INTERNATIONAL MULTIFOODS CORP
Form 10-Q
January 09, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 29, 2003

OR

o	**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
1-6699

INTERNATIONAL MULTIFOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**41-0871880**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
110 Cheshire Lane, Suite 300, Minnetonka, Minnesota	**55305-1060**
(Address of principal executive offices)	(Zip Code)

(952) 594-3300
(Registrant s telephone number, including area code)

(not applicable)

(Former name, former address and former fiscal year, if changed since last report)

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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ý No o

The number of shares outstanding of the registrant s Common Stock, par value $.10 per share, as of December 27, 2003 was 19,316,170.

PART I. FINANCIAL INFORMATION

INTERNATIONAL MULTIFOODS CORPORATION AND SUBSIDIARIES

Consolidated Condensed Statements of Operations
(unaudited)
(in thousands, except per share amounts)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	Nov. 29, 2003	Nov. 30, 2002	Nov. 29, 2003	Nov. 30, 2002
Net sales	$ 273,693	$ 301,218	$ 696,029	$ 721,700
Cost of goods sold	(215,871)	(236,037)	(564,390)	(573,027)
Gross profit	57,822	65,181	131,639	148,673
Selling, general and administrative	(30,493)	(33,777)	(84,259)	(92,152)
Unusual items	(1,078)		(5,482)	
Operating earnings	26,251	31,404	41,898	56,521
Interest, net	(5,272)	(6,081)	(17,635)	(18,845)
Other income (expense), net		(4,671)	(3,032)	(4,671)
Earnings from continuing operations before income taxes	20,979	20,652	21,231	33,005
Income taxes	(6,746)	(7,898)	(6,414)	(12,592)
Earnings from continuing operations	14,233	12,754	14,817	20,413
Discontinued operations:				
Operating loss, after tax		(2,155)		(7,025)
Cumulative effect of change in accounting principle, net of tax of $23,781				(41,342)
Net loss on disposition, net of tax of $14,362				(25,922)
Loss from discontinued operations		(2,155)		(74,289)
Net earnings (loss)	$ 14,233	$ 10,599	$ 14,817	$ (53,876)
Basic earnings (loss) per share:				
Continuing operations	$ 0.74	$ 0.67	$ 0.77	$ 1.07
Discontinued operations		(0.12)		(3.89)
Total	$ 0.74	$ 0.55	$ 0.77	$ (2.82)
Diluted earnings (loss) per share:				
Continuing operations	$ 0.73	$ 0.66	$ 0.76	$ 1.05
Discontinued operations		(0.11)		(3.83)
Total	$ 0.73	$ 0.55	$ 0.76	$ (2.78)
Average shares of common stock outstanding:				

Basic	19,306	19,131	19,251	19,085
Diluted	19,606	19,327	19,525	19,413

See accompanying notes to consolidated condensed financial statements.

INTERNATIONAL MULTIFOODS CORPORATION AND SUBSIDIARIES

Consolidated Condensed Balance Sheets
(in thousands)

	(Unaudited) Nov. 29, 2003	Condensed from audited financial statements March 1, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 2,118	$ 1,203
Trade accounts receivable, net	87,117	43,909
Inventories	140,023	124,659
Other current assets	31,800	46,242
Total current assets	261,058	216,013
Property, plant and equipment, net	248,025	235,118
Goodwill, net	64,323	63,358
Other intangible assets, net	135,299	135,986
Other assets	113,649	115,789
Total assets	$ 822,354	$ 766,264
Liabilities and Shareholders Equity		
Current liabilities:		
Notes payable	$ 98,615	$ 15,110
Current portion of long-term debt	10,375	1,313
Accounts payable	76,364	70,097
Other current liabilities	38,284	60,499
Total current liabilities	223,638	147,019
Long-term debt	267,540	328,030
Employee benefits and other liabilities	60,410	55,246
Total liabilities	551,588	530,295
Shareholders equity:		
Common stock	2,184	2,184
Accumulated other comprehensive income (loss)	6,138	(10,181)
Other shareholders equity	262,444	243,966
Total shareholders equity	270,766	235,969
Commitments and contingencies		
Total liabilities and shareholders equity	$ 822,354	$ 766,264

See accompanying notes to consolidated condensed financial statements.

INTERNATIONAL MULTIFOODS CORPORATION AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows
(unaudited)
(in thousands)

	NINE MONTHS ENDED	
	Nov. 29, 2003	Nov. 30, 2002
Cash flows from operations:		
Earnings from continuing operations	$ 14,817	$ 20,413
Adjustments to reconcile earnings from continuing operations to cash provided by continuing operations:		
Depreciation and amortization	16,263	10,647
Deferred income tax expense	5,779	9,944
Increase in prepaid pension assets	(2,518)	(8,731)
Loss on early repayment of debt	4,453	4,671
Provision for losses on receivables	2,025	863
Changes in working capital:		
Accounts receivable	(40,850)	(7,865)
Inventories	(6,727)	(17,633)
Other current assets	15,521	(16,393)
Accounts payable	15,806	9,565
Other current liabilities	(23,453)	7,503
Other, net	(268)	6,441
Cash provided by continuing operations	848	19,425
Cash provided by discontinued operations		4,591
Cash provided by operations	848	24,016
Cash flows from investing activities:		
Proceeds from disposition of business		165,774
Capital expenditures	(28,084)	(19,257)
Proceeds from property disposals	2,525	93
Discontinued operations		(1,577)
Cash provided by (used for) investing activities	(25,559)	145,033
Cash flows from financing activities:		
Net increase in notes payable	80,113	15,244
Additions to long-term debt	75,000	
Reductions in long-term debt	(129,017)	(209,967)
Proceeds from issuance of common stock	1,411	1,108
Other, net	(1,935)	(240)
Cash provided by (used for) financing activities	25,572	(193,855)
Decrease in cash from discontinued operations		14
Effect of exchange rate changes on cash and cash equivalents	54	168
Net increase (decrease) in cash and cash equivalents	915	(24,624)
Cash and cash equivalents at beginning of period	1,203	26,459

Cash and cash equivalents at end of period	$ 2,118	$ 1,835

See accompanying notes to consolidated condensed financial statements.

INTERNATIONAL MULTIFOODS CORPORATION AND SUBSIDIARIES

Notes to Consolidated Condensed Financial Statements

(unaudited)

(1) In our opinion, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the consolidated condensed financial statements) necessary to present fairly our financial position as of Nov. 29, 2003, and the results of our operations and cash flows for the interim periods presented. These statements are condensed and, therefore, do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The statements should be read in conjunction with the consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended March 1, 2003. The results of operations for the three and nine months ended Nov. 29, 2003, are not necessarily indicative of the results to be expected for the full year.

(2) Stock-Based compensation

Our stock-based plans permit awards of restricted stock, restricted stock units, stock options and stock appreciation rights to directors and key employees subject to the provisions of the plans and as determined by the Compensation and Human Resources Committee of the Board of Directors. See Note 15 to the consolidated financial statements of our 2003 Annual Report for further information.

We have elected to use the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Under the intrinsic value method, compensation expense is recorded only to the extent that the market price of the common stock exceeds the exercise price of the stock option on the date of grant.

The following provides pro forma effect on earnings and earnings per share if we had applied the fair value recognition provisions prescribed by SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

(in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	Nov. 29, 2003	Nov. 30, 2002	Nov. 29, 2003	Nov. 30, 2002
Net earnings (loss) as reported	$ 14,233	$ 10,599	$ 14,817	$ (53,876)
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of tax	(569)	(600)	(1,506)	(1,721)
Pro forma net earnings (loss)	$ 13,664	$ 9,999	$ 13,311	$ (55,597)
Basic earnings (loss) per share:				

As reported	$	0.74	$	0.55	$	0.77	$	(2.82)
Pro forma		0.71		0.52		0.69		(2.91)
Diluted earnings (loss) per share:								
As reported	$	0.73	$	0.55	$	0.76	$	(2.78)
Pro forma		0.70		0.52		0.68		(2.86)

(3) Comprehensive income (loss) The components of total comprehensive income (loss) were as follows:

(in thousands)	Three Months Ended Nov. 29, 2003	Three Months Ended Nov. 30, 2002	Nine Months Ended Nov. 29, 2003	Nine Months Ended Nov. 30, 2002
Net earnings (loss)	$ 14,233	$ 10,599	$ 14,817	$ (53,876)
Foreign currency translation adjustment	8,526	(704)	16,180	1,717
Net unrealized gain (loss) on cash flow hedges	(59)	(508)	159	(1,945)
Reclassification adjustment for amounts in earnings (loss)	(13)	177	(111)	363
Minimum pension liability adjustment	(21)		91	
Comprehensive income (loss)	$ 22,666	$ 9,564	$ 31,136	$ (53,741)

(4) Goodwill and other intangible assets

The changes in the carrying amount of goodwill by segment for the nine months ended Nov. 29, 2003 are as follows:

(in thousands)	U.S. Consumer Products	Foodservice Products	Canadian Foods	Total
Balance as of March 2, 2003	$ 43,891	$ 12,972	$ 6,495	$ 63,358
Foreign currency translation			965	965
Balance as of Nov. 29, 2003	$ 43,891	$ 12,972	$ 7,460	$ 64,323

Other intangible assets are as follows:

	Nov. 29, 2003			March 1, 2003		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets						
Trademarks	$ 9,090	$ 2,513	$ 6,577	$ 9,090	$ 2,033	$ 7,057
Customer lists	5,800	4,489	1,311	5,800	4,278	1,522
Other	2,048	1,998	50	2,053	1,956	97
Total	$ 16,938	$ 9,000	$ 7,938	$ 16,943	$ 8,267	$ 8,676
Unamortized intangible assets						
Trademarks	$ 127,353	$	$ 127,353	$ 127,302	$	$ 127,302
Other	8		8	8		8
Total	$ 127,361	$	$ 127,361	$ 127,310	$	$ 127,310

Amortization expense related to amortizable intangibles assets for the nine months ended Nov. 29, 2003 and Nov. 30, 2002 was $0.7 million. The estimated amortization expense for fiscal 2004 to fiscal 2008 is expected to approximate $1 million each year.

(5) Unusual items In the third quarter of fiscal 2004, we incurred $1.1 million of severance charges relating to the departures of the President and Chief Operating Officer of the Company and the President of the Foodservice Products business.

In the second quarter of fiscal 2004, we sold production equipment and other assets at our plant in Simcoe, Ontario for approximately $1.9 million in cash. We recorded a $0.4 million pre-tax gain from the sale transaction. We sold the assets as a result of our decision to exit the foodservice pie product line, which generated annual sales of approximately $10 million. In connection with our decision to exit the product line, we also decided to close the Simcoe plant and recorded a pre-tax charge of $1.3 million for severance costs. The plant employed approximately 135 people. We expect to record additional exit costs of up to $0.4 million over the remainder of the year in connection with the plant closing.

In the first quarter of fiscal 2004, we recognized unusual charges of $3.5 million associated with actions taken to reduce the cost structure and improve the financial performance of our Canadian Foods business and our Foodservice Products business in the United States. Unusual items in the first quarter included a $2.5 million charge for severance costs associated with reorganizing our Canadian Foods business. Also included in unusual items was a $1.0 million charge primarily for severance costs associated with reducing the number of production employees at our plant in Sedalia, Missouri and closing two small facilities in the eastern United States.

The liability balance associated with the unusual charges described above was $2.7 million as of Nov. 29, 2003, and is comprised of future severance payments that we expect to pay over the next 12 months. Cash payments related to these unusual charges were $3.1 million for the nine months ended Nov. 29, 2003.

(6) Interest, net

	Three Months Ended		Nine Months Ended	
(in thousands)	**Nov. 29, 2003**	**Nov. 30, 2002**	**Nov. 29, 2003**	**Nov. 30, 2002**
Interest expense	$ 5,400	$ 6,630	$ 17,953	$ 24,709
Capitalized interest	(80)	(177)	(216)	(367)
Interest income	(48)	(203)	(102)	(323)
	5,272	6,250	17,635	24,019
Interest expense allocated to discontinued operations		(169)		(5,174)
Interest, net	$ 5,272	$ 6,081	$ 17,635	$ 18,845

Cash payments for interest, net of amounts capitalized, were $19.6 million and $22.8 million for the nine months ended Nov. 29, 2003, and Nov. 30, 2002, respectively.

(7) Other income (expense), net During the second quarter of fiscal 2004, we recognized a non-cash write off of unamortized financing costs of $4.4 million as a result of replacing our senior secured credit facility. See Note 10 for

additional information.

In the first quarter of fiscal 2004, we realized a $1.4 million foreign exchange gain on U.S. dollar-denominated debt that was held by our Canadian business.

(8) Income taxes Cash refunds for income taxes were $2.5 million for the nine months ended Nov. 29, 2003. Cash payments for income taxes was $4.1 million for the nine months ended Nov. 30, 2002.

(9) Supplemental balance sheet information

(in thousands)		Nov. 29, 2003		March 1, 2003
Trade accounts receivable, net:				
Trade	$	89,504	$	44,276
Allowance for doubtful accounts		(2,387)		(367)
Total trade accounts receivable, net	$	87,117	$	43,909
Inventories:				
Raw materials, excluding grain	$	19,810	$	12,675
Grain		5,634		6,282
Finished and in-process goods		105,262		99,269
Packages and supplies		9,317		6,433
Total inventories	$	140,023	$	124,659
Property, plant and equipment, net:				
Land	$	3,583	$	3,313
Buildings and improvements		75,944		69,309
Machinery and equipment		294,858		235,570
Improvements in progress		17,460		44,889
		391,845		353,081
Accumulated depreciation		(143,820)		(117,963)
Total property, plant and equipment, net	$	248,025	$	235,118
Accumulated other comprehensive income (loss):				
Foreign currency translation adjustment	$	4,958	$	(11,222)
Minimum pension liability adjustment		(2,987)		(3,078)
Derivative hedge accounting adjustment		4,167		4,119
Total accumulated other comprehensive income (loss)	$	6,138	$	(10,181)

(10) Notes payable and long-term debt - In August 2003, we entered into a new five year, $250 million senior secured credit agreement in order to refinance some of our debt under more favorable terms. The new financing replaced the remaining balance on our $450 million senior secured credit facility that was obtained in connection with our November 2001 acquisition of the Pillsbury desserts and specialty products from General Mills.

The new $250 million senior secured credit agreement is comprised of a $175 million revolving credit facility and $75 million of amortizing term loans. The interest rates on borrowings under the new credit agreement are variable and based on current market interest rates plus a spread based on our leverage. The current spread on LIBOR based loans is 2.25%. The credit agreement also contains covenants that require the maintenance of leverage and fixed charge coverage ratios and limit revolver borrowings based on asset levels. Borrowings under the agreement may be used for general corporate purposes. The agreement is secured by our assets.

In September 2003, we entered into three interest rate swap agreements for an aggregate notional amount of $75 million that expire on Nov. 13, 2009. Under the terms of the swap agreements, we will receive a fixed interest rate of 6.602% and pay a floating interest rate based on three-month LIBOR plus a predetermined spread that will average 2.465%. We will account for these swap agreements as fair value hedges on $75 million of our unsecured notes that mature on Nov. 13, 2009 and have an interest rate of 6.602%. We entered into the swap agreements in order to achieve a targeted proportion of variable versus fixed rate debt.

(11) Segment information

We manage the company through three operating segments: U.S. Consumer Products, Foodservice Products and Canadian Foods. Our organizational structure is the basis for reporting business results to management and the segment data presented in this Note.

(in millions)		Net Sales		Operating Costs		Unusual Items		Operating Earnings
Three Months Ended Nov. 29, 2003								
U.S. Consumer Products	$	133.2	$	(109.3)	$		$	23.9
Foodservice Products		53.4		(52.8)		(0.3)		0.3
Canadian Foods		87.1		(80.7)				6.4
Corporate				(3.6)		(0.8)		(4.4)
Total	$	273.7	$	(246.4)	$	(1.1)	$	26.2
Three Months Ended Nov. 30, 2002								
U.S. Consumer Products	$	151.8	$	(128.5)	$		$	23.3
Foodservice Products		59.4		(57.8)				1.6
Canadian Foods		90.0		(81.1)				8.9
Corporate				(2.4)				(2.4)
Total	$	301.2	$	(269.8)	$		$	31.4
Nine Months Ended Nov. 29, 2003								
U.S. Consumer Products	$	296.5	$	(254.7)	$		$	41.8
Foodservice Products		158.8		(156.7)		(2.2)		(0.1)
Canadian Foods		240.7		(227.0)		(2.5)		11.2
Corporate				(10.2)		(0.8)		(11.0)
Total	$	696.0	$	(648.6)	$	(5.5)	$	41.9
Nine Months Ended Nov. 30, 2002								
U.S. Consumer Products	$	317.7	$	(273.6)	$		$	44.1
Foodservice Products		176.0		(171.4)				4.6
Canadian Foods		228.0		(210.0)				18.0
Corporate				(10.2)				(10.2)
Total	$	721.7	$	(665.2)	$		$	56.5

(12) Contingencies - In fiscal 1998, we were notified that approximately $6 million of our inventory was taken from a ship in the port of St. Petersburg, Russia. The ship had been chartered by a major customer of our former food-exporting business. Following submission of a claim for indemnity, the insurance carrier denied our claim for coverage, and we commenced a lawsuit seeking to obtain coverage under the insurance carrier s policy. In October 2001, the U.S. District Court of the Southern District of New York granted us summary judgment on our claim, which is carried on our books as a $6 million receivable, and awarded us interest to the date of judgment. The interest has not been recognized on our books. On Oct. 17, 2002, following an appeal by the insurance carrier, the U.S. Court of Appeals for the Second Circuit partially affirmed the summary judgment with respect to the amount of loss and held that such loss is within the scope of the policy. The Court of Appeals, however, remanded the case back to the

District Court for further proceedings to determine whether certain provisions of the policy had the effect of excluding coverage. We continue to believe that the loss is covered by the insurance policy, and we will continue to aggressively pursue our claim against the insurer. If we are ultimately unable to collect on the policy, we would record a loss of $6 million to write off the receivable for the estimated recovery of the claim.

On Sept. 9, 2002, we completed the sale of our foodservice distribution business to Wellspring Distribution Corp. We continue to guarantee certain real estate, information system and tractor/trailer fleet lease obligations of our former business. However, at the time of the sale of the business, we

renegotiated our guarantee of the business s fleet lease obligations. The guarantee now requires the lessor to pursue collection and other remedies against our former subsidiaries before demanding payment from us. In addition, our guarantee obligation is limited to 75% of the amount outstanding after the lessor has exhausted its remedies against our former subsidiaries. This reduces our risk under the fleet lease guarantee. In addition, while the initial guarantee was not limited by time, the fleet lease guarantee will now expire in September 2006.

The outstanding guarantees for the lease obligations of our former subsidiaries as of Nov. 29, 2003, were as follows:

(in millions)		**Amounts**
Tractor/trailer	$	21.5
Real estate		14.3
Information systems		0.1
Total	$	35.9

If Wellspring Distribution Corp. was unable to meet its obligations that we have guaranteed, any loss would be reduced by the amount generated from the liquidation of the tractor/trailer fleet and income from the sub-lease of real estate space.

The possibility that we would have to honor our contingent liabilities under the guaranties is largely dependent upon the future operations of our former subsidiaries and the value of the underlying leased properties. Should a reserve be required in the future, it would be recorded at the time the obligation was determined to be probable.

INTERNATIONAL MULTIFOODS CORPORATION AND SUBSIDIARIES

Management s Discussion and Analysis of Results of

Operations and Financial Condition

OVERVIEW

International Multifoods is a North American producer of branded consumer foods and foodservice products, including baking mixes, frozen bakery products, flour, ready-to-spread frostings, condiments, potato and pancake mix offerings. We manage the company through three operating segments U.S. Consumer Products, Foodservice Products and Canadian Foods.

In September 2002, we sold our foodservice distribution business for $166 million in cash to Wellspring Distribution Corp. The foodservice distribution business is classified as discontinued operations in the consolidated condensed financial statements.

In December 2003, we announced that we had retained an outside consulting firm to help us conduct an enterprise wide assessment of our operational structure in order to identify opportunities to reduce costs, and improve productivity and organizational effectiveness. We expect to complete the assessment by the end of February 2004. The organizational assessment is also expected to result in restructuring actions that may result in charges that would be material to our results of operations.

Results of Operations

Continuing Operations

Overview

Consolidated net sales in the third quarter ended Nov. 29, 2003, declined 9% to $273.7 million. The decline was primarily driven by lower sales volume in each of our business segments. The decline was partially offset by the impact on net sales of a stronger Canadian dollar on currency translation.

Earnings from continuing operations were $14.2 million, or 73 cents per diluted share, in the third quarter ended Nov. 29, 2003, compared with earnings of $12.8 million, or 66 cents per share, in the same period last year. Earnings in the current quarter were adversely affected by lower sales volumes and lower pension income. We were also adversely impacted by a $1.1 million pre-tax charge, or 3 cents per share, for severance costs associated with the departure of two executive officers. Last year, our third quarter results were affected by a pre-tax charge of $4.7 million, or 15 cents per share, associated with the early repayment of term loans.

Consolidated net sales for the nine months ended Nov. 29, 2003, were $696 million, compared with $721.7 million in the same period last year. Consolidated net sales were affected by the same factors as described in the third quarter.

Earnings from continuing operations for the nine months ended Nov. 29, 2003, were $14.8 million, or 76 cents per diluted share, compared with earnings of $20.4 million, or $1.05 per diluted share in the same period last year. Earnings in the current nine-month period were adversely affected by pre-tax charges of $5.5 million, or 17 cents per share, which included costs to restructure and increase the competitiveness of our Canadian Foods business and our Foodservice Products business. See Note 5 to the consolidated condensed financial statements for additional information on these charges. Earnings in the current nine-month period were also adversely affected by a pre-tax charge of $4.4 million, or 14 cents per share, to write off unamortized financing costs on a senior secured credit facility that we replaced in August 2003. In addition, earnings from

continuing operations in the current period were adversely affected by higher commodity costs and lower pension income.

Segment Results

U.S. Consumer Products: Net sales in the third quarter declined 12% to $133.2 million, compared with $151.8 million in the same period a year ago. Unit sales volume declined 15% due to aggressive competitive promotional activity and soft product category trends. Product category trends have been affected by the growing popularity of low carbohydrate diets, which we believe will continue to negatively impact consumer demand in the foreseeable future. The decline in net sales was partially offset by higher average selling prices.

Operating earnings were $23.9 million, compared with $23.3 million last year. The slight increase in earnings was driven by the higher average selling prices and lower selling and promotional expenses, which more than offset the affect of the lower sales volume.

Net sales for the nine-month period ended Nov. 29, 2003, declined 7% to $296.5 million, compared with $317.7 million in the same period a year ago. The sales decline was the result of lower unit volumes, which were affected by competitive promotional activity, soft product category trends and the bankruptcy of Fleming Companies, Inc. Operating earnings declined 5% to $41.8 million, compared with $44.1 million in the same period last year. The decline in earnings was driven by the lower sales volume, a $1.7 million bad debt reserve associated with the Fleming bankruptcy and higher commodity costs.

Foodservice Products: Net sales in the third quarter declined 10% to $53.4 million, compared with $59.4 million in the same period a year ago. The decline was partially the result of lower unit volumes in our bakery mix product lines, which have been impacted by ongoing softness in the foodservice industry and competitive pressures. The sales decline was also the result of lower unit sales volume in our ready-to-bake product line, which was primarily the result of exiting a large unprofitable customer account.

Operating earnings in the third quarter were $0.3 million, compared with $1.6 million last year. Operating earnings in the current quarter were affected by higher raw material costs and the lower sales volumes. Raw material costs increased primarily as a result of sharply higher egg costs. We believe that high egg costs as well as unfavorable sales volumes will continue to negatively impact operating results of the business segment for the remainder of the fiscal year. The earnings decline, however, was partially offset by reduced selling and administrative costs.

Net sales for the nine-month period ended Nov. 29, 2003, declined 10% to $158.8 million, compared with $176 million in the same period a year ago. The decline in net sales was due to the same factors discussed for the third quarter.

We recognized an operating loss of $0.1 million in the current nine-month period, compared with operating earnings of $4.6 million in the same period last year. In addition to the factors described in the discussion of the third quarter, operating results in the current nine-month period were impacted by a $1 million pre-tax charge for severance costs associated with reducing the number of production employees at our plant in Sedalia, Missouri and closing two small facilities in the eastern United States. Operating results in the current period were also affected by a $1.3 million pre-tax charge for severance costs associated with closing a plant in Simcoe, Ontario, Canada. In addition, we sold production equipment and other assets at the plant for a pre-tax gain of $0.4 million. The plant closure and asset sale

resulted from our decision to exit the frozen pie product line, which had annual sales of approximately $10 million but did not generate operating earnings.

Canadian Foods: Net sales in the third quarter declined 3% to $87.1 million, despite the impact of a stronger Canadian dollar on currency translation. Excluding the effects of currency translation, net sales declined approximately

15%, due primarily to lower volumes in commercial and consumer baking mixes, and export products. We experienced a significant decline in commercial bakery mix volume as a result of a large customer transitioning to a frozen product format. The decline in consumer mixes was attributable to our decision to discontinue the sale of Duncan Hines products in Canada, which we manufactured and marketed under an agreement with Aurora Foods Inc. The agreement expired in June 2003.

Operating earnings in the third quarter declined 28% to $6.4 million, compared with $8.9 million last year. The earnings decline was primarily driven by the sales volume decline and unfavorable gross margin impact on our U.S. dollar-denominated sales as a result of a stronger Canadian dollar. If the Canadian dollar continues to stay strong relative to the U.S. dollar, our gross margin on U.S. dollar-denominated sales will continue to be adversely impacted.

Net sales for the nine-month period ended Nov. 29, 2003, increased 6% to $240.7 million, compared with $228 million in the same period last year. Net sales were affected by the same factors described in the third quarter. Operating earnings declined 38% to $11.2 million, compared with $18 million last year. In addition to the factors described in the third quarter, operating earnings in the current nine-month period were adversely affected by a $2.5 million pre-tax charge for severance costs associated with reorganizing the Canadian Foods business.

Corporate: In the third quarter of fiscal 2004, we recorded a pre-tax charge of $0.8 million for severance costs associated with the departure of the President of the Company.

Non-operating Expense and Income

During the second quarter of fiscal 2004, we recognized a non-cash write off of unamortized financing costs of $4.4 million as a result of replacing our senior secured credit facility. In the first quarter of fiscal 2004, we recorded a $1.4 million foreign exchange gain on U.S. dollar-denominated debt that was held by our Canadian business. The gain resulted from a stronger Canadian dollar, which had the effect of reducing the amount of Canadian dollars our Canadian business needed to repay the U.S. dollar debt obligation.

Income Taxes

For the nine months ended Nov. 29, 2003, our consolidated effective income tax rate was 30.2%, compared with 38.2% in the same period last year. The decline is primarily the result of the implementation of tax planning initiatives in Canada and favorable resolution of state tax audits.

<u>Financial Condition</u>

Our major sources of liquidity are cash flows from operations and borrowings from our $175 million revolving credit facility. As of Nov. 29, 2003, we had $71 million available under the revolving credit facility.

We believe that cash flows from operations and borrowings from our existing revolving credit facility will be sufficient to meet our operating requirements and debt service obligations over the next twelve months.

Capital Resources

In August 2003, we entered into a new five year, $250 million senior secured credit agreement with a syndicate of banks in order to refinance our previous credit facility under more favorable terms. The new senior secured credit agreement is comprised of a $175 million revolving credit facility and $75 million of amortizing term loans. The interest rates on borrowings under the new credit agreement are variable and based on current market interest rates plus a spread based on our leverage. The current spread on LIBOR based loans is 2.25%. The credit agreement also contains covenants that require the maintenance of leverage and fixed charge coverage ratios and limit revolver

borrowings based on our asset levels. Borrowings under the agreement may be used for general corporate purposes. The agreement is secured by our assets.

In September 2003, we entered into three interest rate swap agreements for an aggregate notional amount of $75 million that expire on Nov. 13, 2009. Under the terms of the swap agreements, we will receive a fixed interest rate of 6.602% and pay a floating interest rate based on three-month LIBOR plus a predetermined spread that will average 2.465%. We will account for these swap agreements as fair value hedges on $75 million of our unsecured notes that mature on Nov. 13, 2009 and have an interest rate of 6.602%. We entered into the swap agreements in order to achieve a targeted proportion of variable versus fixed rate debt.

In November 2003, Standard & Poor s lowered our corporate credit rating to BB- from BB and placed our rating on CreditWatch with negative implications. We believe that the credit rating downgrade will not impact our results of operations or liquidity.

Cash Flows

Cash provided by continuing operations was $0.8 million for the first nine months of fiscal 2004, compared with $19.4 million in the prior-year nine-month period. Operating cash flows in the current period were adversely impacted by the completion of transition services for our U.S. Consumer Products business, which had been provided by General Mills since the November 2001 acquisition of the business. Under a transition services agreement, General Mills handled invoicing and collections and paid certain accounts payable for the business, which resulted in the related trade receivables and payables being carried by General Mills last year. During the first quarter, we assumed direct responsibility for all billing, collection and payment activities of the business. As a result, we now carry on our balance sheet the accounts receivable and payables of the acquired business. Operating cash flows were also impacted by a decline in trade promotion liabilities, which are included in other current liabilities on the consolidated condensed balance sheet.

Capital expenditures in the nine months ended Nov. 29, 2003, were $28.1 million and included $11.5 million for the Toledo, Ohio, plant that we acquired from General Mills. Capital expenditures also included additional investment in equipment at the Toledo plant and an expansion project at our flour mill in Montreal, Quebec. Capital expenditures in the nine months ended Nov. 30, 2002, were $19.3 million.

Cautionary Statement Relevant to Forward-Looking Information

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations or beliefs, including, but not limited to, statements concerning our operations and financial performance and condition. For this purpose, statements that are not statements of historical fact may be deemed to be forward-looking statements. We caution that these statements by their nature involve risks and uncertainties, and actual results may differ materially depending on a variety of important factors, including, among others, the impact of competitive products and pricing; changes in consumer preferences and tastes or perceptions of health-related issues; effectiveness of advertising or market-spending programs; market or weather conditions that may affect the costs of grain, other raw materials, utilities and fuel; the impact of labor matters; changes in laws and regulations; fluctuations in foreign exchange and interest rates; the potential inability to collect on a $6 million insurance receivable claim related to the loss of product in St. Petersburg, Russia; the potential enforcement of our guaranties on lease obligations of our former distribution business; risks commonly encountered in international trade; and other factors as may be discussed in our reports filed with the Securities and Exchange Commission.

Item 4. Disclosure Controls and Procedures

At the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934 (the Exchange Act)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to reasonably ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. In addition, during the period covered by this report, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 6. **Exhibits and Reports on Form 8-K**

(a) Exhibits

11.	Computation of Earnings (Loss) per Common Share.
12.	Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

During the quarter ended November 29, 2003, Multifoods furnished (1) a Current Report on Form 8-K dated September 25, 2003, relating to Multifoods financial results for its second quarter ended August 30, 2003 and (2) a Current Report on Form 8-K dated November 5, 2003, relating to Multifoods expected earnings per share for its fiscal year ending February 28, 2004.

SIGNATURE

Pursuant to the requirements 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.

INTERNATIONAL MULTIFOODS CORPORATION

Date:	January 9, 2004	By	/s/ John E. Byom
			John E. Byom
			Senior Vice President, Finance, and
			Chief Financial Officer
			(Principal Financial Officer
			and Duly Authorized Officer

EXHIBIT INDEX

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