, the Company sold \$138,034,000 of Green Giant finished goods inventory to General Mills Operations, LLC ("GMOL") for cash, on a bill and hold basis, as compared to \$150,345,000 for the nine months ended December 28, 2013. Under the terms of the bill and hold agreement, title to the specified inventory transferred to GMOL. The Company believes it has met the revenue recognition criteria required for bill and hold treatment.

Trade promotions are an important component of the sales and marketing of the Company's branded products, and are critical to the support of the business. Trade promotion costs, which are recorded as a reduction of net sales, include amounts paid to encourage retailers to offer temporary price reductions for the sale of our products to consumers, amounts paid to obtain favorable display positions in retailers' stores, and amounts paid to retailers for shelf space in retail stores. Accruals for trade promotions are recorded primarily at the time of sale of product to the retailer based on expected levels of performance. Settlement of these liabilities typically occurs in subsequent periods primarily through an authorized process for deductions taken by a retailer from amounts otherwise due to us. As a result, the ultimate cost of a trade promotion program is dependent on the relative success of the events and the actions and level of deductions taken by retailers for amounts they consider due to them. Final determination of the permissible deductions may take extended periods of time.

The Company assesses its long-lived assets for impairment whenever there is an indicator of impairment. Property, plant, and equipment are depreciated over their assigned lives. The assigned lives and the projected cash flows used to test impairment are subjective. If actual lives are shorter than anticipated or if future cash flows are less than anticipated, a future impairment charge or a loss on disposal of the assets could be incurred. Impairment losses are evaluated if the estimated undiscounted value of the cash flows is less than the carrying value. If such is the case, a loss is recognized when the carrying value of an asset exceeds its fair value.

16

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ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

In the ordinary course of business, the Company is exposed to various market risk factors, including changes in general economic conditions, competition and raw material pricing and availability. In addition, the Company is exposed to fluctuations in interest rates, primarily related to its revolving credit facility. To manage interest rate risk, the Company uses both fixed and variable interest rate debt. There have been no material changes to the Company's exposure to market risk since March 31, 2014.

17

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ITEM 4 Controls and Procedures

The Company maintains a system of internal and disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported on a timely basis. The Company's Board of Directors, operating through its Audit Committee, which is composed entirely of independent outside directors, provides oversight to the financial reporting process.

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of December 27, 2014, our disclosure controls and procedures were effective. The Company continues to examine, refine and formalize its disclosure controls and procedures and to monitor ongoing developments in this area.

There have been no changes during the period covered by this report to the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

18

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Item 1. Legal Proceedings

Refer to footnote 12 to the Condensed Consolidated Financial Statements included in Part I Item 1 of this Form 10-Q.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Form 10-K for the period ended March 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In May 2014, Board of Directors approved an expanded share repurchase program that authorized the Company to buy up to a total of 1,000,000 common shares (less the 153,879 shares repurchased under the Company's prior share repurchase authorization), whether Class A or Class B shares, in open market or privately negotiated transactions at the discretion of management.

Period	Class		Average Price Paid		Total Number of Shares Purchased	Maximum Number (or Approximate Dollar Value) or Shares that May Yet Be Purchased
	Class A Common	Class B Common	Class A Common	Class B Common		
10/01/2014 – 10/31/2014	-	-	\$ -	\$ -	-	-
11/01/2014 – 11/30/2014	-	-	\$ -	\$ -	-	-
12/01/2014 – 12/31/2014	-	-	\$ -	\$ -	-	-
Total	-	-	\$ -	\$ -	-	584,814

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

- 31.1 Certification of Kraig H. Kayser pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 31.2 Certification of Timothy J. Benjamin pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 101 The following materials from Seneca Foods Corporation's Quarterly Report on Form 10-Q for the three and nine months ended December 27, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) consolidated balance sheets, (ii) consolidated statements of net earnings, (iii) condensed consolidated statements of comprehensive income, (iv) consolidated statements of cash flows, (v) consolidated statement of stockholders' equity and (vi) the notes to the consolidated financial statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Seneca Foods Corporation  
(Company)

/s/Kraig H. Kayser  
January 28, 2015

Kraig H. Kayser  
President and  
Chief Executive Officer

/s/Timothy J. Benjamin  
January 28, 2015

Timothy J. Benjamin  
Chief Financial Officer