

Seneca Foods Corp
Form 10-K
June 09, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the fiscal year ended March 31, 2015 Commission File Number 0 01989

SENECA FOODS CORPORATION

(Exact name of registrant 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)

Registrant's telephone number, including area code (315) 926-8100

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock Class A, \$.25 Par	NASDAQ Global Market
Common Stock Class B, \$.25 Par	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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.

Edgar Filing: Seneca Foods Corp - Form 10-K

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer 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

The aggregate market value of the Registrant's voting and non-voting common equity held by non affiliates based on the closing sales price per market reports by the NASDAQ Global Market System on October 1, 2014 was approximately \$236,271,000.

As of June 5, 2015, there were 7,926,280 shares of Class A common stock and 1,967,958 shares of Class B common stock outstanding.

Documents Incorporated by Reference:

- (1) Portions of the Annual Report to shareholders for fiscal year ended March 31, 2015 (the "2015 Annual Report") applicable to Part I, Item 1, Part II, Items 5-9A and Part IV, Item 15 of Form 10-K.
 - (2) Portion of the Proxy Statement to be issued in connection with the Registrant's annual meeting of stockholders (the "Proxy Statement") applicable to Part III, Items 10-14 of Form 10-K.
-

TABLE OF CONTENTS
FORM 10-K ANNUAL REPORT FISCAL YEAR 2015
SENECA FOODS CORPORATION

	Pages
PART I.	
Item 1. Business	1-4
Item 1A. Risk Factors	4-9
Item 1B. Unresolved Staff Comments	9
Item 2. Properties	9-10
Item 3. Legal Proceedings	10
Item 4. Mine Safety Disclosures	10
PART II.	
Item 5. Market for Registrant's Common Stock, Related Security Holder Matters and Issuer Purchases of Equity Securities	11
Item 6. Selected Financial Data	11
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	11
Item 8. Financial Statements and Supplementary Data	11-12
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	12
Item 9A. Controls and Procedures	12-14
Item 9B. Other Information	14
PART III.	
Item 10. Directors, Executive Officers and Corporate Governance	15
Item 11. Executive Compensation	15
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	15
Item 13. Certain Relationships and Related Transactions, and Director Independence	15
Item 14. Principal Accountant Fees and Services	15
PART IV.	
Item 15. Exhibits and Financial Statements Schedules	16-19
SIGNATURES	20

Forward-Looking Statements

Certain of the statements contained in this annual report on Form 10-K are forward-looking statements made within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). Forward-looking statements involve numerous risks and uncertainties. Forward-looking statements are not in the present or past tense and, in some cases, can be identified by the use of the words "will," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "seeks," "should," "likely," "targets," "may", "can" and other expressions that indicate future trends and events. A forward-looking statement speaks only as of the date on which such statement is made and reflects management's analysis only as of the date thereof. The Company undertakes no obligation to update any forward-looking statement. The following factors, among others discussed herein and in the Company's filings under the Exchange Act, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: costs and availability of raw materials, competition, cost controls, sales levels, governmental regulation, consumer preferences, industry trends, weather conditions, crop yields, natural disasters, recalls, litigation, reliance on third-parties, wage rates, and other factors. See also the factors described in "Part I, Item 1A. Risk Factors" and elsewhere in this report, and those described in the Company's filings under the Exchange Act.

PART I

Item 1

Business

History and Development of Seneca Foods Corporation

SENECA FOODS CORPORATION (the "Company") is North America's 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 and its products are sold under private label as well as national and regional brands that the Company owns or licenses, including Seneca®, Libby's®, Green Valley®, Aunt Nellie's®, READ®, and Seneca Farms®. 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 our long-term Alliance Agreement that was amended and restated during the second quarter of fiscal year 2010.

As of March 31, 2015, the Company's facilities consisted of 22 packaging plants strategically located throughout the United States, three can manufacturing plants, two seed packaging operations, a farming operation and a logistical support network. The Company also maintains warehouses which are generally located adjacent to its packaging plants. The Company is a New York corporation and its headquarters is located at 3736 South Main Street, Marion, New York and its telephone number is (315) 926-8100.

The Company was founded in 1949 and during its 66 years of operation, the Company has made over 50 strategic acquisitions including the purchase of the long-term license for the Libby's brand in 1983, the purchase of General Mills' Green Giant packaging assets and entry into the Alliance Agreement with GMOL in 1995 and the acquisition of Chiquita Processed Foods in 2003. The Company believes that these acquisitions have enhanced the Company's leadership position in the private label and foodservice canned vegetable markets in the United States and significantly increased its international sales. In August 2006, the Company acquired Signature Fruit Company, LLC, a leading producer of canned fruits located in Modesto, California. This acquisition allowed the Company to broaden its product offerings to become a leading producer and distributor of canned fruit and to achieve cost advantages through the realization of distribution and other synergies with the Company's canned vegetable business. In 2013, the Company completed its acquisition of 100% of the membership interest in Independent Foods, LLC. The business is based in Sunnyside, Washington, is a packer of canned pears, apples and cherries in the United States. The rationale for the acquisition was twofold: (1) the business is a complementary fit with the Company's existing business and (2) it provides an extension of the Company's product offerings. In April 2014, the Company purchased a 50%

equity interest in Truitt Bros. Inc.

Available Information

The Company's Internet address is www.senecafoods.com. The Company's annual report on Form 10-K, the Company's quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available on the Company's web site, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. All such filings on the Company's web site are available free of charge. Information on our website is not part of the Annual Report on Form 10-K.

In addition, the Company's website includes items related to corporate governance matters, including charters of various committees of the Board of Directors and the Company's Code of Business Conduct and Ethics. The Company intends to disclose on its website any amendment to or waiver of any provision of the Code of Business Conduct and Ethics that would otherwise be required to be disclosed under the rules of the SEC and NASDAQ.

Financial Information about Industry Segments

The Company manages its business on the basis of two reportable segments – the primary segment is the packaging and sale of fruits and vegetables and the secondary segment is the packaging and sale of chip products. These two segments constitute the food operation. The food operation constitutes 98% of total sales, of which approximately 69% is canned vegetable packaging, 19% is canned fruit packaging, 11% is frozen fruit and vegetable packaging and 1% is fruit chip packaging. The non-food operation, which is primarily related to the sale of cans and ends and outside revenue generated from our trucking and aircraft operations, represents 2% of the Company's total sales.

Narrative Description of Business

Principal Products and Markets

Food Packaging

The principal products include canned fruits and vegetables, frozen vegetables and other food products. The products are sold nationwide by major grocery outlets, including supermarkets, mass merchandisers, limited assortment stores, club stores and dollar stores. Additionally, products are sold to food service distributors, industrial markets, other food packagers, export customers in 90 countries and federal, state and local governments for school and other feeding programs. Food packaging operations are primarily supported by plant locations in New York, California, Wisconsin, Washington, Idaho, Illinois, and Minnesota. See Note 14 of Item 8, Financial Statements and Supplementary Data, for additional information about the Company's segments.

The following table summarizes net sales by major product category for the years ended March 31, 2015, 2014, and 2013:

Edgar Filing: Seneca Foods Corp - Form 10-K

Classes of similar products/services:	2015	2014	2013
	(In thousands)		
Net Sales:			
GMOL *	\$ 161,993	\$ 177,881	\$ 165,684
Canned vegetables	754,556	753,318	746,892
Frozen *	94,648	107,109	84,935
Fruit	234,918	264,549	245,596
Snack	11,667	11,496	11,357
Other	28,568	25,855	21,833
Total	\$ 1,286,350	\$ 1,340,208	\$ 1,276,297

* GMOL includes frozen vegetable sales exclusively for GMOL.

Source and Availability of Raw Materials

The Company's food packaging plants are located in major vegetable producing states and in two fruit producing states. Fruits and vegetables are primarily obtained through supply contracts with independent growers.

Intellectual Property

The Company's most significant brand name, Libby's[®], is held pursuant to a trademark license granted to the Company in March 1982 and renewable by the Company every 10 years for an aggregate period expiring in March 2081. The original licensor was Libby, McNeill & Libby, Inc., then an indirect subsidiary of Nestlé, S. A. ("Nestlé") and the license was granted in connection with the Company's purchase of certain of the licensor's canned vegetable operations in the United States. Corlib Brands Management, LTD acquired the license from Nestlé during 2006. The license is limited to vegetables which are shelf-stable, frozen, and thermally packaged, and includes the Company's major vegetable varieties – corn, peas and green beans – as well as certain other thermally packaged vegetable varieties and sauerkraut.

The Company is required to pay an annual royalty and Corlib Brands now known as Libby's Brand Holding, Ltd., which may terminate the license for non-payment of royalty, use of the trademark in sales outside the licensed territory, failure to achieve a minimum level of sales under the licensed trademark during any calendar year or a material breach or default by the Company under the agreement (which is not cured within the specified cure period). With the purchase of Signature Fruit Company, LLC, which also uses the Libby's[®] brand name, the Company re-negotiated the license agreement and created a new, combined agreement based on Libby's[®] revenue dollars for fruits, vegetables, and dry beans. A total of \$379,000 was paid as a royalty fee for the year ended March 31, 2015.

The Company also sells canned fruits and vegetables, frozen vegetables and other food products under several other brands for which the Company has obtained registered trademarks, including, Aunt Nellie's[®], Green Valley[®], Stokely[®], Read[®], Seneca Farms[®], and Seneca[®] and other regional brands.

Seasonal Business

While individual fruits and vegetables have seasonal cycles of peak production and sales, the different cycles are somewhat offsetting. Minimal food packaging occurs in the Company's last fiscal quarter ending March 31, which is the optimal time for maintenance, repairs and equipment changes in its packaging plants. The supply of commodities, current pricing, and expected new crop quantity and quality affect the timing and amount of the Company's sales and earnings. When the seasonal harvesting periods of the Company's major fruits and vegetables are newly completed, inventories for these packaged fruits and vegetables are at their highest levels. For peas, the peak inventory time is mid-summer and for corn, the Company's highest volume vegetable, the peak inventory is in mid-autumn. For

Edgar Filing: Seneca Foods Corp - Form 10-K

peaches, the Company's highest volume fruit, the peak inventory time is early-autumn. For pears, the peak inventory is late-summer.

These seasonal fluctuations are illustrated in the following table, which presents certain unaudited quarterly financial information for the periods indicated:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands)			
Year ended March 31, 2015:				
Net sales	\$240,043	\$312,161	\$456,207	\$277,939
Gross margin	16,996	16,804	26,084	23,273
Net (loss) earnings	(107)	(578)	7,819	2,765
Inventories (at quarter end)	467,290	731,527	547,149	472,412
Revolver outstanding (at quarter end)	180,050	302,220	255,000	233,000
Year ended March 31, 2014:				
Net sales	\$232,127	\$336,628	\$477,694	\$293,759
Gross margin	19,680	22,379	31,178	17,726
Net earnings (loss)	1,347	6,603	6,846	(1,017)
Inventories (at quarter end)	484,694	758,654	550,723	451,250
Revolver outstanding (at quarter end)	151,026	282,000	226,000	175,000

Backlog

In the food packaging business, an end of year sales order backlog is not considered meaningful. Traditionally, larger customers provide tentative bookings for their expected purchases for the upcoming season. These bookings are further developed as data on the expected size of the related national harvests becomes available. In general, these bookings serve as a yardstick rather than as a firm commitment, since actual harvest results can vary notably from early estimates. In actual practice, the Company has substantially all of its expected seasonal production identified to potential sales outlets before the seasonal production is completed.

Competition and Customers

Competition in the food business is substantial with brand recognition and promotion, quality, service, and pricing being the major determinants in the Company's relative market position. The Company believes that it is a major producer of canned fruits and vegetables, but some producers of canned, frozen and other forms of fruit and vegetable products have sales which exceed the Company's sales. The Company is aware of approximately 14 competitors in the U.S. packaged vegetable industry, many of which are privately held companies. The Company is aware of approximately nine competitors in the U.S. packaged fruit industry. In addition, there are significant quantities of fruit that are imported from Europe, Asia and South America.

During the past year, approximately 12% of the Company's packaged foods sales were packed for retail customers under the Company's branded labels of Seneca[®], Libby's[®], Green Valley[®], Aunt Nellie's[®], Read[®], and Seneca Farms[®]. About 24% of packaged foods sales were packed for institutional food distributors and 51% were retail packed under the private label of our customers. The remaining 13% was sold under the Alliance Agreement with GMOL (see note 12 of Item 8, Financial Statements and Supplementary Data). Termination of the Alliance Agreement would substantially reduce the Company's sales and profitability unless the Company was to enter into a new substantial supply relationship with GMOL or another major vegetable marketer. The non-Alliance customers represent a full cross section of the retail, institutional, distributor, and industrial markets; and the Company does not consider itself dependent on any single sales source other than sales attributable to the Alliance Agreement.

The Company's principal branded products are its Libby's canned fruit and vegetable products, which rate among the top three national brands according to a leading market research firm.

The information under the heading "Results of Operations in Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2015 Annual Report is incorporated by reference.

Environmental Regulation

Environmental Protection

Environmental protection is an area that has been worked on diligently at each food packaging facility. In all locations, the Company has cooperated with federal, state, and local environmental protection authorities in developing and maintaining suitable antipollution facilities. In general, we believe our pollution control facilities are equal to or somewhat superior to those of our competitors and are within environmental protection standards. The Company does not expect any material capital expenditures to comply with environmental regulations in the near future.

There has been a broad range of proposed and promulgated state, national and international regulations aimed at reducing the effects of climate change. In the United States, there is a significant possibility that some form of regulation will be forthcoming at the federal level to address the effects of climate change. Such regulation could result in the creation of additional costs in the form of taxes, the restriction of output, investments of capital to maintain compliance with laws and regulations, or required acquisition or trading of emission allowances.

Environmental Litigation and Contingencies

In the ordinary course of its business, the Company is made a party to certain legal proceedings seeking monetary damages, including proceedings involving product liability claims, worker's compensation and other employee claims, tort and other general liability claims, for which it carries insurance as well as patent infringement and related litigation. The Company is in a highly regulated industry and is also periodically involved in government actions for regulatory violations and other matters surrounding the manufacturing of its products, including, but not limited to, environmental, employee, and product safety issues. While it is not feasible to predict or determine the ultimate outcome of these matters, the Company does not believe that an adverse decision in any of these legal proceedings would have a material adverse impact on its financial position, results of operations, or cash flows.

Employment

At our fiscal year end 2015, the Company had approximately 3,400 employees of which 3,000 full time and 300 seasonal employees work in food packaging and 100 full time employees work in other activities. The number of employees increases by approximately 7,000 due to an increase in seasonal employees during our peak pack season.

Edgar Filing: Seneca Foods Corp - Form 10-K

The Company has six collective bargaining agreements with three unions covering approximately 875 of its full-time employees. The terms of these agreements result in wages and benefits which are substantially the same for comparable positions for the Company's non-union employees. There is one agreement that will expire in calendar 2016. There is one agreement that will expire in 2018, two agreements that will expire in calendar 2019 and two agreements that will expire in calendar 2020.

Domestic and Export Sales

The following table sets forth domestic and export sales:

Fiscal
Year
2015