

HANOVER FOODS CORP /PA/

FORM 10-Q (Quarterly Report)

Filed 10/13/04 for the Period Ending 09/29/04

Address	1486 YORK ST PO BOX 334 HANOVER, PA, 17331
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Industry	Food Processing
Sector	Consumer Non-Cyclicals
Fiscal Year	05/30

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

FORM 10-Q

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

For the quarterly period ended August 29, 2004

OR

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

For the transition period from _____ to _____

Commission File Number: 0-17896

HANOVER FOODS CORPORATION

(Exact name of registrant as specified in its charter)

Commonwealth of Pennsylvania

(State or other jurisdiction of
incorporation or organization)

1486 York Street, P.O. Box 334, Hanover, PA

(Address of principal executive offices)

23-0670710

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

17331

(Zip Code)

717-632-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

Class

Outstanding at September 30, 2004

Class A Common Stock
Class B Common Stock

287,996 shares
781,648 shares

HANOVER FOODS CORPORATION AND SUBSIDIARIES
FORM 10-Q
For the Thirteen Weeks Ended August 29, 2004

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PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
HANOVER FOODS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

ASSETS	August 29, 2004 (Unaudited)	May 30, 2004
Current Assets:		
Cash and Cash Equivalents	\$ 2,619,000	\$ 3,015,000
Accounts and Notes Receivable, Net	32,786,000	30,323,000
Accounts Receivable from Related Parties, Net	455,000	275,000
Inventories		
Finished Goods	67,625,000	46,779,000
Raw Materials and Supplies	16,394,000	17,027,000
Prepaid Income Taxes	1,114,000	611,000
Prepaid Expenses	6,627,000	6,347,000
Deferred Income Taxes	917,000	917,000
Total Current Assets	128,537,000	105,294,000
Property, Plant and Equipment, at Cost:		
Land and Buildings	61,075,000	63,585,000
Machinery and Equipment	136,421,000	135,029,000
Leasehold Improvements	544,000	544,000
	198,040,000	199,158,000
Less Accumulated Depreciation and Amortization	115,713,000	121,028,000
	82,327,000	78,130,000
Construction in Progress	1,080,000	5,975,000
Total Property, Plant and Equipment	83,407,000	84,105,000
Other Assets:		
Goodwill	2,070,000	2,070,000
Intangible Assets	2,274,000	2,274,000
Other Assets	5,710,000	5,645,000
Total Assets	\$ 221,998,000	\$ 199,388,000

See accompanying notes to condensed consolidated financial statements.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
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Condensed Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY

	August 29, 2004	May 30, 2004
Current Liabilities:		
Notes Payable – Banks	\$ 36,777,000	\$ 21,609,000
Accounts Payable	25,267,000	23,393,000
Accounts Payable to Related Parties, Net	9,000	32,000
Accrued Expenses	17,745,000	14,011,000
Current Maturities of Long-Term Debt	4,286,000	4,286,000
Income Taxes Payable	0	302,000

Total Current Liabilities	84,084,000	63,633,000
Long-Term Debt, Less Current Maturities	21,071,000	21,071,000
Other Liabilities	8,027,000	7,636,000
Deferred Income Taxes	2,828,000	2,948,000
Total Liabilities	116,010,000	95,288,000
Stockholders' Equity:		
Series A & B 8 1/4% cumulative convertible preferred	776,000	776,000
Series C cumulative convertible preferred	250,000	250,000
Common stock, Class A, non-voting	8,733,000	8,733,000
Common stock, Class B, voting	21,213,250	21,213,250
Capital Paid in Excess of Par Value	34,913,850	34,913,850
Retained Earnings	89,185,000	87,424,000
Treasury Stock, at Cost	(8,379,000)	(8,379,000)
Employee Stock Trust	(40,403,100)	(40,419,100)
Accumulated Other Comprehensive Income	(301,000)	(412,000)
Total Stockholders' Equity	105,988,000	104,100,000
Total Liabilities and Stockholders' Equity	\$ 221,998,000	\$ 199,388,000

See accompanying notes to condensed consolidated financial statements.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS,
HANOVER FOODS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)

	Thirteen Weeks Ended	
	August 29, 2004	August 31, 2003
Net Sales	\$ 79,681,000	\$ 66,900,000
Cost of Goods Sold	69,330,000	57,261,000
Gross Profit	10,351,000	9,639,000
Selling Expenses	2,983,000	2,906,000
Administrative Expenses	3,997,000	3,732,000
Operating Profit	3,371,000	3,001,000
Interest Expense	610,000	594,000
Other (Income) Loss, Net	(136,000)	(223,000)
Earnings Before Income Taxes	2,897,000	2,630,000
Income Taxes	914,000	818,000
Net Earnings	1,983,000	1,812,000
Dividends on Preferred Stock	10,000	10,000
Net Earnings Applicable to Common Stock	\$ 1,973,000	\$ 1,802,000
Earnings Per Share:		
Net Earnings Per Common Share – Basic	\$ 2.72	\$ 2.49
Net Earnings Per Common Share – Diluted	\$ 2.68	\$ 2.46
Dividends per Share, Common	\$ 0.275	\$ 0.275
Basic Weighted Average Shares	725,171	723,330
Diluted Weighted Average Shares	738,868	736,396

See accompanying notes to condensed consolidated financial statements.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
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Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

		Cumulative Convertible Preferred Stock Series A	Cumulative Convertible Preferred Stock Series C	Common Stock Class A	Common Stock Class B	Capital Paid In Excess Of Par Value	Treasury Stock Shares	Employee Stock Trust Shares	Accumulated Other Comprehensive Income							
	Total Stockholder's Equity		Amount	Shares	Amount	Shares	Amount	Shares	Amount	Value	Retained Earnings	Shares	Amount	Shares	Amount	
Balance, May 30, 2004	\$104,100,000	31,056	\$776,000	10,000	\$250,000	349,353	\$8,733,000	848,522	\$21,213,250	\$34,913,850	\$87,424,000	144,723	(\$8,379,000)	344,672	(\$40,419,100)	(\$412,000)
Purchase of Stock by Employee Stock Ownership Plan	\$16,000													(133)	(\$16,000)	
Net Earnings for the Period	\$1,983,000										\$1,983,000					
Cash Dividends Per Share:																
Preferred – \$2.0625 annually	(\$10,000)															
Common – \$1.10 annually	(\$212,000)															
Other Comprehensive Income	\$111,000															\$111,000
Balance August 29, 2004	\$105,988,000	31,056	\$776,000	10,000	\$250,000	349,353	\$8,733,000	848,522	\$21,213,250	\$34,913,850	\$89,185,000	144,723	(\$8,379,000)	344,539	(\$40,403,100)	(\$301,000)

See accompanying notes to condensed consolidated financial statements.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
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Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Thirteen Weeks Ended	
	August 29, 2004	August 31, 2003
Cash Flows From:		
Operating Activities:		
Net Earnings	\$ 1,983,000	\$ 1,812,000
Adjustments to Reconcile Net Earnings:		
To Net Cash Used In Operating Activities:		
Depreciation and Amortization	2,395,000	2,303,000
Deferred Income Taxes	(120,000)	(120,000)
Gain on Disposal of Property, Plant and Equipment	(301,000)	0
Changes in Assets and Liabilities:		
Accounts Receivable	(2,643,000)	(1,374,000)
Inventories	(20,213,000)	(8,518,000)
Prepaid Expenses and Other Assets	(234,000)	37,000
Accounts Payable and Accrued Expenses	5,585,000	696,000
Income Taxes Payable	(805,000)	(1,211,000)
Other Liabilities	391,000	345,000
Net Cash (Used In) Operating Activities	(13,962,000)	(6,030,000)
Investing Activities:		
Decrease (Increase) in Other Assets	–	(1,000,000)
Acquisitions of Property, Plant and Equipment	(2,590,000)	(2,318,000)
Proceeds on Disposal of Property, Plant and Equipment	1,194,000	–
Net Cash (Used In) Investing Activities	(1,396,000)	(3,318,000)
Financing Activities:		
Increase in Notes Payable	15,168,000	8,527,000
Payment of Dividends	(222,000)	(207,000)
Issuance of Common Stock	16,000	–
Net Cash Provided by Financing Activities	14,962,000	8,320,000
Net Increase (Decrease) in Cash and Cash Equivalents	(396,000)	(1,027,000)
Cash and Cash Equivalents, Beginning of Period	3,015,000	4,128,000
Cash and Cash Equivalents, End of Period	\$ 2,619,000	\$ 3,101,000

See accompanying notes to condensed consolidated financial statements.

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
HANOVER FOODS CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(1) BASIS OF PRESENTATION

The condensed consolidated financial statements of Hanover Foods Corporation (the “Corporation”) the Registrant included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Although certain information normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America has been omitted, the Corporation believes that the disclosures are adequate to make the information presented not misleading.

The Corporation’s fiscal year ends at the close of operations on the Sunday nearest to May 31st. Accordingly, these financial statements reflect activity for the thirteen week periods ended August 29, 2004 and August 31, 2003.

It is suggested that these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Form 10-K/A for the Corporation’s fiscal year ended May 30, 2004.

The condensed consolidated financial statements included herein reflect all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary to present a fair statement of the results of the interim period.

The results for the interim periods are not necessarily indicative of trends or results to be expected for a full fiscal year.

Certain amounts in prior periods have been reclassified to conform with classifications made in the current period.

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(2) **SHORT-TERM BORROWINGS**

The Corporation and its subsidiaries maintain short-term unsecured lines of credit with various banks providing credit availability amounting to \$50,000,000 of which \$36,777,000 and \$21,609,000 were outstanding at August 29, 2004 and May 30, 2004, respectively. The average cost of funds during the thirteen week period ended August 29, 2004 was 2.18% compared to 1.91% for the thirteen week period ended August 31, 2003.

(3) **LONG-TERM DEBT**

The long-term debt of the Corporation and its subsidiaries consists of:

	August 29, 2004	May 30, 2004
8.74% unsecured senior notes payable to an insurance company, due through 2007	\$ 5,357,000	\$ 5,357,000
7.01% unsecured senior notes payable to an insurance company, due through 2011	20,000,000	20,000,000
Total Long-Term Debt	25,357,000	25,357,000
Less current maturities	4,286,000	4,286,000
Net Long-Term Debt	\$ 21,071,000	\$ 21,071,000

The senior note agreements and the agreements for seasonal borrowing with financial institutions contain various restrictive provisions including those relating to mergers and acquisitions, additional borrowing, guarantee of obligations, lease commitments, limitations to declare or pay dividends, repurchase stock, and the maintenance of working capital and certain financial ratios and change in control. Based on the requirements of the agreements at August 29, 2004, \$45,289,000 of retained earnings are restricted from distribution.

The Corporation was in compliance with the restrictive provisions in the agreements as of August 29, 2004.

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(4) RELATED PARTY TRANSACTIONS

The Corporation and its subsidiaries, in the normal course of business, purchase and sell goods and services to related parties. Transactions with related parties are summarized below:

		Thirteen Weeks Ended	
		August 29, 2004	August 31, 2003
Revenues:			
Park 100 Foods, Inc.	\$	752,000	\$ 338,000
Expenditures :			
Park 100 Foods, Corp.		8,000	11,000
Warehime Enterprises, Inc.		1,000	1,000
John A. & Patricia M. Warehime		16,000	9,000
Lippy Brothers, Inc.		220,000	155,000

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The respective August 29, 2004 and May 30, 2004 account balances with related parties are as follows:

	<u>August 29, 2004</u>	<u>May 30, 2004</u>
Accounts Receivable:		
Park 100 Foods, Inc.	<u>\$ 455,000</u>	<u>\$ 275,000</u>
Accounts Payable:		
Lippy Brothers, Inc.	<u> 9,000</u>	<u> 32,000</u>

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(5) COMPREHENSIVE INCOME

Comprehensive income is determined as follows:

	13 Weeks Ended	
	August 29, 2004	August 31, 2003
Net Income	\$ 1,983,000	\$ 1,812,000
Other Comprehensive Income Unrealized Gain on Investments	111,000	34,000
Comprehensive Income	\$ 2,094,000	\$ 1,846,000

(6) RECONCILIATION OF NUMERATOR AND DENOMINATOR FOR BASIC AND DILUTED EARNINGS PER SHARE

	13 Weeks Ended	
	August 29, 2004	August 31, 2003
Numerator for basic earnings per share:		
Net earnings applicable to common stock	\$ 1,973,000	\$ 1,802,000
Preferred stock dividends	10,000	10,000
Net earnings assuming dilution	\$ 1,983,000	\$ 1,812,000
Denominator:		
Basic weighted average shares	725,171	723,330
Effect of dilutive securities	13,697	13,066
Diluted weighted average shares	738,868	736,396

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(7) STOCK OPTION PLAN

On June 20, 2002, the Corporation's Board of Directors adopted the Hanover Foods Corporation 2002 Stock Option Plan and on October 17, 2003, adopted the Hanover Foods Corporation 2003 Stock Option Plan. Stock options are accounted for under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, no compensation expense is recorded for stock option grants.

Had compensation expense for all stock and employee stock purchase plans been determined based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed under SFAS No. 123, "Accounting for Stock-Based Compensation," as amended, our net income and earnings per share would have been adjusted to the pro forma amounts as follows:

In thousands, except (per share date)

	Thirteen Weeks Ended	
	August 29, 2004	August 31, 2003
Net Income – as reported	\$ 1,983,000	\$ 1,812,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	20,000	20,000
Pro forma net income	1,963,000	1,792,000
Earnings per share:		
Basic – as reported	\$ 2.72	\$ 2.49
Basic – pro forma	\$ 2.70	\$ 2.48
Diluted – as reported	\$ 2.68	\$ 2.46
Diluted – pro forma	\$ 2.66	\$ 2.43

Since the determination of fair value of all stock options granted includes variable factors, including volatility, and additional stock option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effect on reported net income and earnings per share for future years.

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(8) LEGAL MATTERS

Derivative Action

On September 13, 1996, certain Class A shareholders filed a complaint in equity against six of the Corporation's directors and the estate of a former director in the Court of Common Pleas of York County, Pennsylvania (the complaint). The suit also names the Corporation as a nominal defendant. The suit sought various forms of relief including, but not limited to, rescission of the board's April 28, 1995 approval of John A. Warehime's 1995 Employment Agreement and the board's February 10, 1995 adjustment of director's fees. (Since the filing of this lawsuit, John A. Warehime's 1995 Employment Agreement was amended.) In addition, the plaintiffs sought costs and fees incident to bringing suit. On November 4, 1996, the complaint was amended to add additional plaintiffs. On June 24, 1997, the Court dismissed the amended complaint for failure to make a prior demand. An appeal was filed on the Court's June 24, 1997 Order. On December 2, 1998, the Superior Court of Pennsylvania held that the derivative plaintiffs had made adequate demand.

On May 12, 1997, a written demand was received by the Corporation from the attorney for those Class A shareholders containing similar allegations and the allegations raised by the Class A common stockholders were investigated by a special independent committee of the Board of Directors and found to be without merit.

The director defendants filed an Answer and New Matter to the amended complaint on March 17, 1999. On September 5, 2001, director defendants filed a Motion to Dismiss the Derivative Action. On September 20, 2001, plaintiffs filed an answer to director defendants' Motion to Dismiss. On May 17, 2002, the court entered an order denying defendants' Motion to Dismiss.

On May 14, 2002, Albert Blakey, Esquire, counsel for certain of the derivative plaintiffs filed a Petition for Fees seeking an award of \$1,585,716 in attorney's fees. Defendants filed a response in opposition to the request for fees.

On January 29, 2003, Albert Blakey, Esquire, counsel for certain derivative plaintiffs filed a Motion for Reconsideration of the Court's December 31, 2002 denial of the Petition for Fees. A Response in Opposition to the Motion for Reconsideration of Plaintiffs' Petition for Fees was filed with the Court on February 12, 2003.

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Warehime Family Litigation

On February 13, 1997, the Board of Directors proposed an amendment and restatement of the Corporation's Articles of Incorporation (the "Amended and Restated Articles") which provides that if all of the following Class B shareholders (or their estates upon the death of such shareholders), Michael A. Warehime, John A. Warehime, Sally W. Yelland, J. William Warehime, and Elizabeth W. Stick (all members of the Warehime family) do not agree in writing to the composition of the Board of Directors or other important matters specified below on or after the 1998 annual shareholders meeting, the trustees of the Corporation's 401(k) Savings Plan (or a similar employee benefit plan), who qualify as disinterested directors acting as fiduciaries for the employees who participate in the Plan, and the Class A shareholders may become entitled to vote in the manner described in the document.

The Amended and Restated Articles created a Series C Convertible Preferred Stock, which, in case of a dispute among the above mentioned members of the Warehime family on Board of Directors composition or other important matters, would be entitled to 35 votes per shares (a total of 350,000 votes based on 10,000 shares of Series C Convertible Preferred Stock issued to and held by the trustees of the Corporation's 401(k) Savings Plan); if Series C Convertible Preferred Stock were entitled to vote because of such dispute, each share of Class A Common Stock would be entitled to 1/10th of a vote per share.

The Amended and Restated Articles also classified the terms of the Board of Directors commencing with the election at the 1997 annual shareholders' meeting and permitted directors to be elected for four-year term as permitted by Pennsylvania law. Pursuant to the Corporation's Bylaws, as then in effect, nominations for directors must be submitted to the Corporation in the manner prescribed by the Bylaws no later than June 1 of the year in which the meeting is to occur.

On February 21, 1997, Michael A. Warehime, a Class B shareholder, and certain Class A shareholders filed motions for a preliminary injunction against the Corporation, John A. Warehime, in his capacity as voting trustee, and certain directors of the Corporation in the Court of Common Pleas of York County, Pennsylvania against a Proposal of the Board of Directors to amend and restate the Corporation's Articles of Incorporation in the manner described herein.

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The motions for a preliminary injunction were dismissed by the Court on June 24, 1997. The Class B shareholders on June 25, 1997 approved the Amended and Restated Articles (John A. Warehime, being the sole Class B shareholder voting affirmatively in his capacity as voting trustee) and the Amended and Restated Articles became effective June 25, 1997.

In August 1997, the Board of Directors proposed a further amendment (the “Amendment”) to the Amended and Restated Articles to expand the definition of “disinterested directors” in the manner described below, and to approve certain performance based compensation for John A. Warehime solely for the purpose of making the Corporation eligible for a federal income tax deduction pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended. A special meeting was scheduled for August 14, 1997 (the “Special Meeting”) to vote on these proposals. On August 8, 1997, Michael A. Warehime filed a motion in the Court of Common Pleas of York County, Pennsylvania to prevent John A. Warehime, in his capacity as voting trustee from voting on these proposals and to enjoin the Amendment. This motion was denied by the Court on August 11, 1997. The Amendment and the proposal under Section 162(m) were approved by Class B shareholders (John A. Warehime was the sole Class B shareholder to vote affirmatively, in his capacity as voting trustee) on August 14, 1997 and the Amendment became effective on August 14, 1997.

Under the Amendment, the definition of “disinterested directors” means a person who, in the opinion of counsel for the Corporation, meets any of the following criteria: (i) disinterested directors as defined in Section 1715(e) of the Pennsylvania Business Corporations Law of 1988, as amended; (ii) persons who are not “interested” directors as defined in Section 1.23 of The American Law Institute “Principles of Corporate Governance: Analysis and Recommendations” (1994); or (iii) persons who qualify as members of the Audit Committee pursuant to Section 303.00 of the New York Stock Exchange’s Listed Company Manual.

Michael A. Warehime filed an appeal from the denial of his motion to enjoin the previously described Amendment to the Corporation’s Amended and Restated Articles. On December 2, 1998, a majority panel of the Superior Court of Pennsylvania issued a decision holding that although John A. Warehime had acted in good faith in voting for the Amendment to the Amended and Restated Articles as trustee of the Warehime voting trust, he had breached his fiduciary duty to the beneficiaries of the Warehime voting trust in voting for the Amendment. On November 29, 1999, the Supreme Court of Pennsylvania granted a petition for allowance of appeal, filed by John A. Warehime, and granted a cross-petition for appeal filed by Michael A. Warehime.

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On August 13, 1999, Michael A. Warehime filed a complaint in equity in the Court of Common Pleas of York County, Pennsylvania, naming as defendants Arthur S. Schaier, Cyril T. Noel, Clayton J. Rohrbach, Jr., John A. Warehime, and the Corporation. The complaint sought a court order declaring that the September 1999 election for the Board of Directors of the Corporation be conducted in accordance with the Articles of Incorporation of the Corporation as they existed prior to June 25, 1997, an order declaring that the Series C Convertible Preferred Stock cannot be voted, and an order that the following candidates for the Board of Directors of the Corporation proposed by Michael A. Warehime, Sally Yelland, Elizabeth Stick and J. William Warehime be accepted by the Corporation and listed on the ballot to be distributed at the annual meeting of shareholders of the Corporation to be held on September 16, 1999: Michael A. Warehime, Daniel Meckley, Elizabeth Stick, Sonny Bowman, and John Denton. The basis for the complaint was the December 2, 1998 decision of the Superior Court of Pennsylvania which held that John A. Warehime breached his fiduciary duties in voting for the Amended and Restated Articles as trustee of the Warehime voting trust. The requested relief was denied by the Court of Common Pleas of York County and Michael Warehime appealed to the Superior Court of Pennsylvania.

On September 12, 2000, the Superior Court of Pennsylvania stated, in a Memorandum decision, that the June 25, 1997 shareholder vote, which adopted the Amended and Restated Articles of the Corporation should be set aside, and remanded the case to the Court of Common Pleas of York County to determine what further relief would be appropriate. On remand, the Court of Common Pleas of York County entered an Order on October 10, 2000 declaring that the Amended and Restated Articles of Incorporation were set aside and that an election should be held without the Amended or Restated Articles. On October 11, 2000, the Supreme Court of Pennsylvania entered an Order staying the Order of the Court of Common Pleas of York County.

On November 27, 2000, the Supreme Court of Pennsylvania reversed and remanded the Order of the Superior Court issued on December 2, 1998 and, in effect, the Order of the Superior Court issued September 12, 2000. In reversing the Superior Court's Order, the Supreme Court of Pennsylvania held that John A. Warehime, the trustee of the voting trust, did not breach his fiduciary duties in voting the trust shares in favor of the Amended and Restated Articles of Incorporation. The Supreme Court remanded the case to the Superior Court of Pennsylvania to consider other issues raised by Michael A. Warehime. On September 17, 2002, the Supreme Court of Pennsylvania granted defendant's petition for Allowance of Appeal.

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Notes to Condensed Consolidated Financial Statements
(Unaudited)

On May 4, 2001, the Superior Court of Pennsylvania, on remand from the Supreme Court of Pennsylvania to decide several remaining issues, held that the 1997 amendments to the Corporation's Amended and Restated Articles of Incorporation "violated principles of corporate democracy" and should be invalidated even though the Superior Court found the directors acted in good faith and their actions in approving the amendments did not result in a breach of their fiduciary duties. A petition for allocatur was filed with the Supreme Court of Pennsylvania requesting that the Supreme Court of Pennsylvania review the Superior Court's May 4, 2001 ruling. On September 17, 2002, the Supreme Court of Pennsylvania granted the petition for allocatur and oral argument was heard in the matter on May 13, 2003.

On December 12, 2002, Michael Warehime filed an Emergency Application for Expedited Relief with the Pennsylvania Supreme Court in the Warehime v. Warehime appeal concerning the election of directors noticed for December 23, 2002. The Pennsylvania Supreme Court denied Michael Warehime's emergency application on December 20, 2002.

On December 12, 2002, Michael Warehime filed a Motion for Relief under the Warehime v. Schaier caption in the York County Court of Common Pleas. Michael Warehime's motion requested, inter alia, that Hanover Foods Corporation's December 23, 2002 election be conducted according to the Articles of Incorporation as they existed prior to June 25, 1997. Following a hearing on December 20, 2002, the York County Court of Common Pleas denied Michael Warehime's Motion for Relief. On January 17, 2003 Michael Warehime appealed the Court's denial of his Motion for Relief to the Superior Court of Pennsylvania. Oral argument was heard in this matter before the Superior Court of Pennsylvania on January 13, 2004. On April 22, 2004, the Superior Court of Pennsylvania issued a memorandum reversing the December 22, 2002 decision by the York County Court of Common Pleas and remanding for further proceedings.

The Corporation is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Corporation's consolidated financial position, results of operations or liquidity .

PART 1 – FINANCIAL INFORMATION
ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING STATEMENTS

When used in this Quarterly Report, the words or phrases “will likely result”, “are expected to”, “will continue”, “is anticipated”, “estimate”, “projected”, or similar expressions are intended to identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including, but not limited to, quarterly fluctuations in operating results, competition, state and federal regulation, environmental considerations, foreign operations and a change of control as a result of the pending Warehime family litigation. Such factors, which are discussed in the Form 10-Q, could affect the financial performance of Hanover Foods Corporation (as used herein the term “Corporation” or “Company” refers to Hanover Foods Corporation and its consolidated subsidiaries) and could cause the Company’s actual results for future periods to differ materially from any opinion or statements expressed herein with respect to future periods. As a result, the Company wishes to caution readers not to place undue reliance on any such forward looking statements, which speak only as of the date made.

GENERAL OVERVIEW

The Corporation is a vertically integrated processor of food products which operates through seven (7) wholly-owned subsidiaries, Tri-Co. Foods Corp., Consumers Packing Company, Spring Glen Fresh Foods, Inc., Hanover Insurance Company, Ltd., Nittany Corporation, Bickel’s Snack Foods, Inc. and Aunt Kitty’s Foods, Inc. Tri-Co. Foods Corp. has two (2) wholly-owned subsidiaries: Sunwise Corporation and Mayapac, S.A.

The Corporation is involved in the growing, processing, canning, freezing, freeze-drying, packaging, marketing and distribution of its products under its own trademarks as well as other branded, customer and private labels. The Corporation has operations in eleven plants in Pennsylvania, one plant in Maryland, one plant in Delaware, one plant in New Jersey and two plants in Guatemala. The Corporation and its subsidiaries, in the normal course of business, purchase and sell goods and services to related parties.

The Corporation enjoys the strongest retail sales of its products in the mid-Atlantic states and Florida. Introduction of frozen ethnic blends, specialty vegetables and fruits, canned pasta, frozen soft pretzels, refrigerated food, canned and frozen mushrooms and snack food products has enabled the Corporation to increase and expand its distribution throughout the eastern seaboard. Distribution in the remainder of the United States is limited to food service, military and industrial customers.

The Corporation’s operations are affected by the growing cycle of the vegetables it processes. The Corporation’s business can be positively or negatively affected by weather conditions nationally and the resulting impact on crop yields. Favorable weather conditions can

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

produce high crop yields and an over-supply situation in a given year. This over-supply typically will result in depressed selling prices and reduced profitability to the Corporation on the inventory produced from that year’s crops. Excessive rain or drought conditions can produce low crop yields and a shortage situation. This shortage typically will result in higher selling prices and increased profitability to the Corporation. While the national supply situation controls the pricing, the supply can differ regionally because of variations in weather. Because many of the raw materials processed by the Corporation are agricultural crops, production of products using these crops is predominantly seasonal. As a result, the Corporation needs access to working capital financing to meet its production requirements during these periods.

The Corporation markets its products under the brand names HANOVER, HANOVER FARMS, MYERS, PHILLIPS, GIBBS, SUPERFINE, MARYLAND CHIEF, MITCHELL’S, DUTCH FARMS, SUNWISE, O&C (jarred onions only), SPRING GLEN FRESH FOODS, SUNNYSIDE FOODS, NOTTINGHAM, BICKEL’S, BON TON, YORK SNACKS, CABANA, DRAPER KING COLE, VENICE MAID, AUNT KITTY’S and HARVEST CHOICE. The products sold by the Corporation under these brand names include canned vegetables, beans and pasta as well as frozen vegetables, frozen meat products, food entrees, refrigerated and fresh foods, canned and frozen mushrooms and potato chips.

Intense competition and continued consolidation in the food processing industry also impact the Corporation’s results of operations. Large nationally recognized competitors with greater resources than the Corporation can reduce profit margins for the Corporation’s products. Consolidation resulting from acquisitions by these large competitors has made it more difficult for the Corporation to increase its market share.

See Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in Form 10-K (Amendment No. 1) for the fiscal year ended May 30, 2004 for a description of the Company’s critical accounting policies and related party transactions.

RESULTS OF OPERATIONS

Three Months Ended August 29, 2004 Compared to Three Months Ended August 31, 2004

Net Sales

Consolidated net sales were \$79.7 million for the thirteen week period ended August 29, 2004. This represents an increase of 19.1% over the thirteen week period ended August 31, 2003. The increase of \$12.8 million was primarily due to increased sales of food service, industrial frozen, and core snacks partially offset by decreases in branded retail, core refrigerated foods and core private label sales. The acquisitions of Venice Maid Foods, Sunsprout of Lancaster and Wege Pretzel Company during the third and fourth quarters of fiscal 2004 accounted for 67% of the net sales increase for the period.

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Cost of Goods Sold

Costs of goods sold were \$69.3 million, or 86.9% of consolidated net sales in the thirteen week period ended August 29, 2004 and \$57.3 million or 85.6% of consolidated net sales for the corresponding period in 2003. The increase in cost of goods sold as a percentage of net sales reflects higher energy, health care, labor, outside frozen storage and commodity costs.

Selling Expenses

Selling expenses were \$3.0 million, or 3.8% of consolidated net sales for the thirteen week period ended August 29, 2004 as compared to \$2.9 million, or 4.3% of consolidated net sales for the corresponding period in 2003. The increase represents selling expenses associated with our new acquisitions during the latter part of the last fiscal year.

Administrative Expenses

Administrative expenses were \$4.0 million, or 5.0% of consolidated net sales for the thirteen week period ended August 29, 2004 as compared to \$3.7 million, or 5.6% of consolidated net sales for the corresponding period in 2003. The increase in administrative expenses represents expenses associated with our new acquisitions during the latter part of the last fiscal year.

Interest Expense

Interest expense was \$.6 million for the thirteen week period ended August 29, 2004 as compared to \$.6 million for the same period in 2003.

Income Taxes

The provision for corporate federal and state income taxes for the thirteen week period ended August 29, 2004 was \$914,000, or 31.5% of pre-tax earnings as compared to \$818,000 or, 31.1% of pre-tax earnings for the same period in 2003. The small increase in the effective tax rate is primarily due to increased earnings in jurisdictions with higher effective tax rates in the current period as compared to the prior period.

Net Earnings

Net earnings was \$1.973 million for the thirteen week period ended August 29, 2004, as compared to \$1.8 million for the same period in 2003, as a result of the factors discussed above.

PART 1 – FINANCIAL INFORMATION
ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF
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LIQUIDITY AND CAPITAL RESOURCES

The discussion and analysis of the Corporation’s liquidity and capital resources should be read in conjunction with the consolidated statement of cash flows, contained elsewhere herein and the Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in Form 10-K (Amendment No. 1) for the fiscal year ended May 30, 2004.

Operating Activities

Net working capital was \$44.5 million at August 29, 2004 and \$41.7 million at August 31, 2003. The current ratios were 1.53 on August 29, 2004 and 1.66 on August 31, 2003.

Cash used in operating activities for the thirteen week period ended August 29, 2004 was \$14.0 million as compared to cash used in operating activities of \$6.0 million during the same period of 2003. The uses of cash during the thirteen week period consisted primarily of an increase in finished goods inventory to cover increased sales and an increase in accounts receivable partially offset by sources of cash attributed to earnings and an increase in accounts payable and accrued expenses.

Investing Activities

During the thirteen week period ended August 29, 2004, the Corporation spent approximately \$2.6 million for the purchase of plant upgrades and expansions. This compares to \$2.3 million spent during the same period last fiscal year for capital projects. Proceeds from the sale of property, plant and equipment generated \$1.2 million in cash for the period.

Financing Activities

The increase in notes payable of approximately \$15.2 million during the thirteen week period ended August 29, 2004 represents borrowings made against available seasonal lines of credit from financial institutions for use in operations and plant upgrades and expansion.

The Corporation has available seasonal lines of credit from financial institutions in the amount of \$50.0 million, of which \$36.8 million was utilized as of August 29, 2004. Additional borrowing is permitted within prescribed parameters in existing debt agreements, which contain certain performance covenants. For a discussion of the terms of the lines of credit, including covenants, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” contained in the Form 10-K (Amendment No. 1) for the fiscal year ended May 30, 2004.

PART 1 – FINANCIAL INFORMATION
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The Company believes that it has sufficient working capital and availability from seasonal lines of credit to meet its cash flow needs.

The following table summarizes the Corporation’s contractual obligations and other commitments as of August 29, 2004:

Contractual Obligation	Total	Payment Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Short-Term Notes Payable	\$ 36,777,000	\$ 36,777,000	\$ 0	\$ 0	\$ 0
Long-Term Debt	25,357,000	4,286,000	8,572,000	5,000,000	7,499,000
Operating Leases	1,716,000	808,000	825,000	83,000	0
Total contractual obligations	\$ 63,850,000	\$ 41,871,000	\$ 9,397,000	\$ 5,083,000	\$ 7,499,000

Currently, the Company is obligated to purchase 6,000,000 pounds of tomato paste from California Tomato Products, Colusa, California in each of the fiscal years from 2003 through 2006, at a price based on annual cost of production. The current market price of tomato paste is 28¢/lb. FOB California.

The Company’s sources of liquidity are primarily funds from operation and available amounts under three (3) seasonal lines of credit. The two lines expire on October 31, 2004 and the third line expires on January 28, 2005. They are expected to be renewed in the ordinary course of business. The Company further expects to draw down upon the entire amount of these lines as necessary for the operation of its business.

PART I – FINANCIAL INFORMATION
ITEM 3. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

There are no material changes to the disclosures on this matter provided in the Company’s Form 10-K (Amendment No. 1) for the fiscal year ended May 30, 2004.

ITEM 4. CONTROLS AND PROCEDURES

The Corporation, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer concluded that the Corporation’s disclosure controls and procedures are effective in reaching a reasonable level of assurance that information required to be disclosed by the Corporation in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission’s rules and forms.

There were no changes to internal control over financial reporting (“Internal Control”) which occurred during the quarter ended August 29, 2004 that materially affected or which are reasonably likely to materially affect Internal Control.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. The Corporation conducts periodic evaluations to enhance, where necessary its procedures and controls.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 8 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q for information regarding the 1995 Warehime Family Litigation and the Derivative Action, which is incorporated into this Item 1 by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND THE USE OF PROCEEDS – None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES – None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS – None

ITEM 5. OTHER INFORMATION

On August 25, 2004, the Corporation adopted procedures by which its shareholders may recommend nominees to the Corporation’s board of directors as required by Item 7(d)(2)(ii)(G) of Schedule 14A under the Exchange Act. Information regarding these procedures was previously disclosed in the Corporation’s Form 10-K (Amendment No. 1) for the fiscal year ended May 30, 2004.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

Exhibit	Description
Exhibit 11	Computation of Earnings per Share, incorporated by reference to Note 6 of the Notes to Consolidated Financial Statements
Exhibit 31.1	Section 302 Certification – Chief Executive Officer
Exhibit 31.2	Section 302 Certification – Chief Financial Officer
Exhibit 32.1	Section 906 Certification

SIGNATURES

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.

Date: October 13, 2004

HANOVER FOODS CORPORATION

By: */s/ Pietro Giraffa*

Pietro Giraffa
Vice President & Controller
Chief Accounting Officer
(Principal Accounting Officer)

By: */s/ Gary T. Knisely*

Gary T. Knisely
Executive Vice President
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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CERTIFICATION

I, John A. Warehime, certify that:

1. I have reviewed this Form 10-Q of Hanover Foods Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) (Intentionally Omitted)
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and;
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 13, 2004

/s/ John A. Warehime
John A. Warehime
Chief Executive Officer

CERTIFICATION

I, Gary T. Knisely, certify that:

1. I have reviewed this Form 10-Q of Hanover Foods Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) (Intentionally Omitted)
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and;
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 13, 2004

/s/ Gary T. Knisely
Gary T. Knisely
Chief Financial Officer

HANOVER FOODS CORPORATION
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

This certification is intended to accompany the quarterly report on Form 10-Q for the period ended August 29, 2004 (the "Report") of Hanover Foods Corporation (the "Company"), as filed with the Securities and Exchange Commission, and is given solely for the purpose of satisfying the requirements of 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. To the best of our knowledge, each of the undersigned officers of the Company does hereby certify that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 13, 2004

/s/ John A. Warehime

John A. Warehime
Chief Executive Officer

Date: October 13, 2004

/s/ Gary T. Knisely

Gary T. Knisely
Chief Financial Officer

The foregoing certification is being furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.
