

INTERNATIONAL MULTIFOODS CORP  
Form 10-Q  
October 10, 2003

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

(Mark One)

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

For the quarterly period ended August 30, 2003

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

**1-6699**

## INTERNATIONAL MULTIFOODS CORPORATION

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**41-0871880**

(I.R.S. Employer Identification No.)

**110 Cheshire Lane, Suite 300, Minnetonka,  
Minnesota**

(Address of principal executive offices)

**55305**

(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)

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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

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

Yes  No

The number of shares outstanding of the registrant's Common Stock, par value \$.10 per share, as of October 3, 2003 was 19,308,806.

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**PART I. FINANCIAL INFORMATION**

## INTERNATIONAL MULTIFOODS CORPORATION AND SUBSIDIARIES

## Consolidated Condensed Statements of Operations

(unaudited)

(in thousands, except per share amounts)

|   | THREE MONTHS ENDED |                  | SIX MONTHS ENDED |                  |
|---|--------------------|------------------|------------------|------------------|
|   | Aug. 30,<br>2003   | Aug. 31,<br>2002 | Aug. 30,<br>2003 | Aug. 31,<br>2002 |
| Net sales   | \$ 208,438         | \$ 210,055       | \$ 422,336       | \$ 420,482       |
| Cost of goods sold  | (170,234)          | (168,593)        | (348,519)        | (336,990)        |
| Gross profit  | 38,204             | 41,462           | 73,817           | 83,492           |
| Selling, general and administrative   | (25,983)           | (28,154)         | (53,766)         | (58,375)         |
| Unusual items   | (889)              |                  | (4,404)          |                  |
| Operating earnings  | 11,332             | 13,308           | 15,647           | 25,117           |
| Interest, net   | (6,129)            | (6,288)          | (12,363)         | (12,764)         |
| Other income (expense), net   | (4,453)            |                  | (3,032)          |                  |
| Earnings from continuing operations before income taxes                     | 750                | 7,020            | 252              | 12,353           |
| Income taxes  | 137                | (2,667)          | 332              | (4,694)          |
| Earnings from continuing operations   | 887                | 4,353            | 584              | 7,659            |
| Discontinued operations:  |                    |                  |                  |                  |
| Operating loss, after tax   |                    | (6,468)          |                  | (4,870)          |
| 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)         |                  | (25,922)         |
| Loss from discontinued operations   |                    | (32,390)         |                  | (72,134)         |
| Net earnings (loss)   | \$ 887             | \$ (28,037)      | \$ 584           | \$ (64,475)      |
| Basic earnings (loss) per share:  |                    |                  |                  |                  |
| Continuing operations   | \$ 0.05            | \$ 0.23          | \$ 0.03          | \$ 0.40          |
| Discontinued operations   |                    | (1.70)           |                  | (3.78)           |
| Total   | \$ 0.05            | \$ (1.47)        | \$ 0.03          | \$ (3.38)        |
| Diluted earnings (loss) per share:  |                    |                  |                  |                  |
| Continuing operations   | \$ 0.05            | \$ 0.22          | \$ 0.03          | \$ 0.39          |
| Discontinued operations   |                    | (1.66)           |                  | (3.70)           |
| Total   | \$ 0.05            | \$ (1.44)        | \$ 0.03          | \$ (3.31)        |

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| Average shares of common stock outstanding: |        |        |        |        |
|---|--------|--------|--------|--------|
| Basic                                       | 19,253 | 19,095 | 19,223 | 19,062 |
| Diluted                                     | 19,547 | 19,491 | 19,429 | 19,473 |

See accompanying notes to consolidated condensed financial statements.

## INTERNATIONAL MULTIFOODS CORPORATION AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets

(in thousands)

|   | (Unaudited)<br>Aug. 30,<br>2003 | Condensed<br>from audited<br>financial<br>statements<br>March 1,<br>2003 |
|---|---------------------------------|--|
| <b>Assets</b>                               |                                 |  |
| Current assets:                             |                                 |  |
| Cash and cash equivalents                   | \$ 1,467                        | \$ 1,203   |
| Trade accounts receivable, net              | 69,288                          | 43,909   |
| Inventories                                 | 152,052                         | 124,659  |
| Other current assets                        | 37,081                          | 46,242   |
| Total current assets                        | 259,888                         | 216,013  |
| Property, plant and equipment, net          | 239,191                         | 235,118  |
| Goodwill, net                               | 63,810                          | 63,358   |
| Other intangible assets, net                | 135,509                         | 135,986  |
| Other assets                                | 116,740                         | 115,789  |
| Total assets                                | \$ 815,138                      | \$ 766,264   |
| <b>Liabilities and Shareholders' Equity</b> |                                 |  |
| Current liabilities:                        |                                 |  |
| Notes payable                               | \$ 61,457                       | \$ 15,110  |
| Current portion of long-term debt           | 10,006                          | 1,313  |
| Accounts payable                            | 85,496                          | 70,097   |
| Other current liabilities                   | 39,223                          | 60,499   |
| Total current liabilities                   | 196,182                         | 147,019  |
| Long-term debt                              | 314,999                         | 328,030  |
| Employee benefits and other liabilities     | 57,155                          | 55,246   |
| Total liabilities                           | 568,336                         | 530,295  |
| Shareholders' equity:                       |                                 |  |
| Common stock                                | 2,184                           | 2,184  |
| Accumulated other comprehensive loss        | (2,295)                         | (10,181)   |
| Other shareholders' equity                  | 246,913                         | 243,966  |
| Total shareholders' equity                  | 246,802                         | 235,969  |
| Commitments and contingencies               |                                 |  |
| Total liabilities and shareholders' equity  | \$ 815,138                      | \$ 766,264   |

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See accompanying notes to consolidated condensed financial statements.

## INTERNATIONAL MULTIFOODS CORPORATION AND SUBSIDIARIES

## Consolidated Condensed Statements of Cash Flows

(unaudited)

(in thousands)

|  | SIX MONTHS ENDED |                  |
|--|------------------|------------------|
|  | Aug. 30,<br>2003 | Aug. 31,<br>2002 |
| Cash flows from operations:  |                  |                  |
| Earnings from continuing operations  | \$ 584           | \$ 7,659         |
| Adjustments to reconcile earnings from continuing operations to cash provided by (used for) continuing operations: |                  |                  |
| Depreciation and amortization  | 10,600           | 7,555            |
| Deferred income tax expense (benefit)  | (1,201)          | 3,515            |
| Increase in prepaid pension assets   | (1,697)          | (5,495)          |
| Provision for losses on receivables  | 1,895            | 769              |
| Changes in working capital:  |                  |                  |
| Accounts receivable  | (25,253)         | (847)            |
| Inventories  | (23,419)         | (24,770)         |
| Other current assets   | 9,646            | (2,002)          |
| Accounts payable   | 21,562           | 10,784           |
| Other current liabilities  | (21,860)         | 15,788           |
| Other, net   | 2,649            | 5,341            |
| Cash provided by (used for) continuing operations  | (26,494)         | 18,297           |
| Cash provided by discontinued operations   |                  | 3,262            |
| Cash provided by (used for) operations   | (26,494)         | 21,559           |
| Cash flows from investing activities:  |                  |                  |
| Capital expenditures   | (15,297)         | (13,211)         |
| Proceeds from property disposals   | 1,929            | 93               |
| Discontinued operations  |                  | (1,577)          |
| Cash used for investing activities   | (13,368)         | (14,695)         |
| Cash flows from financing activities:  |                  |                  |
| Net increase in notes payable  | 45,134           | 4,216            |
| Additions to long-term debt  | 125,000          |                  |
| Reductions in long-term debt   | (129,343)        | (15,813)         |
| Proceeds from issuance of common stock   | 889              | 1,048            |
| Other, net   | (1,507)          | (233)            |
| Cash provided by (used for) financing activities   | 40,173           | (10,782)         |
| Effect of exchange rate changes on cash and cash equivalents   | (47)             | 169              |
| Net increase (decrease) in cash and cash equivalents   | 264              | (3,749)          |
| Cash and cash equivalents at beginning of period   | 1,203            | 26,459           |
| Cash and cash equivalents at end of period   | \$ 1,467         | \$ 22,710        |

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 Aug. 30, 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 six months ended Aug. 30, 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,<br>except per share amounts)  | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | Aug. 30,<br>2003   | Aug. 31,<br>2002 | Aug. 30,<br>2003 | Aug. 31,<br>2002 |
| Net earnings (loss) as reported  | \$ 887             | \$ (28,037)      | \$ 584           | \$ (64,475)      |
| Deduct: Total stock-based employee compensation expense determined under fair value based method, net of tax | (552)              | (662)            | (937)            | (1,121)          |
| Pro forma net earnings (loss)  | \$ 335             | \$ (28,699)      | \$ (353)         | \$ (65,596)      |
| Basic earnings (loss) per share:   |                    |                  |                  |                  |
| As reported  | \$ 0.05            | \$ (1.47)        | \$ 0.03          | \$ (3.38)        |

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|                                    |         |           |         |           |
|------------------------------------|---------|-----------|---------|-----------|
| Pro forma                          | 0.02    | (1.50)    | (0.02)  | (3.44)    |
| Diluted earnings (loss) per share: |         |           |         |           |
| As reported                        | \$ 0.05 | \$ (1.44) | \$ 0.03 | \$ (3.31) |
| Pro forma                          | 0.02    | (1.47)    | (0.02)  | (3.37)    |

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

| (in thousands)   | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | Aug. 30,<br>2003   | Aug. 31,<br>2002 | Aug. 30,<br>2003 | Aug. 31,<br>2002 |
| Net earnings (loss)  | \$ 887             | \$ (28,037)      | \$ 584           | \$ (64,475)      |
| Foreign currency translation adjustment                    | (2,193)            | (1,534)          | 7,654            | 2,421            |
| Net unrealized gain (loss) on cash flow hedges             | 92                 | (1,153)          | 218              | (1,437)          |
| Reclassification adjustment for amounts in earnings (loss) | (9)                | 161              | (98)             | 186              |
| Minimum pension liability adjustment                       | 5                  |                  | 112              |                  |
| Comprehensive income (loss)                                | \$ (1,218)         | \$ (30,563)      | \$ 8,470         | \$ (63,305)      |

(4) **Goodwill and other intangible assets**

The changes in the carrying amount of goodwill by segment for the six months ended Aug. 30, 2003 are as follows:

| (in thousands)               | U.S.<br>Consumer<br>Products |           | Foodservice<br>Products |    | Canadian<br>Foods |    | Total  |
|------------------------------|------------------------------|-----------|-------------------------|----|-------------------|----|--------|
|                              | \$                           | \$        | \$                      | \$ | \$                | \$ |        |
| Balance as of March 2, 2003  | \$ 43,891                    | \$ 12,972 | \$ 6,495                | \$ | \$                | \$ | 63,358 |
| Foreign currency translation |                              |           | 452                     |    |                   |    | 452    |
| Balance as of Aug. 30, 2003  | \$ 43,891                    | \$ 12,972 | \$ 6,947                | \$ | \$                | \$ | 63,810 |

Other intangible assets are as follows:

| (in thousands)                       | Aug. 30, 2003               |                             |            | March 1, 2003               |                             |            |
|--------------------------------------|-----------------------------|-----------------------------|------------|-----------------------------|-----------------------------|------------|
|                                      | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net        | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net        |
| <b>Amortized intangible assets</b>   |                             |                             |            |                             |                             |            |
| Trademarks                           | \$ 9,090                    | \$ 2,353                    | \$ 6,737   | \$ 9,090                    | \$ 2,033                    | \$ 7,057   |
| Customer lists                       | 5,800                       | 4,419                       | 1,381      | 5,800                       | 4,278                       | 1,522      |
| Other                                | 2,048                       | 1,998                       | 50         | 2,053                       | 1,956                       | 97         |
| Total                                | \$ 16,938                   | \$ 8,770                    | \$ 8,168   | \$ 16,943                   | \$ 8,267                    | \$ 8,676   |
| <b>Unamortized intangible assets</b> |                             |                             |            |                             |                             |            |
| Trademarks                           | \$ 127,333                  | \$                          | \$ 127,333 | \$ 127,302                  | \$                          | \$ 127,302 |
| Other                                | 8                           |                             | 8          | 8                           |                             | 8          |
| Total                                | \$ 127,341                  | \$                          | \$ 127,341 | \$ 127,310                  | \$                          | \$ 127,310 |

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Amortization expense related to amortizable intangibles assets for the six months ended Aug. 30, 2003 and Aug. 31, 2002 was \$0.5 million. The estimated amortization expense for fiscal 2004 to fiscal 2008 is expected to approximate \$1 million each year.

**(5) Unusual items** 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 \$0.7 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 \$3.4 million as of Aug. 30, 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 \$1.3 million for the six months ended Aug. 30, 2003.

**(6) Interest, net**

| (in thousands)  | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | Aug. 30,<br>2003   | Aug. 31,<br>2002 | Aug. 30,<br>2003 | Aug. 31,<br>2002 |
| Interest expense                                      | \$ 6,178           | \$ 8,980         | \$ 12,553        | \$ 18,079        |
| Capitalized interest                                  | (45)               | (125)            | (136)            | (190)            |
| Interest income                                       | (4)                | (71)             | (54)             | (120)            |
|   | 6,129              | 8,784            | 12,363           | 17,769           |
| Interest expense allocated to discontinued operations |                    | (2,496)          |                  | (5,005)          |
| Interest, net   | \$ 6,129           | \$ 6,288         | \$ 12,363        | \$ 12,764        |

Cash payments for interest, net of amounts capitalized, were \$4.4 million and \$9.4 million for the six months ended Aug. 30, 2003, and Aug. 31, 2002, respectively.

**(7) Other income (expense), net** During the second quarter, 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 August 2003. See Note 10 for additional information.

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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 payments for income taxes were \$0.5 million and \$4.5 million for the six months ended Aug. 30, 2003, and Aug. 31, 2002, respectively.

**(9) Supplemental balance sheet information**

| (in thousands)                             | Aug. 30,<br>2003 | March 1,<br>2003 |
|--|------------------|------------------|
| Trade accounts receivable, net:            |                  |                  |
| Trade                                      | \$ 71,618        | \$ 44,276        |
| Allowance for doubtful accounts            | (2,330)          | (367)            |
| Total trade accounts receivable, net       | \$ 69,288        | \$ 43,909        |
| Inventories:                               |                  |                  |
| Raw materials, excluding grain             | \$ 19,221        | \$ 12,675        |
| Grain                                      | 5,162            | 6,282            |
| Finished and in-process goods              | 118,438          | 99,269           |
| Packages and supplies                      | 9,231            | 6,433            |
| Total inventories                          | \$ 152,052       | \$ 124,659       |
| Property, plant and equipment, net:        |                  |                  |
| Land                                       | \$ 3,439         | \$ 3,313         |
| Buildings and improvements                 | 78,337           | 69,309           |
| Machinery and equipment                    | 275,256          | 235,570          |
| Improvements in progress                   | 14,248           | 44,889           |
|  | 371,280          | 353,081          |
| Accumulated depreciation                   | (132,089)        | (117,963)        |
| Total property, plant and equipment, net   | \$ 239,191       | \$ 235,118       |
| Accumulated other comprehensive loss:      |                  |                  |
| Foreign currency translation adjustment    | \$ (3,568)       | \$ (11,222)      |
| Minimum pension liability adjustment       | (2,966)          | (3,078)          |
| Derivative hedge accounting adjustment     | 4,239            | 4,119            |
| Total accumulated other comprehensive loss | \$ (2,295)       | \$ (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 replaces 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.

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Debt issuance costs related to the new financing arrangement amounted to \$1.5 million and included bank fees, legal and other direct costs. These costs are classified as other assets in the consolidated balance sheet and will be amortized over the term of the new debt arrangement.

Long-term debt as of Aug. 30, 2003 was as follows:

| <b>(in thousands)</b>             | <b>Amounts</b> |
|-----------------------------------|----------------|
| Term loans                        | \$ 75,005      |
| Unsecured notes due Nov. 13, 2009 | 200,000        |
| Notes payable reclassified        | 50,000         |
|                                   | 325,005        |
| Current portion of long-term debt | 10,006         |
| Total long-term debt              | \$ 314,999     |



Minimum principal payments are due as follows:

| (in thousands)         | Amounts    |
|------------------------|------------|
| Fiscal 2004            | \$ 5,002   |
| Fiscal 2005            | 11,253     |
| Fiscal 2006            | 13,749     |
| Fiscal 2007            | 16,249     |
| Fiscal 2008 and beyond | 278,752    |
| Total                  | \$ 325,005 |

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 |
|---|-----------|-----------------|---------------|--------------------|
| <b>Three Months Ended Aug. 30, 2003</b> |           |                 |               |                    |
| U.S. Consumer Products                  | \$ 80.1   | \$ (68.8)       | \$            | \$ 11.3            |
| Foodservice Products                    | 50.0      | (49.4)          | (0.9)         | (0.3)              |
| Canadian Foods                          | 78.3      | (74.6)          |               | 3.7                |
| Corporate                               |           | (3.3)           |               | (3.3)              |
| Total                                   | \$ 208.4  | \$ (196.1)      | \$ (0.9)      | \$ 11.4            |
| <b>Three Months Ended Aug. 31, 2002</b> |           |                 |               |                    |
| U.S. Consumer Products                  | \$ 79.9   | \$ (69.6)       | \$            | \$ 10.3            |
| Foodservice Products                    | 58.3      | (56.9)          |               | 1.4                |
| Canadian Foods                          | 71.9      | (66.6)          |               | 5.3                |
| Corporate                               |           | (3.7)           |               | (3.7)              |
| Total                                   | \$ 210.1  | \$ (196.8)      | \$            | \$ 13.3            |
| <b>Six Months Ended Aug. 30, 2003</b>   |           |                 |               |                    |
| U.S. Consumer Products                  | \$ 163.3  | \$ (145.4)      | \$            | \$ 17.9            |
| Foodservice Products                    | 105.4     | (103.9)         | (1.9)         | (0.4)              |
| Canadian Foods                          | 153.6     | (146.3)         | (2.5)         | 4.8                |

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|                                |    |       |       |         |    |       |
|--------------------------------|----|-------|-------|---------|----|-------|
| Corporate                      |    |       | (6.6) |         |    | (6.6) |
| Total                          | \$ | 422.3 | \$    | (402.2) | \$ | (4.4) |
| <hr/>                          |    |       |       |         |    |       |
| Six Months Ended Aug. 31, 2002 |    |       |       |         |    |       |
| U.S. Consumer Products         | \$ | 165.9 | \$    | (145.1) | \$ | 20.8  |
| Foodservice Products           |    | 116.6 |       | (113.6) |    | 3.0   |
| Canadian Foods                 |    | 138.0 |       | (128.9) |    | 9.1   |
| Corporate                      |    |       |       | (7.8)   |    | (7.8) |
| Total                          | \$ | 420.5 | \$    | (395.4) | \$ | 25.1  |

**(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 Aug. 30, 2003, were as follows:

| (in millions)       | Amounts |      |
|---------------------|---------|------|
| Tractor/trailer     | \$      | 23.3 |
| Real estate         |         | 15.1 |
| Information systems |         | 0.1  |
| Total               | \$      | 38.5 |

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.

**Results of Operations**

Continuing Operations

Consolidated net sales in the second quarter ended Aug. 30, 2003, declined 1% to \$208.4 million. The decline was primarily driven by lower sales volume in our foodservice businesses in the United States and Canada. The decline was partially offset by increased sales at our Canadian Foods business, which resulted from the impact of a stronger Canadian dollar on currency translation.

Earnings from continuing operations were \$0.9 million, or 5 cents per diluted share, in the second quarter ended Aug. 30, 2003, compared with earnings of \$4.4 million, or 22 cents per share, in the same period last year. Earnings in the current quarter were 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. We were also adversely affected by a \$1.3 million pre-tax charge for severance costs associated with closing a plant in Simcoe, Ontario, Canada. The plant closure resulted from our decision to exit the frozen pie product line. In addition, we sold production equipment and other assets associated with this product line in the second quarter for a pre-tax gain of \$0.4 million. The net reduction to earnings per share from the severance costs and gain on the asset sale was 2 cents. Earnings from continuing operations in the second quarter were also adversely affected by higher commodity costs and lower pension income.

Consolidated net sales for the six months ended Aug. 30, 2003, were \$422.3 million, compared with \$420.5 million in the same period last year. Consolidated net sales were affected by the same factors as described in the second quarter.

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Earnings from continuing operations for the six months ended Aug. 30, 2003, were \$0.6 million, or 3 cents per share, compared with earnings of \$7.7 million, or 39 cents per diluted share in the same period last year. In addition to the factors described in the second quarter, the six-month results in the current year were adversely affected by a pre-tax charge of \$3.5 million, or 12 cents per share, for costs to restructure and increase the competitiveness of our Canadian Foods business and our Foodservice Products business in the United States. We were also adversely affected by a \$1.7 million pre-tax charge, or 6 cents per share, for bad debt reserves associated with the bankruptcy of Fleming Companies, Inc.(Fleming). The decline in earnings in the current six-month period was partially offset by a \$1.4 million pre-tax gain, or 5 cents per share, attributable to foreign exchange on U.S. dollar-denominated debt that was held by our Canadian business.

## Segment Results

U.S. Consumer Products: Net sales in the second quarter were \$80.1 million, essentially even with last year. Unit volume declined 4% due to the impact associated with the bankruptcy of Fleming. Unit volume also declined as a result of our decision to exit certain low margin sales to alternative customer channels. The impact on net sales of the unit volume decline was offset by higher average selling prices.

Operating earnings were \$11.3 million, compared with \$10.3 million last year. The increase in earnings was driven by the higher average selling prices, which more than offset the affect of lower sales volume and higher commodity costs.

Net sales for the six-month period ended Aug. 30, 2003, declined 2% to \$163.3 million, compared with \$165.9 million in the same period a year ago. The sales decline was the result of lower unit volumes, which were affected by the Fleming bankruptcy. Operating earnings declined 14% to \$17.9 million, compared with \$20.8 million in the same period last year. The decline in earnings was driven by a \$1.7 million bad debt reserve associated with the Fleming bankruptcy, higher commodity costs and the lower sales volume.

Foodservice Products: Net sales in the second quarter declined 14% to \$50 million. 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. Unit volume in our ready-to-bake product line also declined as a result of exiting a large customer account, which was not profitable.

We recognized an operating loss of \$0.3 million in the second quarter, compared with operating earnings of \$1.4 million in the same period last year. Operating earnings in the current quarter were 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. Second quarter operating results were also adversely affected by the sales volume decline, higher commodity costs and competitive pressures related to the ongoing softness in the foodservice industry. We believe these factors will continue to negatively impact operating results in the business segment for the remainder of the fiscal year. The earnings decline was partially offset by reduced selling and administrative costs.

Net sales for the six-month period ended Aug. 30, 2003, declined 10% to \$105.4 million, compared with \$116.6 million in the same period a year ago. The decline in sales was due to the same factors discussed for the second quarter. We recognized an operating loss of \$0.4 million in the current six-month period, compared with operating earnings of \$3 million in the same period last year. In addition to the factors described in the discussion of the second quarter, operating results in the current six-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.

Canadian Foods: Net sales in the second quarter increased 9% to \$78.3 million, due to the impact of a stronger Canadian dollar on currency translation. Excluding the effects of currency translation, net sales were even with the prior year. Unit volume increased in our commercial flour, export and consumer ethnic flour product categories. These unit

volume gains were offset by declines in commercial bakery mix, commercial condiments and consumer flour and bakery mix. We experienced significant decline in commercial bakery mix volume as a result of a large customer transitioning to a frozen product format.

Operating earnings in the second quarter declined 30% to \$3.7 million, compared with \$5.3 million last year. The earnings decline was primarily driven by the unfavorable gross margin impact on our U.S. dollar-denominated sales as a result of a stronger Canadian dollar and the unit volume decline in our higher margin products. To a lesser extent, increased commodity costs also impacted operating earnings.

Net sales for the six-month period ended Aug. 30, 2003, increased 11% to \$153.6 million, compared with \$138 million in the same period last year. In addition to the factors described in the second quarter, we had higher sales prices in certain product lines as a result of higher commodity costs. Operating earnings declined 47% to \$4.8 million, compared with \$9.1 million last year. Operating earnings in the current six-month period were adversely affected by a \$2.5 million pre-tax charge for severance costs associated with reorganizing the Canadian Foods business.

#### Non-operating Expense and Income

During the second quarter, 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 August 2003. In the first quarter of the current fiscal year, 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.

#### Financial Condition

Our major sources of liquidity are cash flows from operations and borrowings from our \$175 million revolving credit facility. As of Aug. 30, 2003, we had \$54.8 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.



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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.

## Cash Flows

Cash used for continuing operations was \$26.5 million for the first six months of fiscal 2004, compared with cash provided by operations of \$18.3 million in the prior-year six-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 six months ended Aug. 30, 2003, were \$15.3 million and included the first of two payments 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 six months ended Aug. 31, 2002, were \$13.2 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 4. Submission of Matters to a Vote of Security Holders**

(a) The 2003 Annual Meeting of Stockholders of International Multifoods Corporation ( Multifoods ) was held on June 20, 2003 (the Annual Meeting ). Holders of Multifoods common stock, par value \$.10 per share, of record on May 1, 2003, were entitled to one vote per share.

(c) Gary E. Costley, J. David Pierson and Nicholas L. Reding were elected directors for a term of three years at the Annual Meeting. The number of votes cast for the election of each director and the number of votes withheld are as follows:

|                    | <b>FOR</b> | <b>WITHHELD</b> |
|--------------------|------------|-----------------|
| Gary E. Costley    | 15,754,778 | 219,621         |
| J. David Pierson   | 15,694,022 | 280,377         |
| Nicholas L. Reding | 15,758,365 | 216,034         |

The other directors whose terms of office as directors continued after the meeting were Claire L. Arnold, Isaiah Ike Harris, Jr., James M. Jenness, Joseph G. Parham, Jr. and Dolph W. von Arx.

With respect to the proposal to approve the appointment of KPMG LLP as independent auditors of Multifoods for the fiscal year ending February 28, 2004, there were 15,872,105 votes cast for the proposal, 90,319 votes cast against the proposal and 11,975 abstentions. There were no broker nonvotes with respect to such matter.

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

(a) Exhibits

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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) During the quarter ended August 30, 2003, Multifoods furnished (1) a Current Report on Form 8-K dated June 26, 2003, relating to Multifoods financial results for its first quarter ended May 31, 2003 and (2) a Current Report on Form 8-K dated August 11, 2003, relating to Multifoods new \$250 million secured credit facility.

**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: October 10, 2003

/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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