

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

MICHAEL FOODS INC

CIK: **811930** | IRS No.: **411579532** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-15568** | Film No.: **94527925**
SIC: **2000** Food and kindred products

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BLDG
5353 WAYZATA BLVD
MINNEAPOLIS MN 55416
6125461500

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1994

or

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

For the transition period from _____ to _____

Commission File Number: 0-15568

MICHAEL FOODS, INC.

(Exact name of registrant as specified in its charter)

Delaware

41-1579532

(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

Suite 324, Park National Bank Building
5353 Wayzata Boulevard
Minneapolis, MN

55416

(Address of principal executive offices) (Zip code)

(612) 546-1500

(Registrant's telephone number, including area code)

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 No

The number of shares outstanding of the registrant's Common Stock, \$.01 par value, as of May 13, 1994 was 19,316,139 shares.

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PART I - FINANCIAL INFORMATION

MICHAEL FOODS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

<TABLE>
<CAPTION>

	March 31, 1994	December 31, 1993
<S>	<C>	<C>
ASSETS		

CURRENT ASSETS		
Cash and cash equivalents	\$ 3,442,000	\$ 223,000
Accounts receivable, less allowances	34,901,000	33,087,000
Inventories	52,385,000	49,138,000
Prepaid expenses and other	1,149,000	1,279,000
	-----	-----
Total current assets	91,877,000	83,727,000
PROPERTY PLANT AND EQUIPMENT-AT COST		
Land	4,201,000	4,201,000
Buildings and improvements	90,521,000	89,980,000
Machinery and equipment	170,702,000	166,655,000
	-----	-----
	265,424,000	260,836,000
Less accumulated depreciation	85,365,000	80,398,000
	-----	-----
	180,059,000	180,438,000
OTHER ASSETS		
Goodwill, net	48,493,000	48,844,000
Net assets held for sale	11,754,000	11,939,000
Other	4,690,000	4,139,000
	-----	-----
	64,937,000	64,922,000
	-----	-----
	\$336,873,000	\$329,087,000
	-----	-----
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 9,794,000	\$ 9,814,000
Accounts payable	24,755,000	20,536,000
Accrued compensation	3,122,000	3,720,000
Accrued insurance	7,025,000	6,701,000
Accrued product line disposal costs	1,606,000	12,702,000
Other accrued expenses	9,866,000	7,987,000
	-----	-----
Total current liabilities	56,168,000	61,460,000
LONG-TERM DEBT, less current maturities	104,487,000	94,194,000
DEFERRED INCOME TAXES	18,970,000	18,430,000
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value, 3,000,000 shares authorized, none issued	--	--
Common stock, \$.01 par value, 25,000,000 shares authorized, 19,915,489 shares issued at March 31, 1994	199,000	199,000
Additional paid-in capital	117,640,000	117,640,000
Retained earnings	44,720,000	42,475,000
Treasury stock, 599,350 shares-at cost	(5,311,000)	(5,311,000)
	-----	-----
	157,248,000	155,003,000
	-----	-----
	\$336,873,000	\$329,087,000
	-----	-----
	-----	-----

</TABLE>

See accompanying notes to condensed consolidated financial statements.

MICHAEL FOODS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
Three Months Ended March 31, (Unaudited)

<TABLE>
<CAPTION>

	1994	1993
<S>	<C>	<C>
Net sales	\$121,641,000	\$104,931,000
Cost of sales	104,473,000	92,167,000
Gross profit	17,168,000	12,764,000
Selling, general and administrative expenses	9,855,000	9,729,000
Operating profit	7,313,000	3,035,000
Other (income) expense		
Interest expense	2,181,000	2,448,000
Interest capitalized	(69,000)	(31,000)
Interest income	(10,000)	(183,000)
Earnings before income taxes	5,211,000	801,000
Income tax expense	2,000,000	290,000
NET EARNINGS	\$ 3,211,000	\$ 511,000
NET EARNINGS PER SHARE	\$.17	\$.03
DIVIDENDS PER SHARE	\$.05	\$.05
Weighted average shares outstanding	19,316,000	19,537,000

</TABLE>

See accompanying notes to condensed consolidated financial statements.

<TABLE>
<CAPTION>

	1994	1993
<S>	<C>	<C>
Net cash (used in) provided by operating activities	\$ (729,000)	\$ 12,932,000
Cash flows from investing activities:		
Capital expenditures	(4,715,000)	(1,462,000)
Joint venture and other assets	(644,000)	(1,102,000)
Net cash used in investing activities	(5,359,000)	(2,564,000)
Cash flows from financing activities:		
Proceeds from long-term debt	32,900,000	9,900,000
Payments on long-term debt	(22,627,000)	(22,015,000)
Cash dividends	(966,000)	(977,000)
Net cash provided by (used in) financing activities	9,307,000	(13,092,000)
Net increase (decrease) in cash and cash equivalents	3,219,000	(2,724,000)
Cash and cash equivalents at beginning of year	223,000	6,064,000
Cash and cash equivalents at end of period	\$ 3,442,000	\$ 3,340,000

</TABLE>

See accompanying notes to condensed consolidated financial statements.

MICHAEL FOODS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 1994 and 1993
(Unaudited)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Regulation S-X pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading.

Effective the first quarter of 1994, the Company will utilize a fiscal year consisting of either 52 or 53 weeks, ending on the Saturday nearest to December 31 each year. The quarters ended March 31, 1994 and March 31, 1993 each include thirteen weeks of operations. For clarity of presentation, the Company has described all periods presented as if the quarter ended on March 31.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring

adjustments) necessary to present fairly the financial position as of March 31, 1994 and the results of operations and cash flows for the three month periods ended March 31, 1994 and 1993. The results of operations for the three months ended March 31, 1994 are not necessarily indicative of the results for the full year.

NOTE B - DISPOSAL OF PRODUCT LINE

Prior to 1994, the Company invested in a joint venture with an unrelated company for the purpose of producing reduced cholesterol liquid whole eggs. The Company owned 50% of the joint venture and recognized one half of the profit or loss which resulted from the joint venture. Under the terms of the joint venture agreement, the Company paid a processing toll to the joint venture equal to the costs of production plus an amount to provide a return on each partner's investment.

Due to the significant continuing losses and lack of adequate market acceptance, the Company decided in December 1993 to cause the early termination of the joint venture and to discontinue production of the reduced cholesterol liquid whole eggs product. In the first quarter of 1994, the Company expended \$11,500,000 to acquire the interest of its joint venture partner.

In the first quarter of 1993, the revenues and expenses directly attributable to the discontinued product line were net sales of \$1,394,000, cost of sales of \$2,422,000, selling, general and administrative expenses of \$956,000 and interest income of \$168,000. The Company thus recorded a pre-tax loss directly attributable to the discontinued product line in the first quarter of 1993 of approximately \$1,816,000.

MICHAEL FOODS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

 March 31, 1994 and 1993
 (Unaudited)

NOTE C - INVENTORIES

Inventories other than raw potatoes and potato products are stated at the lower of cost (determined on a first-in, first-out basis) or market. Raw potatoes and potato products are stated at the lower of average cost for the year in which produced or market. Inventories consist of the following:

<TABLE>
 <CAPTION>

	March 31, 1994	December 31, 1993
	-----	-----
<S>	<C>	<C>
Work in process and finished goods	\$ 15,118,000	\$ 14,386,000
Raw materials and supplies	15,948,000	17,028,000
Flocks	21,319,000	17,724,000
	-----	-----
	\$ 52,385,000	\$ 49,138,000
	-----	-----
	-----	-----

</TABLE>

NOTE D - LONG-TERM DEBT

The Company has an unsecured revolving line of credit with its principal banks for \$55,000,000 with interest payable at the banks' reference rates, or alternative variable rates, at the Company's option. At March 31, 1994, the

Company had \$33,500,000 outstanding at a weighted average rate of 4.7%. This revolving line of credit, which matures on January 31, 1996, contains certain restrictive covenants similar to the covenants contained in the Company's senior promissory notes. At March 31, 1994, \$21,500,000 of this line was unused.

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

THREE MONTHS ENDED MARCH 31, 1994 VS. THREE MONTHS ENDED
MARCH 31, 1993

RESULTS OF OPERATIONS

Net earnings for the quarter ended March 31, 1994 were \$3,211,000, an increase of \$2,700,000 from net earnings of \$511,000 in the previous year. Net earnings per share were \$.17 versus \$.03 in the previous year.

Net sales increased \$16,710,000, or 16%, to \$121,641,000 for the quarter ended March 31, 1994 from \$104,931,000 in the previous year. Approximately 60% of the sales increase was due to higher unit sales in each of the Company's four main operating divisions. Additionally, improvement was seen in french fry selling prices. First quarter 1993 net sales include \$1,394,000 attributable to the reduced cholesterol liquid whole eggs product line, which was discontinued in the fourth quarter of 1993.

Gross profit increased \$4,404,000 to \$17,168,000 for the quarter ended March 31, 1994, while gross profit as a percent of sales increased to 14.1% in the first quarter of 1994 from 12.2% in the first quarter of 1993. The improved first quarter 1994 gross profit margin primarily resulted from volume-driven production economies, improved french fry pricing and the elimination of losses from the discontinued reduced cholesterol liquid whole eggs. Low selling prices for commodity-sensitive products, along with high production costs for reduced cholesterol liquid whole eggs, depressed the gross profit margin in 1993. First quarter 1993 gross profit was reduced by a gross loss of \$1,028,000 directly attributable to the discontinued reduced cholesterol liquid whole eggs product line.

Selling, general and administrative expenses increased \$126,000 to \$9,855,000, reflecting the higher sales level, as well as the elimination of expenses from the discontinued reduced cholesterol liquid whole eggs, which were \$956,000 in the first quarter of 1993. Total selling, general and administrative expenses were 8.1% of net sales in 1994 and 9.3% of net sales in 1993.

During the first quarter of 1994, the Company completed the termination of a joint venture which had been formed for the purpose of producing the reduced cholesterol liquid whole eggs product line. The Company previously owned 50% of the joint venture. To effect the termination, the Company acquired the interest of its joint venture partner for \$11,500,000.

GENERAL

Certain of the Company's products are sensitive to changes in commodity prices. The Company's egg operations derive approximately 20% of net sales from shell eggs, which are sensitive to commodity price swings. The remaining 80% of egg sales are derived from the sale of value-added egg products. Gross profit from shell eggs is primarily dependent upon the relationship between shell egg prices and the cost of feed, both of which can fluctuate significantly. Shell egg pricing in the first quarter of 1994 was approximately comparable to first quarter 1993 levels. However, the cost of feed was higher due to higher grain costs. Gross profit margins from value-added egg products are less sensitive to commodity price fluctuations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

GENERAL, CONT.

The Company's refrigerated distribution operations derive approximately 65% of net sales from refrigerated products produced by others, thereby reducing the effect of commodity price swings. The balance of refrigerated distribution sales are from shell eggs, which are generally produced by the eggs and egg products division and are sold on a distribution, or non-commodity, basis by the refrigerated distribution division.

The potato products division typically purchases 80%-90% of its raw potatoes from contract producers under annual contracts. The remainder is purchased at market prices to satisfy short-term production requirements or to take advantage of market prices when they are lower than contracted prices. Small variations in the purchase price of raw materials or the selling price per pound of end products can have a significant effect on potato products division operating results. Prices of frozen french fried potatoes have generally improved over the past 12 months. The impact of raw material costs within the potato products division has been reduced in the past 3 - 4 years due to significant increases in higher value-added refrigerated potato products sales.

The dairy products division sells its products primarily on a cost-plus basis and, therefore, the division's earnings are not typically affected greatly by raw ingredient price fluctuations.

Inflation is not expected to have a significant impact on the Company's business. The Company generally has been able to offset the impact of inflation through a combination of productivity gains and price increases.

CAPITAL RESOURCES AND LIQUIDITY

Acquisitions and capital expenditures have been, and will likely continue to be, a capital requirement. The Company plans to continue to invest in state-of-the-art production facilities to enhance its competitive position, although the annual rate of spending is projected to decline from levels experienced prior to 1993. Historically, the Company has financed its growth principally from internally generated funds, bank borrowings, issuance of senior debt and its sale of Common Stock. The Company believes that these financing alternatives will continue to meet its anticipated needs.

The Company invested approximately \$4,700,000 in capital expenditures during the three months ended March 31, 1994. The Company's 1994 plan calls for approximately \$30,000,000 in total capital expenditures.

The Company has an unsecured line of credit for \$55,000,000 with its principal banks. As of March 31, 1994, approximately \$33,500,000 was borrowed under this line of credit.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

SEASONALITY

Consolidated quarterly operating results are affected by the seasonality of the Company's net sales and operating profits. Specifically, shell egg prices typically rise seasonally in the first and fourth quarters of the year due to increased demand during holiday periods. Generally, the refrigerated distribution division experiences higher net sales and operating profits in the fourth quarter. Operating profits from potato products are less seasonal, but tend to be higher in the second half of the year coinciding with the potato

harvest. Operating profits from dairy operations typically are significantly higher in the second and third quarters due to increased consumption of ice milk and ice cream products during the summer months.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (b) There were no reports on Form 8-K filed during the quarter ended March 31, 1994.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

MICHAEL FOODS, INC.

(Registrant)

Date: May 13, 1994

By: /s/ Gregg A. Ostrander

Gregg A. Ostrander
(President and Chief Executive Officer)

Date: May 13, 1994

By: /s/ John D. Reedy

John D. Reedy
(Vice President - Finance, Treasurer,
Chief Financial Officer and Principal
Accounting Officer)

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