

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: 1994-10-24 | Period of Report: 1994-09-30
SEC Accession No. 0000777538-94-000022

(HTML Version on secdatabase.com)

FILER

STOKELY USA INC

CIK: 777538 | IRS No.: 390513230 | State of Incorp.: WI | Fiscal Year End: 0331
Type: 10-Q | Act: 34 | File No.: 000-13943 | Film No.: 94554586
SIC: 2033 Canned, fruits, veg, preserves, jams & jellies

Mailing Address
1055 CORPORATE CENTER
DRIVE
OCONOMOC WI 53066

Business Address
1055 CORPORATE CENTER
DR
OCONOMOWOC WI 53066
4145691800

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

THIS CONFORMING PAPER FORMAT DOCUMENT IS BEING
SUBMITTED PURSUANT TO RULE 901(d) OF REGULATION S-T

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

For Quarter Ended September 30, 1994 Commission File Number 0-13943

STOKELY USA, INC.

(Exact name of registrant as specified in its charter)

WISCONSIN

39-0513230

(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

1055 Corporate Center Drive, Oconomowoc, WI 53066

(Address of principal executive office)

Registrant's telephone number, including area code: (414) 569-1800

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange
Act of 1934 during the preceding 12 months (or for such shorter period
that the registrant was required to file such reports), and (2) has been
subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's
classes of common stock as of the latest practicable date.

Class	Outstanding at October 21, 1994
-----	-----
Common Stock, \$.05 par value per share	8,324,645 Shares

Page 1 of 16

STOKELY USA, INC. AND SUBSIDIARIES

INDEX

	PAGE NO.

PART I. Financial Information	
Item 1. Financial Statements	
Consolidated Condensed Balance Sheets - September 30, 1994, September 30, 1993 and March 31, 1994	3-4
Consolidated Condensed Statements of Operations - Three and Six Months Ended September 30, 1994 and 1993	5-6
Consolidated Condensed Statements of Cash Flow - Three and Six Months Ended September 30, 1994 and 1993	7
Notes to Consolidated Condensed Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9-13
PART II. Other Information	
Item 1. Legal Proceedings	14
Item 2. Changes in Securities	14

Item 3.	Default Upon Senior Securities	14
Item 4.	Submission of Matters to a Vote of Security Holders	14
Item 5.	Other Information	14
Item 6.	Exhibits and Reports on Form 8-K	14

Page 2 of 16

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
STOKELY USA, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

(Dollars in thousands)

	September 30, 1994 (unaudited)	September 30, 1993 (unaudited)	March 31, 1994 (note)
	-----	-----	-----
ASSETS			

CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,178	\$ 1,413	\$ 2,898
Accounts receivable, less allowance of \$372, \$531 and \$385, respectively	25,369	25,532	20,817
Refundable income taxes		952	1,979
Inventories: Finished Products	125,229	109,748	50,256
Production Supplies	4,698	4,853	5,000
Prepaid Expenses	1,354	1,480	1,983
	-----	-----	-----
Total Current Assets	157,828	143,978	82,933
OTHER ASSETS:			
Property held for disposition (net)	2,986	8,951	3,541
Trademarks	799	877	838
Other	3,273	4,842	3,867
	-----	-----	-----
Total Other Assets	7,058	14,670	8,246

PROPERTY, PLANT & EQUIPMENT, at cost	101,720	94,675	97,428
Less accumulated depreciation	33,826	27,120	30,072
	-----	-----	-----
	67,894	67,555	67,356
	-----	-----	-----
 TOTAL ASSETS	 \$232,780	 \$226,203	 \$158,535
	=====	=====	=====

See accompanying notes to consolidated condensed financial statements (unaudited).

Note: The balance sheet at March 31, 1994 has been condensed from the audited financial statements at that date. The balance sheet at September 30, 1993 has been reclassified for comparative purposes.

Page 3 of 16

STOKELY USA, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

(Dollars in thousands)

	September 30, 1994 (unaudited)	September 30, 1993 (unaudited)	March 31, 1994 (note)
	-----	-----	-----
LIABILITIES & STOCKHOLDER'S EQUITY			

CURRENT LIABILITIES:			
Notes payable	\$ 35,875	\$ 23,985	\$ 17,992
Accounts payable	66,701	48,476	13,867
Current maturities on long-term debt	2,458	1,954	3,868
Other current liabilities	6,737	9,058	5,135
	-----	-----	-----
	111,771	83,473	40,862
Additional long-term debt classified as a current liability		26,195	
	-----	-----	-----
Total Current Liabilities	111,771	109,668	40,862

LONG-TERM LIABILITIES:

Long-term debt, less current maturities	79,871	80,024	80,438
---	--------	--------	--------

OTHER LIABILITIES:	4,740	6,995	4,595
--------------------	-------	-------	-------

STOCKHOLDER'S EQUITY:

Capital stock	422	422	422
Additional paid-in capital	18,665	18,636	18,661
Retained earnings	17,939	11,129	14,181
Treasury stock at cost	(628)	(671)	(624)

Total Stockholder's Equity	36,398	29,516	32,640
----------------------------	--------	--------	--------

TOTAL LIABILITIES AND

STOCKHOLDER'S EQUITY	\$232,780	\$226,203	\$158,535
----------------------	-----------	-----------	-----------

See accompanying notes to consolidated condensed financial statements (unaudited).

Note: The balance sheet at March 31, 1994 has been condensed from the audited financial statements at that date. The balance sheet at September 30, 1993 has been reclassified for comparative purposes.

Page 4 of 16

STOKELY USA, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share amounts)
(unaudited)

Three Months Ended	
September 30,	
1994	1993
----	----

REVENUE:

Net Sales	\$ 58,313	\$ 71,148
Other	86	4,354
Total Revenues	58,399	75,502

COSTS AND EXPENSES:

Cost of products sold	43,905	62,440
Selling, general & administrative expenses	7,766	9,713
Interest	2,539	3,215
	-----	-----
Total Costs and Expenses	54,210	75,368
EARNINGS BEFORE INCOME TAXES	4,189	134
INCOME TAXES	838	16
	-----	-----
NET EARNINGS	\$ 3,351	\$ 118
	=====	=====
NET EARNINGS PER COMMON SHARE	\$.40	\$.01
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	8,324,645	8,315,981
	=====	=====

See accompanying notes to consolidated condensed financial statements (unaudited).

Page 5 of 16

STOKELY USA, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share amounts)
(unaudited)

Six Months Ended
September 30,
1994 1993
----- -----

REVENUE:

Net Sales	\$ 97,131	\$127,505
Other	99	4,600
	-----	-----
Total Revenues	97,230	132,105

COSTS AND EXPENSES:

Cost of products sold	74,148	113,592
Selling, general & administrative expenses	13,464	18,016
Interest	4,914	6,482
	-----	-----
Total Cost and Expenses	92,526	138,090

EARNINGS (LOSS) BEFORE INCOME TAXES (CREDIT)	4,704	(5,985)
INCOME TAXES (CREDIT)	946	(718)
	-----	-----

NET EARNINGS (LOSS)	\$ 3,758	\$ (5,267)
	=====	=====

NET EARNINGS (LOSS) PER COMMON SHARE	\$.45	\$ (.63)
	=====	=====

WEIGHTED AVERAGE SHARES OUTSTANDING	8,324,645	8,315,839
	=====	=====

See accompanying notes to consolidated condensed financial statements (unaudited).

STOKELY USA, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

Six Months Ended

	September 30,	
	1994	1993
	----	----
Net cash provided by (used in) operating activities	\$(13,523)	\$ 9,897
	-----	-----
Cash flows from investing activities:		
Purchase of property, plant and equipment	(4,292)	(3,957)
Proceeds from disposal of property, plant and equipment	555	4,846
Increase in other assets - net	(366)	(224)
	-----	-----
Net cash provided by (used in) investing activities	(4,103)	665
	-----	-----
Cash flows from financing activities:		
Change in short-term debt - net	17,883	(7,273)
Payments of long-term debt	(1,977)	(3,135)
Capital stock transactions - net		8
	-----	-----
Net cash provided by (used in) financing activities	15,906	(10,400)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(1,720)	162
Cash and cash equivalents at beginning of period	2,898	1,251
	-----	-----
Cash and cash equivalents at end of period	\$ 1,178	\$ 1,413
	=====	=====

See accompanying notes to consolidated financial statements (unaudited).

STOKELY USA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. In the opinion of management, the accompanying unaudited consolidated condensed financial statements contain all normal and recurring adjustments necessary to present fairly Stokely USA, Inc.'s consolidated condensed balance sheets as of September 30, 1994 and 1993, and March 31, 1994, the consolidated condensed statements of operations for the three and six month periods ended September 30, 1994 and 1993, and the consolidated condensed statements of cash flow for the six months then ended.

The results of operations for the three months and six months ended September 30, 1994 are not necessarily indicative of the results to be expected for the full year. For interim reporting purposes, certain expenses are based on estimates rather than expenses actually incurred. The unaudited interim consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended March 31, 1994, included in the Company's Form 10-K filed with the Securities and Exchange Commission.

The accounting policies followed by the Company are described in Note A of the financial statements, located on Page 33 of the Company's Form 10-K for the year ended March 31, 1994.

2. During the fourth quarter of fiscal 1994, the Company changed its method of valuing inventories from the last-in, first-out (LIFO) method to the average cost method. Management believes that the average cost method provides a more meaningful presentation of the Company's financial position and related financial ratios. In accordance with generally accepted accounting principles, prior financial statements have been retroactively adjusted to reflect this change. The effect of the restatement was to increase inventories and retained earnings by \$5,399,000 at September 30, 1993, from the previously reported amounts. The change in accounting method had no effect on the previously reported net loss for the three months ended September 30, 1993.

3. Supplemental cash flow disclosures: Cash payments for interest were \$4,420,000 and \$7,088,000 for the six months ended September 30, 1994 and 1993, respectively. Net refunds of income taxes were \$1,770,000 and \$3,635,000 for the six months ended September 30, 1994 and 1993, respectively.

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

The following is management's discussion and analysis of certain significant factors which have affected the Company's operations during the periods included in the accompanying (unaudited) consolidated condensed statements of operations and balance sheets.

RESULTS OF OPERATIONS:

Six Months Ended September 30, 1994 Compared to Six Months Ended

September 30, 1993

Net Sales

Net sales decreased \$30.4 million, or 23.8%, to \$97.1 million for the six months ended September 30, 1994 compared to \$127.5 million for the six months ended September 30, 1993. The reduction in sales was primarily the result of lower available canned inventories at the beginning of fiscal 1995 caused by a poor growing season during fiscal 1994 and the elimination of certain low margin or unprofitable products in both the canned and frozen divisions.

Total canned vegetable sales decreased \$19.7 million, or 22.1% to \$69.5 million for the six months ended September 30, 1994 compared to \$89.2 million for the six months ended September 30, 1993. The decline in total canned vegetable sales was the result of a \$29.2 million reduction in sales volume partially offset by a \$9.5 million increase in sales due to improved pricing. Of the net decrease in sales of \$19.7 million, \$5.9 million was due to a reduction in sales of discontinued canned products and \$13.8 million was due to a decrease in sales of continued products due to lower available inventories. Sales of private label canned products declined \$13.0 million or 20.8%, to \$49.6 million for the six months ended September 30, 1994, compared to \$62.6 million for the six months ended September 30, 1993. The decline in private label canned sales was the result of an approximate \$21.7 million reduction in sales volume, partially offset by an approximate \$8.7 million increase in sales due to improved pricing. Sales of brand label canned products declined \$6.7 million, or 25.3% to \$19.9

million compared to \$26.6 million for the six months ended September 30, 1993. Substantially all the decline in brand sales was due to lower sales volume primarily due to lower available canned inventories.

Total frozen sales declined \$10.7 million, or 27.9% to \$27.6 million for the six months ended September 30, 1994 compared to \$38.3 million for the six months ended September 30, 1993. This reduction in sales was due primarily to the elimination of certain low margin or unprofitable frozen products. Sales of discontinued frozen products decreased \$8.7 million or 76.3%, to \$2.7 million for the six months ended September 30, 1994 compared to \$11.4 million for the six months ended September 30, 1993.

Page 9 of 16

Cost of Products Sold

- - - - -

Cost of products sold decreased \$39.5 million, or 34.8%, to \$74.1 million for the six months ended September 30, 1994 from \$113.6 million for the six months ended September 30, 1993. The decrease in cost of products sold was due primarily to lower sales volume in both the canned and frozen divisions. Cost of products sold as a percentage of net sales decreased to 76.3% for the six months ended September 30, 1994 compared to 89.1% for the six months ended September 30, 1993. Of this 12.8% decrease, 6.3% was due to non-restructuring-related cost reduction efforts, 4.9% was due to higher selling prices, 1.3% was due to cost reductions from the Company's restructuring efforts, and 0.3% was due to the elimination of certain low margin or unprofitable products.

Selling General and Administrative Expense

- - - - -

Selling, general and administrative expenses declined by \$4.5 million, or 25.0%, to \$13.5 million for the six months ended September 30, 1994 from \$18.0 million for the six months ended September 30, 1993. This reduction was primarily the result of lower variable selling expenses associated with lower brand label sales volume. Selling, general and administrative expenses as a percentage of net sales declined to 13.9% for the six months ended September 30, 1994 from 14.1% for the six months ended September 30, 1993 due to lower variable selling expenses.

Interest Expense

- - - - -

Interest expense decreased \$1.6 million or 24.6%, to \$4.9 million for the six months ended September 30, 1994 compared to \$6.5 million for the six months ended September 30, 1993. This reduction was primarily the result of lower short-term borrowings resulting from lower working capital requirements and the payment of long-term debt from the proceeds of sales of closed plants, partially offset by increases in short-term interest rates and higher financing expenses associated with the June 1993 amendment

of the Revolver.

Income Taxes

- -----

The effective income tax rate for the six months ended September 30, 1994 was 20% compared to the 12% used for calculating tax credits for the six months ended September 30, 1993. Each of the effective tax rates differ from the statutory rates due to recognition of allowable tax benefits from net operating loss carryforwards.

Net Earnings (Loss)

- -----

Net earnings for the six months ended September 30, 1994 were \$3.8 million compared to the net loss of \$5.3 million for the six months ended September 30, 1993.

Page 10 of 16

Three Months Ended September 30, 1994 Compared to Three Months Ended

- -----

September 30, 1993

Net Sales

- -----

Net sales decreased \$12.8 million, or 18.0%, to \$58.3 million for the quarter ended September 30, 1994 compared to \$71.1 million for the quarter ended September 30, 1993. The reduction in sales was primarily the result of lower available canned inventories at the beginning of fiscal 1995 caused by a poor growing season during fiscal 1994 and the elimination of certain low margin or unprofitable products in both the canned and frozen divisions.

Total canned vegetable sales decreased \$10.4 million, or 20.4%, to \$40.7 million for the quarter ended September 30, 1994 from \$51.1 million for the quarter ended September 30, 1993. The decline in total canned vegetable sales was the result of a \$15.1 million reduction in sales volume partially offset by a \$4.7 million increase in sales due to improved pricing. Of the net decrease in sales of \$10.4 million, \$2.8 million was due to a reduction in sales of discontinued canned products, and \$7.6 million was due to a decrease in sales of continued products due to lower available inventories. Sales of canned private label products declined \$9.9 million to \$28.1 million for the quarter ended September 30, 1994, compared to \$38.0 million for the quarter ended September 30, 1993. The decline in private label sales was the result of a \$12.9 million reduction in sales due to lower sales volume, partially offset by a \$3.0 million increase in sales due to improved pricing. Delays in receiving labels from private label customers,

as a result of label changes recently mandated by the Nutrition Labeling Education Act contributed also to a delay in the Company's ability to fill customer orders during the three months ended September 30, 1994. Sales of canned brand products declined approximately \$500,000 to \$12.6 million for the quarter ended September 30, 1994 compared to \$13.1 million for the quarter ended September 30, 1993. The decline in brand sales was the result of a \$1.9 million reduction in sales volume, partially offset by a \$1.4 million increase due to improved pricing.

Frozen sales declined \$2.4 million, or 12.0%, to \$17.6 million from \$20.0 million for the quarter ended September 30, 1993. The reduction in frozen sales was due primarily to the elimination of certain low margin frozen products as part of the Company's restructuring program. Sales in the frozen division are now focused primarily on the Industrial and Food Service markets. Frozen Food Service and Industrial sales increased \$400,000 to \$15.6 million for the quarter ended September 30, 1994 from \$15.2 million for the quarter ended September 30, 1993. As a percentage of total frozen sales, Frozen Food Service and Industrial increased to 88.6% from 76.0% for the quarter ended September 30, 1993.

Page 11 of 16

Cost of Products Sold

Cost of products sold decreased \$18.5 million, or 29.7%, to \$43.9 million for the quarter ended September 30, 1994 from \$62.4 million for the quarter ended September 30, 1993. The decrease in cost of goods sold was due primarily to lower sales volume. Cost of products sold as a percent of sales decreased to 75.3% for the quarter ended September 30, 1994 compared to 87.8% for the quarter ended September 30, 1993. Of this 12.5% decrease, 6.1% was due to non-restructure related cost reduction programs, 5.3% was due to higher selling prices, 0.8% was due to restructure related cost reduction programs and 0.3 % was due to the elimination of low margin or unprofitable products.

Selling, General and Administrative Expense

Selling, general and administrative expense declined \$1.9 million to \$7.8 million for the quarter ended September 30, 1994 from \$9.7 million for the quarter ended September 30, 1993. This reduction was primarily the result of lower promotional expenses associated with lower brand sales volumes, combined with a reduction in general and administrative costs resulting

from the effect of the Company's restructuring program over the entire three month period in fiscal 1995.

Interest Expense

- - - - -

Interest expense decreased \$676,000, or 21.0%, to \$2.5 million during the quarter ended September 30, 1994 compared to \$3.2 million for the quarter ended September 30, 1993. This reduction was primarily the result of lower short term borrowings resulting from lower working capital requirements.

Net Earnings (Loss)

- - - - -

Net income for the quarter ended September 30, 1994 of \$3.4 million represented the fifth consecutive profitable quarter for the Company. The significant improvement in earnings in the quarter ended September 30, 1994 compared to net income of \$118,000 for the quarter ended September 30, 1993 was due primarily to improved margins resulting from higher market pricing, elimination of marginally profitable product lines, and reduced costs and expenses.

FINANCIAL CONDITION

Liquidity and Capital Resources

- - - - -

General

- - - - -

Due to the seasonal production nature of the canned and frozen vegetable processing business, the Company must maintain substantial inventories of processed vegetables throughout the year. The working capital requirements associated with producing and maintaining such inventories are financed primarily through short-term borrowings and deferred payment terms with major raw product and container suppliers. The Company's Revolver provides for borrowings up to \$100.0 million as revolving credit loans. The Revolver matures on May 31, 1995. The Company believes that the Revolver

is adequate to meet the Company's seasonal borrowing needs. Borrowings under the Revolver were \$52.9 million at September 30, 1994 and are projected to peak at less than \$60.0 million during fiscal 1995.

Cash Flows from Operating Activities

Cash used in operations during the six months ended September 30, 1994 totaled \$13.5 million. Of the total cash used, changes in operating assets and liabilities used cash of \$22.2 million primarily due to an increase in inventory of \$74.7 million and an increase in accounts receivable of \$4.5 million, partially offset by an increase of \$52.8 million in accounts payable.

Cash Flows from Investing Activities

Net cash used in investing activities during the six months ended September 30, 1994 were \$4.1 million. Purchase of property, plant and equipment was \$4.3 million during the six months ended September 30, 1994.

Capital expenditures during the six months ended September 30, 1994 were primarily related to the capacity consolidation at the Waunakee, Wisconsin facility and investment in product quality control equipment at several processing plants.

Cash Flows from Financing Activities

During the six months ended September 30, 1994, the Company increased its borrowings under the Revolver by \$17.9 million to \$52.9 million. This increase was due primarily to the use of cash to fund expected seasonal increases in inventory levels.

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings: None
- Item 2. Changes in Securities: None
- Item 3. Defaults Upon Senior Securities: None
- Item 4. Submission of Matters to a vote of Security Holders

The Annual Meeting of Shareholders of the Company was held on August 26, 1994 for the purpose of electing four directors. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended, and there was no solicitation in opposition to the Board of Directors' solicitation. All four of the Company's nominees were elected, each receiving the vote indicated below:

Orren J. Bradley	
For	7,169,700
Withheld	63,636
Abstain	0
Broker Non Vote	0

James H. DeWees	
For	7,179,785
Withheld	50,651
Abstain	0
Broker Non Vote	0

Carol Ward Knox	
For	7,183,386
Withheld	46,950
Abstain	0
Broker Non Vote	0

Thomas H. Mount	
For	7,181,476
Withheld	48,860
Abstain	0
Broker Non Vote	0

The terms of office for directors Britt, Fish, Theobald, and Wiersma expire in 1995, and the terms of office for directors Carey, Pelisek & Weix expire in 1996.

Item 5. Other Information: None

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits: None
- (b) Reports on Form 8-K: None

Page 14 of 16

STOKELY USA, INC.

SIGNATURES

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

STOKELY USA, INC.

Registrant

Date October 21, 1994

/s/ Stephen W. Theobald

Stephen W. Theobald
Vice Chairman

Date October 21, 1994

/s/ Leslie J. Wilson

Leslie J. Wilson
Vice President - Finance
(Principal Financial Officer)

STOKELY USA, INC.

SIGNATURES

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

STOKELY USA, INC.

Registrant

Date October 21, 1994

Stephen W. Theobald
Vice Chairman

Date October 21, 1994

Leslie J. Wilson
Vice President - Finance
(Principal Financial Officer)

