

# 2012 Annual Report

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## Seneca Drives Green

Since 1952, we have been engaged in the safe, dependable, and efficient transportation of Seneca products. Our Company's number one fundamental belief commits us to protecting the environment and the worker. The newest additions to our fleet, the Volvo VNL670 trucks (pictured below and on front cover) are the latest example of this commitment to green and safe driving practices.

The VNL670 tractors are equipped with Volvo D-13 engines which are the most fuel efficient in the industry. They are certified Clean Idle by the Federal Government and California's Air Resource Board. Starting with the front bumper, side extenders and mirrors, to the rear cab extenders, these trucks glide through the air. With the help of the Freight Wing that is installed under the trailer, we have achieved 4% better fuel economy and the addition of the ECO-Flaps also adds 1% better fuel economy.

Where safety is concerned, the VNL670 tractors deliver the highest of standards. On frontal impact or collision, the engine is designed to drop down and go under the cab rather than into it, protecting the driver. The easy access step entry into the cab from the ground, with the steps and grab handles placed ergonomically with a 3-point contact at all times, makes ingress and egress safe. The windshield is full-vision with no separation lines which provides a clear unobstructed view of the highway. The steering wheel is not only equipped with an air bag but it is designed to break away on frontal impact to protect the driver. The Volvo trucks are equipped with hands-free Blue Tooth radios that are compatible with the drivers' cell phones. Automatic Traction Control is built into the trucks to help in a spin-out situation on icy roads.

By adding the technology and safety features of the new Volvo trucks to our shipping fleet, we have not only succeeded in major gains in fuel economy but we have succeeded in standing by our commitment to protecting the environment and the safety of our workers.



## Financial Highlights

Years ended March 31,	2012	2011	Increase (Decrease)
Net sales	\$1,261,821,000	\$1,194,612,000	5.6 %
Net earnings (see note 1)	11,256,000	17,671,000	(36.3)
Stockholders' equity	354,673,000	353,832,000	0.2
Diluted earnings per share (see note 1)	\$ 0.92	\$ 1.45	(36.6)%
Total stockholders' equity per equivalent common share (see note 2)	29.14	28.96	0.6

Note 1: During 2008, the Company changed its inventory valuation method from FIFO (first-in, first out) to LIFO (last-in, first out) which reduced net earnings by \$30.8 million, or \$2.52 per diluted share, in 2012 and increased net earnings by \$5.1 million, or \$0.42 per diluted share, in 2011.

Note 2: Equivalent common shares are either common shares or, for convertible preferred shares, the number of common shares that the preferred shares are convertible into.

## Description of Business

Seneca Foods Corporation conducts its business almost entirely in food processing, which contributed about 98% of the Company's fiscal year 2012 net sales. Canned vegetables represented 69%, fruit products represented 18%, frozen fruit and vegetables represented 12% and fruit chip products represented 1% of the total food processing net sales. Non-food processing sales, which primarily related to the sale of cans and ends, and outside revenue from the Company's trucking and aircraft operations, represented 2% of the Company's fiscal year 2012 net sales.

Approximately 9% of the Company's processed foods were sold under its own brands, or licensed trademarks, including Seneca®, Libby's®, Aunt Nellie's Farm Kitchen®, Stokely's®, Read®, Festal®, and Seneca Farms™. About 55% of the processed foods were sold under private labels and 23% was sold to institutional food distributors. The remaining 13% was sold under an Alliance Agreement with General Mills Operations, LLC.

Marion, New York

June 22, 2012

## To Our Shareholders

Fiscal 2012 was a much improved year for the Company, although our reported earnings would have you believe otherwise. Fiscal 2012 sales were up 5.6% to \$1,261,821,000 while our reported earnings for fiscal 2012 were \$11,256,000 or \$0.92 per share. Prior year's sales were \$1,194,612,000 and net earnings were \$17,671,000 or \$1.45 per share. Had the Company not switched its inventory accounting method to Last In, First Out (LIFO) in fiscal 2008, the results would have looked much different. Fiscal 2012 net earnings would have been \$42,027,000 or \$3.44 per share versus \$12,567,000 or \$1.03 per share in fiscal 2011 on a First In, First Out basis of inventory accounting according to generally accepted accounting principles (GAAP).

Our decision to switch to the LIFO inventory accounting method has turned out to be a very prudent one over the past five years. The Company's cost inflation has resulted in a LIFO reserve of \$137,227,000, including a \$47,340,000 pre-tax charge in fiscal 2012 alone. The current accounting method helps to more accurately reflect current costs and current revenues, and, additionally, had we stayed under our previous accounting method, this reserve would have represented pre-tax earnings on which we would have been required to pay taxes. The Seneca story has been a consistent one over our 63 years. We manage the Company for cash, not reported earnings.

The improved performance was a result of the fact that the inventory pressures were finally relieved in both our canned and frozen vegetable business after two long years of carrying excess inventories. This past growing season was quite the opposite of the prior two years as excessive moisture followed by high heat, caused significant recovery losses in our pea and corn crops. The impact was immediate with selling prices in both domestic retail and food service quickly rising in the second and third quarters, to reflect the changes in availability of product. This resulted in higher sales and profits for our vegetable operations from the second quarter through to the end of the year.

It was not all positive news for vegetables, as our Green Giant production alliance sales with General Mills declined 13.2% for the year. Our corn and pea production destined for General Mills is primarily located in Minnesota, where difficult growing conditions were more pronounced, and therefore we had fewer finished goods to sell to them. In addition, we sell our product to General Mills on a cost-plus basis, so there is not a possibility of any higher selling prices than the contractual fixed cost, plus a fixed per case tolling fee. Nevertheless, our General Mills Alliance remains very important to our Company.

The fruit side was much improved in fiscal 2012, but remains challenged by foreign competition and weakening demand. While there are some encouraging signs with foreign competition hampered by higher costs, it has been difficult to turn a consistent profit as we rely on low margin export and government sales to keep the plant operating at capacity. As the consumption of canned fruit has declined, we have been aggressively rolling out fruit products, packed in other types of packaging such as plastic and glass. For example, we have begun offering 6 oz. single serve fruit packed in a plastic cup, which we are selling along with our already successful fruits packed in plastic jars. This coming year, we will also be offering a line of glass-packed fruits in juice. In addition, our ready-to-eat oatmeal with fruit cups continues to gain momentum, although the warm winter negatively impacted overall category consumption. We are in the process of rolling out two new flavors of oatmeal, to add to the two flavors we are currently selling.

Fiscal 2012 was a year that we continued to make significant investments in growing our frozen vegetable business. Historically, the Company has been a small participant; however in fiscal 2011, we made an acquisition in Pennsylvania that increased our market presence in the northeast. We have followed that with investments in the production, packaging and warehousing of frozen vegetables at our Buhl, Idaho and Rochester, Minnesota plants, and our newly acquired packaging center in Lebanon, Pennsylvania. We will be continuing this investment in the coming year as we put together a national footprint of production and packaging of frozen vegetables. We believe many of our customers will find the national footprint for frozen vegetables very attractive.

Also this past year, we invested in several of our plants which are primarily devoted to export sales in order to meet the exacting standards required by many of our international customers. Export sales to over approximately 80 countries around the world represented nine percent of Seneca's total revenues in fiscal 2012. The business suffered due to the timing of our contracting with our international customers versus the actual costs incurred as a result of the poor corn crop. As the standard of living among the population of the developing world increases, we expect that they will desire the high quality products that we provide in canned and frozen fruits and vegetables.

## To Our Shareholders

Last summer, the Company signed a letter of intent to acquire one of its competitors in the canned and frozen vegetable industry. During the due diligence process, the Company invested \$10,000,000 in the selling Company's revolving loan facility, in order to facilitate the exit of several existing lenders. Although Seneca ultimately decided not to proceed with the transaction, the Company has continued to have this investment, which is recorded as a loan receivable on our balance sheet. At fiscal year end, the principal amount of the loan was \$10,000,000, but following year end, it was paid down to \$6,309,000.

As we look to the future, we are excited about the upcoming year. While Mother Nature will certainly insert herself in ways we cannot yet foresee, we currently believe that next year's financial performance will continue to improve. We are planning on a more normal pack and we do not believe that there will be the inflationary pressures of last year, which should lead to more moderate costs.

While each year brings its own challenges, our approach of managing for the long term remains unchanged. In the meantime, with our share price currently trading at less than book value, we currently intend to prudently repurchase shares as they become available. Finally, we would like to thank our nearly 10,000 loyal employees, who help Seneca Feed the World.



Chairman



President & Chief Executive Officer

# Five Year Selected Financial Data

## Summary of Operations and Financial Condition

(In thousands of dollars, except per share data and ratios)

Years ended March 31,	2012	2011(a)	2010	2009	2008
Net sales	\$1,261,821	\$1,194,612	\$1,280,110	\$1,280,684	\$1,080,724
Operating income before interest (b)	\$ 25,623	\$ 32,294	\$ 84,998	\$ 48,188	\$ 32,853
Interest expense, net	8,102	8,827	9,638	14,103	18,143
Net earnings (b)	11,256	17,671	48,411	18,765	8,019
Basic earnings per common share (b)	\$ 0.93	\$ 1.45	\$ 3.98	\$ 1.54	\$ 0.66
Diluted earnings per common share (b)	0.92	1.45	3.96	1.53	0.65
Working capital	\$ 425,082	\$ 294,712	\$ 404,610	\$ 332,082	\$ 370,102
Inventories	432,433	455,236	446,464	392,955	395,686
Goodwill	-	-	-	-	-
Net property, plant, and equipment	192,825	188,012	178,113	179,245	183,051
Total assets	738,036	744,708	719,333	675,605	672,020
Long-term debt and capital lease obligations, less current portion	226,873	90,060	207,924	191,853	250,039
Stockholders' equity	354,673	353,832	335,010	282,425	279,430
Additions to property, plant, and equipment	\$ 27,425	\$ 19,473	\$ 20,783	\$ 23,198	\$ 32,853
Net earnings/average equity	3.2%	5.1%	15.7%	6.7%	2.9%
Earnings before taxes/sales	1.4%	2.0%	5.9%	2.7%	1.4%
Net earnings/sales	0.9%	1.5%	3.8%	1.5%	0.7%
Long-term debt/equity (c)	64.0%	25.5%	62.1%	67.9%	89.5%
Total debt/equity ratio	1.1:1	1.1:1	1.2:1	1.4:1	1.4:1
Current ratio	4.6:1	2.1:1	4.0:1	3.1:1	4.2:1
Total stockholders' equity per equivalent common share (d)	\$ 29.14	\$ 28.96	\$ 27.43	\$ 23.13	\$ 22.86
Stockholders' equity per common share	29.81	29.61	28.37	28.10	27.66
Class A Global Market System closing price range	29.73-18.34	32.68-22.02	33.49-21.44	23.95-15.51	30.40-19.25
Class B Global Market System closing price range	29.70-19.20	32.99-22.30	33.17-20.86	24.00-16.61	30.96-20.50
Common cash dividends declared per share	-	-	-	-	-
Price earnings ratio	28.7	20.5	7.4	13.5	32.0

(a) The fiscal 2011 financial results include eight months of operating activity related to the Lebanon acquisition.

(b) The effect of using the LIFO inventory valuation method in fiscal 2012 was to reduce operating earnings by \$47.3 million and net earnings by \$30.8 million or \$2.53 per share (\$2.52 diluted). The effect of using the LIFO inventory valuation method in fiscal 2011 was to increase operating earnings by \$7.9 million and net earnings by \$5.1 million or \$0.42 per share (\$0.42 diluted). The effect of using the LIFO inventory valuation method in fiscal 2010 was to reduce operating earnings by \$11.2 million and net earnings by \$7.3 million or \$0.61 per share (\$0.60 diluted). The effect of using the LIFO inventory valuation method in fiscal 2009 was to reduce operating earnings by \$58.3 million and net earnings by \$37.9 million or \$3.12 per share (\$3.09 diluted). The effect of using the LIFO inventory valuation method in fiscal 2008 (first year of implementation) was to reduce operating earnings by \$28.2 million and net earnings by \$18.3 million or \$1.50 per share (\$1.49 diluted).

(c) The long-term debt to equity percentage for fiscal 2012, 2010, 2009 and 2008 includes the Revolving Credit Facility as discussed in Note 5, Long-Term Debt. For the year 2011, the Revolving Credit Facility was included in current liabilities. If calculated on a comparable basis to fiscal 2012, 2010, 2009 and 2008, the 2011 percentage would be 63.8%.

(d) Equivalent common shares are either common shares or, for convertible preferred shares, the number of common shares that the preferred shares are convertible into. See Note 8 of the Notes to Consolidated Financial Statements for conversion details.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## OVERVIEW

### Our Business

Seneca Foods believes it is one of the world's leading producers and distributors of canned vegetables. Canned vegetables are sold nationwide in all channels serving retail markets and to certain export markets, the food service industry, and other food processors including General Mills Operation, LLC (GMOL) under an Alliance Agreement. During 2012, canned vegetables represented 69% of the Company's sales. The Company maintains a number one share in the private label, food service and export canned vegetable markets and a number three position in the branded canned vegetable market. In addition, the Company is the supplier of frozen fruit and vegetable products, principally to private label retail, GMOL, and the food service industry, and fruit and snack chip products, principally serving retail markets and other food processors.

During 2011, the Company acquired 100% of the partnership interest in Lebanon Valley Cold Storage, LP and the assets of Unilink, LLC (collectively "Lebanon") from Pennsylvania Food Group, LLC and related entities, which is a re-processor of frozen vegetable and fruit products. In 2012, frozen products represented 12% of the Company's sales.

The Company's business strategies are designed to grow the Company's market share and enhance the Company's sales and margins and include: 1) expand the Company's leadership in the processed fruit and vegetable industry; 2) provide low cost, high quality processed fruits and vegetables to consumers through the elimination of costs from the Company's supply chain and investment in state-of-the-art production and logistical technology; 3) focus on growth opportunities to capitalize on higher expected returns; and 4) pursue strategic acquisitions that leverage the Company's core competencies.

All references to years are fiscal years ended March 31 unless otherwise indicated.

### Restructuring

During 2012 and 2010, there were no material adjustments to Plant Restructuring.

During 2011, the Company implemented workforce reductions at its plants in Buhl, Idaho and Mayville, Wisconsin and certain other locations that resulted in a restructuring charge of \$1,354,000 primarily for severance costs. This charge is included under Plant Restructuring in the Consolidated Statements of Net Earnings. Under the Alliance Agreement, GMOL shares in the cost of these restructurings, plus future depreciation and lease costs. GMOL's portion of these restructuring costs were paid to the Company during 2011. The Company deferred a portion of this payment to match the depreciation and lease costs that will be incurred in the future. As of March 31, 2012, this deferral totaled \$6,021,000, comprised of \$1,869,000 included in other accrued expenses and \$4,152,000 included in other long-term liabilities on the Consolidated Balance Sheets.

### Divestitures and Other Charges

During 2012, the Company recorded a gain of \$665,000 from the sale of property located in LeSueur, Minnesota and a gain of \$149,000 from the sale of other property which are included in Other Operating (Income) Expense in the Consolidated Statements of Net Earnings.

During 2011, there was a gain from the reversal of an environmental reserve of \$250,000, a gain of \$249,000 from the sale of certain fixed assets and a loss of \$391,000 from the disposal of certain fixed assets which are included in Other Operating (Income) Expense in the Consolidated Statements of Net Earnings.

During 2010, there were no material divestitures or other charges.

### Liquidity and Capital Resources

The Company's primary cash requirements are to make payments on the Company's debt, finance seasonal working capital needs and to make capital expenditures. Internally generated funds and amounts available under the revolving credit facility are the Company's primary sources of liquidity, although the Company believes it has the ability to raise additional capital by issuing additional stock, if it desires.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Revolving Credit Facility

The Company completed the closing of a new five year revolving credit facility ("Revolver") on July 20, 2011. Available borrowings under the Revolver total \$250 million from April through July and \$350 million from August through March. The Revolver balance as of March 31, 2012 was \$144,149,000 and is included in Long-Term Debt in the accompanying Consolidated Balance Sheet due to its five year term. At March 31, 2011, the Company's previous revolver was classified as Current Portion of Long-Term Debt due to its August 18, 2011 expiration date. In order to maintain availability of funds under the facility, the Company pays a commitment fee on the unused portion of the Revolver. The Revolver is secured by the Company's accounts receivable and inventory and contains financial covenants and borrowing base requirements. The Company utilizes its Revolver for general corporate purposes, including seasonal working capital needs, to pay debt principal and interest obligations, and to fund capital expenditures and acquisitions. Seasonal working capital needs are affected by the growing cycles of the vegetables and fruits the Company processes. The majority of vegetable and fruit inventories are produced during the months of June through November and are then sold over the following year. Payment terms for vegetable and fruit produce are generally three months but can vary from a few days to seven months. Accordingly, the Company's need to draw on the Revolver may fluctuate significantly throughout the year.

The Company believes that cash flows from operations and availability under its Revolver will provide adequate funds for the Company's working capital needs, planned capital expenditures and debt service obligations for at least the next 12 months.

## Seasonality

The Company's revenues typically are higher in the second and third fiscal quarters. This is due, in part, because the Company sells, on a bill and hold basis, Green Giant canned and frozen vegetables to GMOL at the end of each pack cycle, which typically occurs during these quarters. GMOL buys the product from the Company at cost plus an equivalent case tolling fee. See the Critical Accounting Policies section for further details. The Company's non-Green Giant sales also exhibit seasonality with the third fiscal quarter generating the highest sales due to increased retail sales during the holiday season.

The seasonality of the Company's business is illustrated by the following table:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands)			
Year ended March 31, 2012:				
Net sales	\$259,083	\$283,616	\$447,918	\$271,204
Gross margin	5,856	21,353	50,037	15,573
Net (loss) earnings	(7,975)	2,883	18,530	(2,182)
Inventories	431,862	733,143	537,863	432,433
Revolver outstanding	115,460	237,413	206,346	144,149
Year ended March 31, 2011:				
Net sales	\$219,942	\$275,448	\$446,250	\$252,972
Gross margin	25,284	19,127	34,514	14,300
Net earnings (loss)	5,275	2,811	11,462	(1,877)
Inventories	467,569	757,783	545,072	455,236
Revolver outstanding	92,126	195,000	180,095	135,763

## Short-Term Borrowings

The Company utilizes its Revolver for general corporate purposes, including seasonal working capital needs, to pay debt principal and interest obligations, and to fund capital expenditures and acquisitions. Seasonal working capital needs are affected by the growing cycles of the vegetables and fruits the Company processes. The majority of vegetable and fruit inventories are produced during the months of June through November and are then sold over the following year. Payment terms for vegetable and fruit produce are generally three months but can vary from a few days to seven months. Accordingly, the Company's need to draw on the Revolver may fluctuate significantly through the year.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

During 2012, the maximum level of short-term borrowings was affected by the \$10.0 million loan to a third party borrower, which took place in August 2011. Details of the advance are outlined in Note 3 of the Notes to Consolidated Financial Statements. The maximum level of short-term borrowings during 2011 was affected by the acquisition of Lebanon Valley Cold Storage, LP and the assets of Unilink, LLC. Details of this acquisition are outlined in Note 2 of the Notes to Consolidated Financial Statements.

General terms of the Revolver include payment of interest at LIBOR plus an agreed upon spread.

The following table documents the quantitative data for Short-Term Borrowings during 2012 and 2011:

	Fourth Quarter		Year Ended	
	2012	2011	2012	2011
	(In thousands)			
Reported end of period:				
Revolver outstanding	\$144,149	\$135,763	\$144,149	\$135,763
Weighted average interest rate	1.69 %	1.25 %	1.69 %	1.25 %
Reported during period:				
Maximum Revolver	\$240,000	\$191,852	\$268,363	\$207,262
Average Revolver outstanding	\$195,779	\$173,173	\$171,730	\$150,827
Weighted average interest rate	1.67 %	1.36 %	1.62 %	1.45 %

## Long-Term Debt

The Company has a \$43.5 million secured note payable to John Hancock Life Insurance Company, with an 8.03% interest rate, that is payable in installments through 2014. In addition, the Company has two mortgages outstanding totaling \$22.9 million, and several industrial revenue bonds ("IRBs"), totaling \$23.3 million. As discussed in Note 5, Long-Term Debt, the Company classified its Revolver balance as long-term debt at March 31, 2012. The Company did not issue any significant long-term debt in 2012 or 2011, other than the Revolver. Subsequent to the 2012 fiscal year end, the Company reached an agreement to extend the term of its \$5,060,000 Wayne County Industrial Revenue Development Bonds, included in the IRBs, from June 1, 2012 to June 1, 2017.

As of March 31, 2012, scheduled maturities of long-term debt in each of the five succeeding fiscal years and thereafter are presented below. The March 31, 2012 Revolver balance of \$144.1 million is presented as being due in fiscal 2017, based upon the Revolver's July 20, 2016 maturity date.

2013	\$ 7,336
2014	40,305
2015	2,321
2016	2,490
2017	146,713
Thereafter	35,044
Total	<u>\$234,209</u>

## Restrictive Covenants

The Company's debt agreements, including the Revolver, contain covenants that restrict the Company's ability to incur additional indebtedness, pay dividends on and redeem the Company's capital stock, make other restricted payments, including investments, sell the Company's assets, incur liens, transfer all or substantially all of the Company's assets and enter into consolidations or mergers. The Company's debt agreements also require it to meet certain financial covenants, including minimum EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), minimum fixed charge coverage, minimum interest coverage and maximum total debt ratios. The Revolver also contains borrowing base requirements related to accounts receivable and inventory. These financial requirements and ratios generally become more restrictive over time and are subject to allowances for seasonal fluctuations. The most restrictive financial covenant in the debt agreements is the adjusted debt to total capitalization ratio. In connection with the Company's decision to adopt the last-in, first-out ("LIFO") method of inventory accounting, effective December 30, 2007, the Company executed amendments to its previous debt agreements and incorporated them into the current debt agreement, which enable the Company to compute its financial covenants as if the Company were on the first-in, first-out ("FIFO") method of inventory accounting. The Company was in compliance with all such financial covenants as of March 31, 2012.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Capital Expenditures

Capital expenditures in 2012 totaled \$27.4 million and included \$4.0 million towards the completion of a warehouse project in Ripon, Wisconsin, \$2.2 million to complete a warehouse expansion in Cumberland, Wisconsin, \$1.7 million towards a dock expansion in Lebanon, Pennsylvania, equipment replacements and other improvements, and cost saving projects. Capital expenditures in 2011 totaled \$19.5 million and included \$3.4 million towards the completion of a warehouse project in Cumberland, Wisconsin, \$1.6 million to complete a warehouse project in Princeville, Illinois started in 2010, \$0.9 million for a bean expansion project in Geneva, New York, equipment replacements and other improvements, and cost saving projects. Capital expenditures in 2010 totaled \$20.8 million and included \$2.0 million for a coater oven for a can line in Baraboo, Wisconsin, \$2.0 million towards the partial completion of a warehouse project in Princeville, Illinois, \$1.2 million for a bean expansion project in Ripon, Wisconsin, equipment replacements and other improvements, and cost saving projects.

## Accounts Receivable

In 2012, accounts receivable decreased by \$1.4 million or 1.8% versus 2011, due to lower deduction balances in the current year than the prior year. In 2011, accounts receivable increased by \$5.1 million or 6.9% versus 2010, due to the Lebanon acquisition and the higher United States Department of Agriculture (USDA) receivables at 2011 year end, which have longer collection terms, partially offset by decreased per unit selling prices and decreased sales volume, together resulting in an 6.7% sales decrease in 2011 compared to 2010.

## Loan Receivable

During 2012, the Company signed a letter of intent to acquire one of its competitors in the canned and frozen vegetable industry. During the due diligence process, the Company invested \$10.0 million in the selling company's revolving loan facility, in order to facilitate the exit of several existing lenders. Although the Company ultimately decided not to proceed with the transaction, the Company has continued to have this investment, which is recorded as a loan receivable on its balance sheet. By the end of the year, it was still at \$10.0 million, but following year end, it was paid down to \$6.3 million.

## Inventories

In 2012, inventories decreased by \$22.8 million primarily reflecting a \$23.9 million decrease in finished goods due to the increase in the LIFO reserve balance and the short 2011 pack (fiscal 2012), partially offset by decreased unit sales volume and by the effect of higher work in process quantities. The LIFO reserve balance was \$137.2 million at March 31, 2012 versus \$89.9 million at the prior year end.

In 2011, inventories increased by \$8.8 million primarily reflecting the effect of higher steel raw material quantities and higher work in process quantities, partially offset by the effect of lower finished goods in spite of the inventory acquired from the Lebanon acquisition. The LIFO reserve balance was \$89.9 million at March 31, 2011 versus \$97.7 million at the prior year end.

The Company believes that the use of the LIFO method better matches current costs with current revenues.

## Critical Accounting Policies

During the year ended March 31, 2012, the Company sold for cash, on a bill and hold basis, \$151.0 million of Green Giant finished goods inventory to GMOL. As of March 31, 2012, \$96.1 million of this product, included in 2012 sales, remained unshipped. At the time of the sale of the Green Giant vegetables to GMOL, title of the specified inventory transferred to GMOL. The Company believes it has met the criteria required by the accounting standards for bill and hold treatment.

Trade promotions are an important component of the sales and marketing of the Company's branded products and are critical to the support of the business. Trade promotion costs, which are recorded as a reduction of net sales, include amounts paid to encourage retailers to offer temporary price reductions for the sale of the Company's products to consumers, amounts paid to obtain favorable display positions in retail stores, and amounts paid to retailers for shelf space in retail stores. Accruals for trade promotions are

# Management's Discussion and Analysis of Financial Condition and Results of Operations

recorded primarily at the time of sale of product to the retailer based on expected levels of performance. Settlement of these liabilities typically occurs in subsequent periods primarily through an authorized process for deductions taken by a retailer from amounts otherwise due to the Company. As a result, the ultimate cost of a trade promotion program is dependent on the relative success of the events and the actions and level of deductions taken by retailers for amounts they consider due to them. Final determination of the permissible deductions may take extended periods of time.

The Company assesses its long-lived assets for impairment whenever there is an indicator of impairment. Property, plant, and equipment are depreciated over their assigned lives. The assigned lives and the projected cash flows used to test impairment are subjective. If actual lives are shorter than anticipated or if future cash flows are less than anticipated, a future impairment charge or a loss on disposal of the assets could be incurred. Impairment losses are evaluated if the estimated undiscounted value of the cash flows is less than the carrying value. If such is the case, a loss is recognized when the carrying value of an asset exceeds its fair value.

## Obligations and Commitments

As of March 31, 2012, the Company was obligated to make cash payments in connection with its debt, operating leases, and purchase commitments. The effect of these obligations and commitments on the Company's liquidity and cash flows in future periods are listed below. All of these arrangements require cash payments over varying periods of time. Certain of these arrangements are cancelable on short notice and others require additional payments as part of any early termination.

### Contractual Obligations March 31, 2012

	2013	2014-15	2016-17	2018 and beyond	Total
Long-term debt	\$ 7,336	\$ 42,626	\$149,203	\$35,044	\$234,209
Interest	8,085	10,433	6,435	4,561	29,514
Operating lease obligations	31,879	51,318	38,412	40,643	162,252
Purchase commitments	238,082	—	—	—	238,082
Total	\$285,382	\$104,377	\$194,050	\$80,248	\$664,057

In addition, the Company's defined benefit plan has an unfunded pension liability of \$23.8 million which is subject to certain actuarial assumptions. The unfunded status increased by \$5.1 million during 2012 reflecting the current unfunded liability based on the projected benefit obligation, which increased from \$118.8 million to \$140.6 million, largely due to a reduction in the discount rate from 5.85% to 5.10% and actual fair value of plan assets as of March 31, 2012, net of a \$15.4 million contribution to the Plan during 2012. This unfunded status increase was recognized via an increase to accumulated other comprehensive income of \$9.3 million after the income tax benefit of \$5.9 million. Plan assets increased from \$100.1 million as of March 31, 2011 to \$116.8 million as of March 31, 2012 due to a continued recovery in market conditions and the contribution by the Company.

During 2012, the Company entered into new operating leases of approximately \$35.0 million, based on the if-purchased value, which was primarily agricultural and processing equipment.

Purchase commitments represent estimated payments to growers for crops that will be grown during the calendar 2012 season.

Due to uncertainties related to FASB Accounting Standards Codification ("ASC") 740, Income Taxes, the Company is not able to reasonably estimate the cash settlements required in future periods.

The Company has no off-balance sheet debt or other unrecorded obligations other than operating lease obligations and purchase commitments noted above.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Standby Letters of Credit

The Company has standby letters of credit for certain insurance-related requirements. The majority of the Company's standby letters of credit are automatically renewed annually, unless the issuer gives cancellation notice in advance. On March 31, 2012, the Company had \$10.3 million in outstanding standby letters of credit. These standby letters of credit are supported by the Company's Revolver and reduce borrowings available under the Revolver.

## Cash Flows

In 2012, the Company's cash and cash equivalents increased by \$4.7 million, which is due to the net impact of \$41.9 million provided by operating activities, \$36.4 million used in investing activities, and \$0.8 million used in financing activities.

## Operating Activities

Cash provided by operating activities increased to \$41.9 million in 2012 from \$17.0 million in 2011. The increase is primarily attributable to increased net earnings exclusive of LIFO in 2012 versus 2011 partially offset by increased inventory, exclusive of LIFO. The 2012 LIFO charge of \$47.3 million resulted in a tax payment deferral of \$16.6 million.

Cash provided by operating activities decreased to \$17.0 million in 2011 from \$38.1 million in 2010. The decrease is primarily attributable to decreased net earnings exclusive of LIFO in 2011 versus 2010 partially offset by decreased inventory. The 2011 LIFO credit of \$7.9 million resulted in a tax cash payment of \$2.7 million.

The cash requirements of the business fluctuate significantly throughout the year to coincide with the seasonal growing cycles of vegetables and fruits. The majority of the inventories are produced during the packing months, from June through November, and are then sold over the following year. Cash flow from operating activities is one of the Company's main sources of liquidity.

## Investing Activities

Cash used in investing activities was \$36.4 million for 2012, principally reflecting capital expenditures. Capital expenditures aggregated \$27.4 million in 2012 versus \$19.5 million in 2011. The increase was primarily attributable to more large projects in 2012. There were three major projects in 2012 as follows: 1) \$4.0 million towards the partial completion of warehouse expansion in Ripon, Wisconsin; 2) \$2.2 million to complete a warehouse project in Cumberland, Wisconsin started in 2011, and 3) \$1.7 million towards the partial completion of a dock expansion project in Lebanon, Pennsylvania.

Cash used in investing activities was \$38.5 million for 2011, principally reflecting the Lebanon acquisition and capital expenditures. The Lebanon acquisition was \$20.3 million in 2011. Capital expenditures aggregated \$19.5 million in 2011 versus \$20.8 million in 2010. The decrease was primarily attributable to an increase in leased projects. There were three major projects in 2011 as follows: 1) \$3.4 million towards the completion of a warehouse project in Cumberland, Wisconsin, 2) \$1.6 million to complete a warehouse project in Princeville, Illinois started in 2010, and 3) \$0.9 million for a bean expansion project in Geneva, New York.

## Financing Activities

Cash used by financing activities was \$0.8 million in 2012. The Company purchased \$1.2 million of treasury stock during 2012 while there were no comparable purchases in 2011.

Cash provided by financing activities was \$19.0 million in 2011 principally consisting of the additional Revolver borrowings to finance the Lebanon acquisition.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## RESULTS OF OPERATIONS

Classes of similar products/services:	2012	2011	2010
	(In thousands)		
Net Sales:			
GMOL *	\$ 166,231	\$ 191,526	\$ 239,622
Canned vegetables	746,535	692,574	750,751
Frozen *	96,870	86,904	48,320
Fruit	220,788	195,427	200,391
Snack	11,730	10,604	21,287
Other	19,667	17,577	19,739
<b>Total</b>	<b>\$1,261,821</b>	<b>\$1,194,612</b>	<b>\$1,280,110</b>

\* GMOL includes frozen vegetable sales exclusively for GMOL.

### Fiscal 2012 versus Fiscal 2011

Net sales for 2012 increased \$67.2 million, from \$1,194.6 million to \$1,261.8 million. The increase primarily reflects a \$54.0 million increase in canned vegetable sales, a \$25.4 million increase in fruit sales, and a \$10.0 million increase in frozen sales and a full year of Lebanon frozen sales, partially offset by a \$25.3 million decrease in GMOL sales. The increase in sales is attributable to increased selling prices/improved sales mix of \$133.3 million partially offset by a sales volume reduction of \$66.1 million. The increased selling prices/improved sales mix is primarily due to canned vegetable and canned fruit.

Cost of product sold as a percentage of sales increased from 92.2% in 2011 to 92.6% in 2012 primarily as a result of a \$55.2 million LIFO charge increase in 2012 versus 2011, partially offset by higher selling prices in 2012 versus 2011.

Selling, general and administrative expense increased from 5.1% of sales in 2011 to 5.4% of sales in 2012 primarily due to increased non-GMOL sales incurred brokerage charges and lower GMOL sales that do not get brokerage charges.

Plant restructuring costs, which are described in detail in the Restructuring section of Management's Discussion and Analysis of Financial Condition and Results of Operations, decreased from \$1.4 million in 2011 to near zero in 2012.

Interest expense, net, decreased from \$8.8 million in 2011 to \$8.1 million in 2012 primarily reflecting \$0.7 million of interest income from the Borrower Loan.

Other operating income in 2012 included a gain of \$0.7 million from the sale of property located in LeSueur, Minnesota and a gain of \$0.1 million from the sale of other property.

As a result of the aforementioned factors, pre-tax earnings decreased from \$23.5 million in 2011 to \$17.5 million in 2012. The effective tax rate was 35.8% in 2012 and 24.7% in 2011. The increase in the 2012 effective tax rate is primarily due to the settlement of an IRS audit for the 2006, 2007 and 2008 tax years in 2011 which created tax benefits from settlements of \$3.8 million.

### Fiscal 2011 versus Fiscal 2010

Net sales for 2011 decreased \$85.5 million, or 6.7%, from \$1,280.1 million to \$1,194.6 million. The decrease primarily reflects a \$58.2 million decrease in canned vegetable sales, a \$48.1 million decrease in GMOL sales, and a \$10.7 million decrease in Snack sales, partially offset by an increase in frozen sales of \$38.6 million. Lower net selling prices and a less favorable sales mix represented \$59.2 million of the decrease while sales volume accounted for \$26.3 million of the decrease. The decrease in selling prices/change in sales mix was primarily due to canned vegetable and fruit products. The decrease in sales volume was primarily due to Green Giant Alliance and Snack reductions, offset in part by increased frozen product volume due to the Company's Lebanon acquisition.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

Cost of product sold as a percentage of sales increased from 88.3% in 2010 to 92.2% in 2011, as lower selling prices more than offset decreased costs, including a \$19.2 million LIFO credit in 2011 versus the prior year.

Selling, general and administrative expense was 5.1% of sales in 2011 and 2010.

Plant restructuring costs increased from zero in 2010 to \$1.4 million in 2011 and are described in detail in the Restructuring section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Interest expense, net, decreased from \$9.6 million in 2010 to \$8.8 million in 2011 due to the pay-off of a \$32.1 million note balance to GMOL in 2010 partially offset by higher average Revolver borrowings.

Other operating income in 2011 included of a gain of \$0.7 million as a result of the estimated fair market value of the assets acquired exceeding the purchase price of Lebanon. The Company also recorded a gain from the reversal of an environmental reserve of \$0.3 million, a gain of \$0.2 million from the sale of certain fixed assets and a loss of \$0.4 million from the disposal of certain fixed assets in 2011.

As a result of the aforementioned factors, pre-tax earnings decreased from \$75.4 million in 2010 to \$23.5 million in 2011. The effective tax rate was 24.7% in 2011 and 35.8% in 2010. The decrease in the 2011 effective tax rate is primarily due to the settlement of an IRS audit for the 2006, 2007 and 2008 tax years.

## Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosures about Fair Value Measurements," which requires additional disclosures about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. This standard also clarifies existing disclosure requirements related to the level of disaggregation of fair value measurements for each class of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value for both recurring and non-recurring Level 2 and Level 3 measurements. Since this new accounting standard only required additional disclosure, the adoption of the standard did not impact the Company's consolidated financial statements.

In July 2010, the Receivables topic of the Accounting Standards Codification ("ASC") was amended by ASU 2010-20 to require expanded disclosures related to a company's allowance for credit losses and the credit quality of its financing receivables. The Company is required to include any applicable disclosures in its interim and annual financial statements for periods ended on or after December 15, 2010. See Note 3 of the Notes to Consolidated Financial Statements.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS," ("ASU 2011-04") which results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between accounting principles generally accepted in the United States ("GAAP") and IFRS. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company is currently assessing the potential impact that the adoption of ASU 2011-04 may have on the Company's financial position and results of operations.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income," which eliminates the current option of reporting other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. Upon adoption of ASU 2011-05, comprehensive income will either be reported in a single continuous financial statement or in two separate but consecutive financial statements. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011. The specific requirement to present items that are reclassified from other comprehensive income to net earnings alongside their respective components of net earnings and other comprehensive income has been deferred. Therefore, those requirements will not be effective for the Company for fiscal years and interim periods within those years beginning after December 15, 2011. The Company early adopted this standard in the accompanying financial statements. Since ASU 2011-05 only relates to presentation of comprehensive income, the adoption of ASU 2011-05 did not have any impact on the Company's financial position, results of operations or cash flows.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk

The Company maintained \$9.4 million in cash equivalents as of March 31, 2012. As a result of its regular borrowing activities, the Company's operating results are exposed to fluctuations in interest rates, which it manages primarily through its regular financing activities. The Company uses a revolving credit facility with variable interest rates to finance capital expenditures, acquisitions, seasonal working capital requirements and to pay debt principal and interest obligations. In addition, long-term debt includes secured notes payable. Long-term debt bears interest at fixed and variable rates. With \$194.3 million in average variable-rate debt during fiscal 2012, a 1% change in interest rates would have had a \$1.9 million effect on interest expense. The following table provides information about the Company's financial instruments that are sensitive to changes in interest rates. The table presents principal cash flows and related weighted average interest rates by expected maturity date. Weighted average interest rates on long-term variable-rate debt are based on rates as of March 31, 2012.

Interest Rate Sensitivity of Long-Term Debt and Short-Term Investments  
March 31, 2012  
(In thousands)

	P A Y M E N T S B Y Y E A R						Total/ Weighted Average	Estimated Fair Value
	2013	2014	2015	2016	2017	Thereafter		
Fixed-rate L/T debt:								
Principal cash flows	\$7,336	\$40,305	\$2,321	\$2,490	\$ 2,564	\$12,414	\$ 67,430	\$ 64,637
Average interest rate	7.64 %	7.47 %	6.96 %	6.97 %	6.99 %	7.18 %	7.30 %	
Variable-rate L/T debt:								
Principal cash flows	\$ -	\$ -	\$ -	\$ -	\$144,149	\$22,630	\$166,779	\$166,779
Average interest rate	- %	- %	- %	- %	1.69 %	3.68 %	1.91 %	
Average Revolver debt:								
Principal cash flows							\$171,730	\$171,730
Average interest rate							1.62 %	
Short-term investments:								
Average balance							\$ 2,429	\$ 2,429
Average interest rate							0.22 %	

### Commodity Risk

The materials that the Company uses, such as vegetables, fruits, steel, ingredients, and packaging materials, as well as the electricity and natural gas used in the Company's business, are commodities that may experience price volatility caused by external factors including market fluctuations, availability, weather, currency fluctuations, and changes in governmental regulations and agricultural programs. These events may result in reduced supplies of these materials, higher supply costs, or interruptions in the Company's production schedules. If prices of these raw materials increase and the Company is not able to effectively pass such price increases along to its customers, operating income will decrease. With \$238.0 million in produce costs expected during 2013, a 1% change would have a \$2.4 million effect on inventory costs. A 1% change in steel unit costs would equate to a \$1.0 million cost impact.

The Company does not currently hedge or otherwise use derivative instruments to manage interest rate or commodity risks.

## Consolidated Statements of Net Earnings

### Seneca Foods Corporation and Subsidiaries

(In thousands, except per share amounts)

Years ended March 31,	2012	2011	2010
Net sales	\$1,261,821	\$1,194,612	\$1,280,110
Costs and expenses:			
Cost of products sold	1,169,002	1,101,387	1,129,823
Selling, general, and administrative expense	67,971	60,421	65,133
Other operating (income) expense, net	(814)	(844)	156
Plant restructuring	39	1,354	-
Total costs and expenses	1,236,198	1,162,318	1,195,112
Operating income	25,623	32,294	84,998
Interest expense, net of interest income of \$707, \$1, and \$2, respectively	8,102	8,827	9,638
Earnings before income taxes	17,521	23,467	75,360
Income taxes	6,265	5,796	26,949
Net earnings	\$ 11,256	\$ 17,671	\$ 48,411
Basic earnings per common share	\$ 0.93	\$ 1.45	\$ 3.98
Diluted earnings per common share	\$ 0.92	\$ 1.45	\$ 3.96

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

### Seneca Foods Corporation and Subsidiaries

(In thousands)

Years ended March 31,	2012	2011	2010
Comprehensive income (loss):			
Net earnings	\$11,256	\$17,671	\$48,411
Change in pension and post retirement benefits (net of tax of \$5,970, \$671, and \$2,640, respectively)	(9,338)	1,049	4,130
Total	\$ 1,918	\$18,720	\$52,541

See notes to consolidated financial statements.

# Consolidated Balance Sheets

## Seneca Foods Corporation and Subsidiaries

(In thousands)

March 31,	2012	2011
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 9,420	\$ 4,762
Accounts receivable, less allowance for doubtful accounts of \$206 and \$247, respectively	77,105	78,536
Loan receivable	10,000	-
Inventories:		
Finished products	307,912	331,771
In process	16,083	13,745
Raw materials and supplies	108,438	109,720
	432,433	455,236
Deferred income taxes, net	8,637	7,623
Refundable income taxes	316	-
Other current assets	5,339	10,110
<b>Total Current Assets</b>	<b>543,250</b>	<b>556,267</b>
Deferred income tax asset, net	403	-
Other assets	1,558	429
Property, Plant, and Equipment:		
Land	18,628	17,645
Buildings & Improvements	164,439	158,204
Equipment	339,112	327,058
	522,179	502,907
Less accumulated depreciation and amortization	329,354	314,895
<b>Net Property, Plant, and Equipment</b>	<b>192,825</b>	<b>188,012</b>
<b>Total Assets</b>	<b>\$738,036</b>	<b>\$744,708</b>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 61,074	\$ 64,369
Accrued vacation	10,506	10,215
Accrued payroll	7,793	6,685
Other accrued expenses	31,459	37,238
Current portion of long-term debt	7,336	142,559
Income taxes	-	489
<b>Total Current Liabilities</b>	<b>118,168</b>	<b>261,555</b>
Long-term debt, less current portion	226,873	90,060
Other liabilities	38,322	36,084
Deferred income taxes, net	-	3,177
<b>Total Liabilities</b>	<b>383,363</b>	<b>390,876</b>
Commitments and contingencies (Note 14)		
Stockholders' Equity:		
Preferred stock	6,268	6,325
Common stock	2,938	4,118
Additional paid-in capital	92,139	90,778
Treasury stock, at cost	(1,435)	(257)
Accumulated other comprehensive loss	(23,319)	(13,981)
Retained earnings	278,082	266,849
<b>Total Stockholders' Equity</b>	<b>354,673</b>	<b>353,832</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$738,036</b>	<b>\$744,708</b>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

## Seneca Foods Corporation and Subsidiaries

(In thousands)

Years ended March 31,	2012	2011	2010
Cash flows from operating activities:			
Net earnings	\$ 11,256	\$ 17,671	\$ 48,411
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation and amortization	22,691	22,581	22,415
Deferred income tax expense	1,368	1,717	4,247
(Gain) loss on the sale of assets	(814)	142	153
Changes in operating assets and liabilities (net of acquisition):			
Accounts receivable	1,431	(1,661)	3,253
Inventories	22,803	1,519	(53,509)
Other current assets	4,929	(7,117)	3,116
Accounts payable, accrued expenses, and other liabilities	(20,977)	(12,369)	5,593
Income taxes	(805)	(5,519)	4,433
Net cash provided by operating activities	41,882	16,964	38,112
Cash flows from investing activities:			
Additions to property, plant, and equipment	(27,425)	(19,473)	(20,783)
Issuance of loan receivable	(10,000)	-	-
Cash paid for acquisition (net of cash acquired)	-	(20,348)	-
Proceeds from the sale of assets	1,042	1,245	168
Net cash used in investing activities	(36,383)	(38,576)	(20,615)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	417,356	343,755	415,727
Payments of long-term debt	(415,766)	(325,416)	(432,249)
Borrowings on notes payable	-	168	-
Change in other assets	(1,230)	469	620
Purchase treasury stock	(1,178)	-	-
Preferred dividends paid	(23)	(23)	(23)
Net cash (used in) provided by financing activities	(841)	18,953	(15,925)
Net increase (decrease) in cash and cash equivalents	4,658	(2,659)	1,572
Cash and cash equivalents, beginning of year	4,762	7,421	5,849
Cash and cash equivalents, end of year	\$ 9,420	\$ 4,762	\$ 7,421
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 7,570	\$ 8,395	\$ 8,989
Income taxes	5,455	14,275	18,813

See notes to consolidated financial statements.

# Consolidated Statements of Stockholders' Equity

## Seneca Foods Corporation and Subsidiaries

(In thousands, except share amounts)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings
Balance March 31, 2009	\$ 69,403	\$ 3,080	\$28,546	\$ (257)	\$(19,160)	\$200,813
Net earnings	-	-	-	-	-	48,411
Cash dividends paid on preferred stock	-	-	-	-	-	(23)
Equity incentive program	-	-	67	-	-	-
Preferred stock conversion	(38,078)	781	37,297	-	-	-
Change in pension and post retirement benefits adjustment (net of tax \$2,640)	-	-	-	-	4,130	-
Balance March 31, 2010	31,325	3,861	65,910	(257)	(15,030)	249,201
Net earnings	-	-	-	-	-	17,671
Cash dividends paid on preferred stock	-	-	-	-	-	(23)
Equity incentive program	-	-	125	-	-	-
Preferred stock conversion	(25,000)	257	24,743	-	-	-
Change in pension and post retirement benefits adjustment (net of tax \$671)	-	-	-	-	1,049	-
Balance March 31, 2011	6,325	4,118	90,778	(257)	(13,981)	266,849
Net earnings	-	-	-	-	-	11,256
Cash dividends paid on preferred stock	-	-	-	-	-	(23)
Equity incentive program	-	-	124	-	-	-
Common stock stated value adjustment	-	(1,181)	1,181	-	-	-
Purchase treasury stock	-	-	-	(1,178)	-	-
Preferred stock conversion	(57)	1	56	-	-	-
Change in pension and post retirement benefits adjustment (net of tax \$5,970)	-	-	-	-	(9,338)	-
Balance March 31, 2012	\$ 6,268	\$ 2,938	\$92,139	\$(1,435)	\$(23,319)	\$278,082

	Preferred Stock					Common Stock	
	6 % Cumulative Par Value \$.25 Callable at Par Voting	10 % Cumulative Par Value \$.025 Convertible Voting	Participating Convertible Par Value \$.025	2003 Series Participating Convertible Par Value \$.025	2006 Series Participating Convertible Par Value \$.025	Class A Common Stock Par Value \$.25	Class B Common Stock Par Value \$.25
Shares authorized and designated: March 31, 2012	200,000	1,400,000	97,870	312,790	-	20,000,000	10,000,000
Shares outstanding: March 31, 2010	200,000	807,240	102,047	313,304	1,025,220	8,528,745	2,176,836
March 31, 2011	200,000	807,240	102,047	313,304	-	9,607,809	2,127,822
March 31, 2012	200,000	807,240	97,870	312,790	-	9,591,677	2,097,312
Stock amount	\$ 50	\$ 202	\$1,168	\$4,848	\$ -	\$2,414	\$ 524

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## Seneca Foods Corporation and Subsidiaries

### 1. Summary of Significant Accounting Policies

**Nature of Operations** — Seneca Foods Corporation and subsidiaries (the “Company”) conducts its business almost entirely in food processing, operating 23 plants and 29 warehouses in eight states. The Company markets private label and branded processed foods to retailers and institutional food distributors.

**Principles of Consolidation** — The consolidated financial statements include the accounts for the parent company and all of its wholly-owned subsidiaries after elimination of intercompany transactions, profits, and balances.

**Revenue Recognition** — Sales and related cost of product sold are recognized when legal title passes to the purchaser, which is primarily upon shipment of products. When customers, under the terms of specific orders, request that the Company invoice but hold the goods (“Bill and Hold”) for future shipment, the Company recognizes revenue when legal title to the finished goods inventory passes to the purchaser. Generally, the Company receives cash from the purchaser when legal title passes. During the years ended 2012 and 2011, the Company sold for cash, on a bill and hold basis, \$151.0 million and \$180.3 million, respectively, of Green Giant finished goods inventory to General Mills Operations, LLC (“GMOL”). At the time of the sale of the Green Giant vegetables to GMOL, title of the specified inventory transferred to GMOL. The Company believes it has met the criteria required by the accounting standards for Bill and Hold treatment. As of March 31, 2012, \$96.1 million of 2012 product remained unshipped.

Trade promotions are an important component of the sales and marketing of the Company’s branded products, and are critical to the support of the business. Trade promotion costs, which are recorded as a reduction of sales, include amounts paid to retailers for shelf space, to obtain favorable display positions and to offer temporary price reductions for the sale of our products to consumers. Accruals for trade promotions are recorded primarily at the time of sale to the retailer based on expected levels of performance. Settlement of these liabilities typically occurs in subsequent periods primarily through an authorized process for deductions taken by a retailer from amounts otherwise due to the Company. As a result, the ultimate cost of a trade promotion program is dependent on the relative success of the events and the actions and level of deductions taken by retailers. Final determination of the permissible deductions may take extended periods of time.

**Concentration of Credit Risk** — Financial instruments that potentially subject the Company to credit risk consist of trade receivables and interest-bearing investments. Wholesale and retail food distributors comprise a significant portion of the trade receivables; collateral is generally not required. A relatively limited number of customers account for a large percentage of the Company’s total sales. GMOL sales represented 13%, 16% and 19% of net sales in 2012, 2011 and 2010, respectively. The top ten customers represented approximately 49%, 49% and 52% of net sales for 2012, 2011 and 2010, respectively. The Company closely monitors the credit risk associated with its customers. The Company places substantially all of its interest-bearing investments with financial institutions and monitors credit exposure. Cash and short-term investments in certain accounts exceed the federal insured limit; however, the Company has not experienced any losses in such accounts.

**Cash and Cash Equivalents** — The Company considers all highly liquid instruments purchased with an original maturity of three months or less as cash equivalents.

**Fair Value of Financial Instruments** — The fair values of cash and cash equivalents, accounts receivable, loan receivable, short-term debt and accounts payable approximate cost because of the immediate or short-term maturity of these financial instruments. See Note 10, Fair Value of Financial Instruments, for a discussion of the fair value of long-term debt.

**Deferred Financing Costs** — Deferred financing costs incurred in obtaining debt are amortized on a straight-line basis over the term of the debt, which is not materially different than using the effective interest rate method. As of March 31, 2012, there were \$1.5 million of deferred financing costs included in other assets on the Consolidated Balance Sheets.

**Inventories** — Substantially all inventories are stated at the lower of cost; determined under the last-in, first-out (“LIFO”) method; or market.

# Notes to Consolidated Financial Statements

**Income Taxes** — The provision for income taxes includes federal and state income taxes currently payable and those deferred because of temporary differences between the financial statement and tax basis of assets and liabilities and tax credit carryforwards. The Company uses the flow-through method to account for its investment tax credits.

The Company evaluates the likelihood of realization of its net deferred income tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the Company's forecast of future taxable income, the projected reversal of temporary differences and available tax planning strategies that could be implemented to realize the net deferred income tax assets.

As disclosed in Note 7, Income Taxes, the Company adopted the provisions of ASC 740 Income Taxes (formerly Statement of Financial Accounting Standards ("SFAS") Interpretation No. 48 "Accounting for Uncertain Income Taxes — an Interpretation of SFAS Statement No. 109"), on April 1, 2007. The Company has elected to retain its existing accounting policy with respect to the treatment of interest and penalties attributable to income taxes and continues to reflect any change for such, to the extent it arises, as a component of its income tax provision or benefit.

**Shipping and Handling Costs** — The Company includes all shipping and handling costs billed to customers in net sales and the corresponding costs in cost of products sold.

**Advertising Costs** — Advertising costs are expensed as incurred. Advertising costs charged to operations were \$3.2 million and \$1.8 million in 2012 and 2011, respectively.

**Accounts Receivable and Doubtful Accounts** — Accounts Receivable is stated at invoice value, which is net of any off invoice promotions. A provision for doubtful accounts is recorded based upon an assessment of credit risk within the accounts receivable portfolio, experience of delinquencies (accounts over 15 days past due) and charge-offs (accounts removed from accounts receivable for expectation of non-payment), and current market conditions. Management believes these provisions are adequate based upon the relevant information presently available.

**Loan Receivable** — Loan receivable is stated as the unpaid principal balance owing to the Company under the Borrower Credit Facility described in Note 3. Interest income is recognized in the period in which it is earned. The Company assesses impairment of the loan receivable whenever there is an indicator of impairment, but not less than quarterly.

**Earnings per Common Share** — The Company has three series of convertible preferred stock, which are deemed to be participating securities that are entitled to participate in any dividend on Class A common stock as if the preferred stock had been converted into common stock immediately prior to the record date for such dividend. Basic earnings per share for common stock is calculated using the "two-class" method by dividing the earnings attributable to common stockholders by the weighted average of common shares outstanding during the period. Restricted stock is included in all earnings per share calculations.

Diluted earnings per share is calculated by dividing earnings attributable to common stockholders by the sum of the weighted average common shares outstanding plus the dilutive effect of convertible preferred stock using the "if-converted" method, which treats the contingently-issuable shares of convertible preferred stock as common stock.

## Notes to Consolidated Financial Statements

Years ended March 31,	2012	2011	2010
	(In thousands, except per share amounts)		
<b>Basic</b>			
Net earnings	\$11,256	\$17,671	\$48,411
Deduct preferred stock dividends	23	23	23
Undistributed earnings	11,233	17,648	48,388
Earnings attributable to participating preferred	382	851	8,996
Earnings attributable to common shareholders	\$10,851	\$16,797	\$39,392
Weighted average common shares outstanding	11,727	11,564	9,887
Basic earnings per common share	\$ 0.93	\$ 1.45	\$ 3.98
<b>Diluted</b>			
Earnings attributable to common shareholders	\$10,851	\$16,797	\$39,392
Add dividends on convertible preferred stock	20	20	20
Earnings attributable to common stock on a diluted basis	\$10,871	\$16,817	\$39,412
Weighted average common shares outstanding-basic	11,727	11,564	9,887
Additional shares to be issued related to the equity compensation plan	5	5	3
Additional shares to be issued under full conversion of preferred stock	67	67	67
Total shares for diluted	11,799	11,636	9,957
Diluted earnings per share	\$ 0.92	\$ 1.45	\$ 3.96

**Depreciation and Valuation** — Property, plant, and equipment are stated at cost. Interest incurred during the construction of major projects is capitalized. For financial reporting, the Company provides for depreciation on the straight-line method at rates based upon the estimated useful lives of the various assets. Depreciation was \$22,226,000, \$22,000,000, and \$21,594,000 in 2012, 2011, and 2010, respectively. The estimated useful lives are as follows: buildings and improvements — 30 years; machinery and equipment — 10-15 years; computer software — 3-5 years; vehicles — 3-7 years; and land improvements — 10-20 years. The Company assesses its long-lived assets for impairment whenever there is an indicator of impairment. Impairment losses are evaluated if the estimated undiscounted cash flows from using the assets are less than carrying value. A loss is recognized when the carrying value of an asset exceeds its fair value. There were no significant impairment losses in 2012, 2011 or 2010.

**Use of Estimates in the Preparation of Financial Statements** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the related revenues and expenses during the reporting period. Actual amounts could differ from those estimated.

**Recently Issued Accounting Standards** — In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosures about Fair Value Measurements," which requires additional disclosures about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. This standard also clarifies existing disclosure requirements related to the level of disaggregation of fair value measurements for each class of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value for both recurring and non-recurring Level 2 and Level 3 measurements. Since this new accounting standard only required additional disclosure, the adoption of the standard did not impact the Company's consolidated financial statements.

In July 2010, the Receivables topic of the Accounting Standards Codification ("ASC") was amended by ASU 2010-20 to require expanded disclosures related to a company's allowance for credit losses and the credit quality of its financing receivables. The Company is required to include any applicable disclosures in its interim and annual financial statements for periods ended on or after December 15, 2010. See Note 3 of the Notes to Consolidated Financial Statements.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and International Financial Reporting Standards ("IFRS")," ("ASU 2011-04") which results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair

# Notes to Consolidated Financial Statements

value between accounting principles generally accepted in GAAP and IFRS. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company is currently assessing the potential impact that the adoption of ASU 2011-04 may have on the Company's financial position and results of operations.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income," which eliminates the current option of reporting other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. Upon adoption of ASU 2011-05, comprehensive income will either be reported in a single continuous financial statement or in two separate but consecutive financial statements. ASU 2011-05 is effective for fiscal years and interim periods beginning after December 15, 2011. The specific requirement to present items that are reclassified from other comprehensive income to net earnings alongside their respective components of net earnings and other comprehensive income has been deferred. Therefore, those requirements will not be effective for the Company for fiscal years and interim periods within those years beginning after December 15, 2011. The Company early adopted this standard in the accompanying financial statements. Since ASU 2011-05 only relates to presentation of comprehensive income, the adoption of ASU 2011-05 did not have any impact on the Company's financial position, results of operations or cash flows.

**Reclassifications** — Certain previously reported amounts have been reclassified to conform to current period classification.

## 2. Acquisition

On August 6, 2010, the Company completed its acquisition of 100% of the partnership interest in Lebanon Valley Cold Storage, LP and the assets of Unilink, LLC (collectively "Lebanon") from Pennsylvania Food Group, LLC and related entities. The rationale for the acquisition was twofold: (1) to broaden the Company's product offerings in the frozen food business and (2) to take advantage of distribution efficiencies by combining shipments since the customer bases of the Company and Lebanon are similar. The purchase price totaled \$20.3 million plus the assumption of certain liabilities. This acquisition was financed with proceeds from the Company's revolving credit facility. The purchase price to acquire Lebanon was allocated based on the internally developed fair value of the assets acquired and liabilities assumed and the independent valuation of property, plant, and equipment. The purchase price of \$20.3 million has been allocated as follows (in millions):

<u>Purchase Price (net of cash received)</u>	<u>\$20.3</u>
Allocated as follows:	
Current assets	\$13.8
Property, plant and equipment	13.9
Bargain purchase gain	(0.7)
Current liabilities	(6.7)
<u>Total</u>	<u>\$20.3</u>

In 2011, the Company recorded a \$736,000 gain as a result of the estimated fair market value of the net assets acquired exceeding the purchase price. This gain is included in other operating income on the Consolidated Statements of Net Earnings.

## 3. Loan Receivable

The Company acquired \$10.0 million of the lending commitments (the "Loan Commitment") made by various lenders under the Third Amended and Restated Credit Agreement dated July 29, 2011 by and among the Borrower ("Borrower"), Bank of America, N.A. as administrative agent and letter of credit issuer, and various other lenders (the "Borrower Credit Facility"), and thus became a co-lender under the Borrower Credit Facility. Upon the closing of such transaction, the Company advanced a total of \$10.0 million to fund (i) the Company's then current portion of total advances made to borrower under the Credit Agreement and (ii) the balance of the Company's \$10.0 million Loan Commitment. The Company acquired the Loan Commitment in connection with negotiations between the Company and Borrower concerning the Company's possible acquisition of Borrower through a merger transaction. Although the Company and Borrower are no longer pursuing such potential acquisition, the Company remains a co-lender under the Borrower Credit Facility. The Credit Facility matured March 30, 2012 and the Borrower is currently in the refinancing process. The Company has received all interest payments due through May 31, 2012. In April 2012, the Company received a partial repayment of \$3.7 million; therefore, the current remaining balance of this Loan Commitment is \$6.3 million. The Company expects the remaining balance to be paid in full in the near future. The Company has no indication that Borrower's obligations to the Company arising under

## Notes to Consolidated Financial Statements

the Borrower Credit Facility are impaired. The Company routinely assesses the loan for possible impairment. Such obligations are included in Loan Receivable in the March 31, 2012 Consolidated Balance Sheet.

### 4. Line of Credit

The Company completed the closing of a new five year revolving credit facility (“Revolver”) on July 20, 2011. Maximum borrowings under the Revolver total \$250,000,000 from April through July and \$350,000,000 from August through March. The maturity date for the Revolver is July 20, 2016. As of March 31, 2012, the outstanding balance of the Revolver was \$144,149,000, with a weighted average interest rate of 1.69%, and is included in the Long-Term Debt on the Consolidated Balance Sheet. The Revolver is secured by accounts receivable and inventories with a carrying value of \$509,744,000. There were \$135,763,000 in bank borrowings under the Company's previous revolver at March 31, 2011 which was included in the Current Portion of Long-Term Debt on the Consolidated Balance Sheet. The Company had \$10,303,000 and \$8,848,000 of outstanding standby letters of credit as of March 31, 2012 and 2011, respectively, which reduces borrowing availability under the Revolver. See Note 5, Long-Term Debt, for additional comments related to the Revolver.

### 5. Long-Term Debt

	2012	2011
	(In thousands)	
Revolving credit facility, 1.69% and 1.25%, due through 2017	\$144,149	\$135,763
Secured note payable to insurance company, 8.03%, due through 2014	43,452	48,360
Secured Industrial Revenue Development Bonds, 3.38%, and 3.20%, due through 2029	22,630	22,630
Secured promissory note, 6.98%, due through 2022	18,096	19,349
Secured promissory note, 6.35%, due through 2020	4,840	5,343
Secured Industrial Revenue Development Bond, 8.10%, due through 2017	661	775
Other	381	399
	<u>234,209</u>	<u>232,619</u>
Less current portion	<u>7,336</u>	<u>142,559</u>
	<u>\$226,873</u>	<u>\$ 90,060</u>

The Company completed the closing of a new five year Revolver on July 20, 2011. Maximum borrowings under the Revolver total \$250.0 million from April through July and \$350.0 million from August through March. The Company includes the Revolver as a long-term liability due to its five year maturity and the fact that it meets the criteria required by the accounting standards for this classification. As of March 31, 2012, the outstanding balance on the Revolver was \$144.1 million and letters of credit supported by the Revolver totaled \$10.3 million, leaving \$195.6 million available.

The Company's debt agreements, including the Revolver, contain covenants that restrict the Company's ability to incur additional indebtedness, pay dividends on the Company's capital stock, make other restricted payments, including investments, sell the Company's assets, incur liens, transfer all or substantially all of the Company's assets and enter into consolidations or mergers. The Company's debt agreements also require the Company to meet certain financial covenants, including minimum EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), minimum fixed charge coverage, minimum interest coverage and maximum total debt ratios. The Revolver also contains borrowing base requirements related to accounts receivable and inventory. These financial requirements and ratios generally become more restrictive over time and are subject to allowances for seasonal fluctuations. The most restrictive financial covenant in the debt agreements is the adjusted debt to total capitalization ratio. In connection with the Company's decision to adopt the LIFO method of inventory accounting, effective December 30, 2007, the Company executed amendments to its debt agreements, which enable the Company to compute its financial covenants as if the Company were on the FIFO method of inventory accounting. The Company was in compliance with all such financial covenants as of March 31, 2012.

## Notes to Consolidated Financial Statements

The Company's debt agreements limit the payment of dividends and other distributions. There is an annual total distribution limitation of \$50,000, less aggregate annual dividend payments totaling \$23,000 that the Company presently pays on two outstanding classes of preferred stock.

The Company has five outstanding Industrial Revenue Development Bonds ("IRBs"), including four IRBs totaling \$22,630,000 that are secured by direct pay letters of credit, and one IRB for \$661,000 payable to GE Commercial Finance. The interest rates shown for these IRBs in the table above reflect the costs of the direct pay letters of credit and amortization of other related costs of those IRBs. A Master Reimbursement Agreement with GE Commercial Finance, which provides for the direct pay letters of credit, expires in July 2016. Subsequent to 2012 fiscal year end, the Company reached an agreement to extend the term of its \$5,060,000 Wayne County Industrial Revenue Development Bonds included in the IRBs from June 1, 2012 to June 1, 2017.

The carrying value of assets pledged for secured debt, including the Revolver, is \$643,368,000.

Debt repayment requirements for the next five fiscal years are (in thousands):

Years ending March 31:	
2013	\$ 7,336
2014	40,305
2015	2,321
2016	2,490
2017	146,713
Thereafter	35,044
Total	<u>\$234,209</u>

### 6. Leases

The Company had no capital leases as of March 31, 2012 and 2011. The Company has operating leases expiring at various dates through 2031. Operating leases generally provide for early purchase options one year prior to expiration.

The following is a schedule, by year, of minimum operating lease payments due as of March 31, 2012 (in thousands):

Years ending March 31:	
2013	\$ 31,879
2014	27,151
2015	24,167
2016	20,938
2017	17,474
2018-2031	40,643
Total minimum payment required	<u>\$162,252</u>

Lease expense in fiscal 2012, 2011, and 2010 was \$38,253,000, \$37,781,000, and \$32,551,000, respectively.

# Notes to Consolidated Financial Statements

## 7. Income Taxes

The Company files a consolidated federal income tax return. The provision for income taxes is as follows:

	2012	2011	2010
	(In thousands)		
Current:			
Federal	\$4,193	\$2,854	\$19,049
State	704	1,225	3,653
	4,897	4,079	22,702
Deferred:			
Federal	1,430	1,791	3,873
State	(62)	(74)	374
	1,368	1,717	4,247
Total income taxes	\$6,265	\$5,796	\$26,949

A reconciliation of the expected U.S. statutory rate to the effective rate follows:

	2012	2011	2010
Computed (expected tax rate)	35.0 %	35.0 %	35.0 %
State income taxes (net of federal tax benefit)	2.5	2.5	2.9
State tax credits	(1.3)	(1.4)	(0.1)
Research and development credit	(0.6)	(0.6)	-
Manufacturer's deduction	(5.1)	(3.7)	(2.1)
Addition to (reversal of) uncertain tax positions	0.4	(7.3)	(0.8)
IRS audit adjustment	-	1.5	-
Other permanent differences not (taxable) deductible	0.7	(0.1)	0.2
Tax effect of pension contribution	2.2	-	-
Other	2.0	(1.2)	0.7
Effective income tax rate	35.8 %	24.7 %	35.8 %

The lower 2011 effective tax rate was primarily due to a reversal of uncertain tax positions in 2011 mostly due to the settlement of an Internal Revenue Service ("IRS") audit that year discussed below.

The following is a summary of the significant components of the Company's deferred income tax assets and liabilities as of March 31:

	2012	2011
	(In thousands)	
Deferred income tax assets:		
Future tax credits	\$ 3,251	\$ 3,862
Inventory valuation	1,408	1,130
Employee benefits	2,816	2,618
Insurance	3,812	3,572
Other comprehensive loss	14,867	8,948
Interest	80	56
Deferred gain on sale/leaseback	82	110
Prepaid revenue	2,348	1,035
Other	520	239
Severance	196	178
	29,380	21,748
Deferred income tax liabilities:		
Property basis and depreciation difference	14,151	14,230
Pension	5,283	1,323
	19,434	15,553
Valuation allowance - non-current	906	1,749
Net deferred income tax asset	\$ 9,040	\$ 4,446

Net current deferred income tax assets of \$8,637,000 and \$7,623,000 as of March 31, 2012 and 2011, respectively, are recognized in the Consolidated Balance Sheets. Also recognized are net non-current deferred income tax assets of \$403,000 as of March 31, 2012 and net non-current deferred income tax liabilities of \$3,177,000 as of March 31, 2011.

## Notes to Consolidated Financial Statements

Current rules on the accounting for uncertainty on income taxes prescribe a minimum recognition threshold for a tax position taken or expected to be taken in a tax return that is required to be met before being recognized in the financial statements. Those rules also provide guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company classifies the liability for uncertain tax positions in other accrued expenses or other long-term liabilities depending on their expected settlement. The change in the liability for the years ended March 31, 2012 and 2011 consists of the following:

	2012	2011
	(In thousands)	
Beginning Balance	\$ 2,174	\$ 5,537
Tax positions related to current year:		
Additions	207	294
Tax positions related to prior years:		
Additions	133	232
Reductions	(27)	-
Settlements	(137)	(3,767)
Lapses in statutes of limitations	-	(122)
Balance as of March 31,	\$ 2,350	\$ 2,174

Included in the balances at March 31, 2012 and 2011 are \$1,778,000 and \$1,628,000, respectively, of tax positions that are highly certain but for which there is uncertainty about the timing. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of these positions would not impact the annual effective tax rate but would accelerate the payment of cash to the tax authority to an earlier period.

The Company recognizes interest and penalties accrued on unrecognized tax benefits as well as interest received from favorable settlements within income tax expense. During the years ended March 31, 2012 and 2011, the Company recognized an approximate \$18,000 decrease and \$1,387,000 decrease, respectively, in interest and penalties. As of March 31, 2012 and 2011, the Company had approximately \$126,000 and \$144,000, respectively, of interest and penalties accrued associated with unrecognized tax benefits.

The Company files income tax returns in the U.S. federal jurisdiction and various states.

During the years ended March 31, 2011 and 2010, the Company was audited by the IRS for tax years 2006, 2007 and 2008 as well as by one state taxing authority for the 2006, 2007 and 2008 fiscal years. The Company reached a settlement with the IRS for the 2006-2008 fiscal years during the year ended March 31, 2011. As a result, the Company was able to record the tax benefits of those settlements as reductions to the ASC 740 liability amounting to \$3,767,000 for the year ended March 31, 2011.

Although management believes that an adequate provision has been made for uncertain tax positions, there is the possibility that the ultimate resolution could have an adverse effect on the earnings of the Company. Conversely, if resolved favorably in the future, the related provisions would be reduced, thus having a positive impact on earnings. It is anticipated that audit settlements will be reached during 2013 with the state taxing authority that could have an impact on earnings. Due to the uncertainty of amounts and in accordance with its accounting policies, the Company has not recorded any potential impact of these settlements.

The Company has State tax credit carryforwards amounting to \$906,000 (New York, net of Federal impact), \$1,411,000 (California, net of Federal impact) and \$933,000 (Wisconsin, net of Federal impact), which are available to reduce future taxes payable in each respective state through 2024 (Wisconsin), 2026 (New York) and no expiration (California). The Company has performed the required assessment regarding the realization of deferred tax assets in accordance with ASC 740. At March 31, 2012, the Company has recorded a valuation allowance amounting to \$906,000, which relates primarily to tax credit carryforwards which management has concluded it is more likely than not will not be realized in the ordinary course of operations. Although realization is not assured, management has concluded that it is more likely than not that the deferred tax assets for which a valuation allowance was determined to be unnecessary will be realized in the ordinary course of operations. The amount of net deferred tax assets considered realizable, however, could be reduced if actual future income or income taxes rates are lower than estimated or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

# Notes to Consolidated Financial Statements

## 8. Stockholders' Equity

**Preferred Stock** — The Company has authorized three classes of preferred stock consisting of 200,000 shares of Six Percent (6%) Voting Cumulative Preferred Stock, par value \$0.25 (“6% Preferred”); 30,000 shares of Preferred Stock Without Par Value to be issued in series by the Board of Directors, none of which are currently designated or outstanding; and 8,200,000 shares of Preferred Stock with \$.025 par value, Class A, to be issued in series by the Board of Directors (“Class A Preferred”). The Board of Directors has designated four series of Class A Preferred including 10% Cumulative Convertible Voting Preferred Stock—Series A (“Series A Preferred”); 10% Cumulative Convertible Voting Preferred Stock—Series B (“Series B Preferred”); Convertible Participating Preferred Stock; and Convertible Participating Preferred Stock, Series 2003. A fifth series of Class A Preferred designated Convertible Participating Preferred Stock, Series 2006, was issued as part of consideration of the purchase price in the Signature Fruit acquisition and was converted to Class A Common Stock in May 2010.

The Convertible Participating Preferred Stock and Convertible Participating Preferred Stock, Series 2003 are convertible at the holders' option on a one-for-one basis into shares of Class A Common Stock, subject to antidilution adjustments. These series of preferred stock have the right to receive dividends and distributions at a rate equal to the amount of any dividends and distributions declared or made on the Class A Common Stock. No dividends were declared or paid on this preferred stock in fiscal 2012, 2011 or 2010. In addition, these series of preferred stock have certain distribution rights upon liquidation. Upon conversion, shares of these series of preferred stock become authorized but unissued shares of Class A Preferred and may be reissued as part of another series of Class A Preferred. As of March 31, 2012 the Company has an aggregate of 6,389,340 shares of non-designated Class A Preferred authorized for issuance.

The Convertible Participating Preferred Stock has a liquidation preference of \$12 per share and has 97,870 shares outstanding as of March 31, 2012 after conversions of 4,177 shares into Class A common Stock during the year. The Convertible Participating Preferred Stock, Series 2003 was issued as partial consideration of the purchase price in the Chiquita Processed Foods acquisition. The 967,742 shares issued in that 2003 acquisition were valued at \$16.60 per share which represented the then market value of the Class A Common Stock into which the preferred shares were immediately convertible. This series has a liquidation preference of \$15.50 per share and has 312,790 shares outstanding as of March 31, 2012 after conversion of 514 shares into Class A common Stock during the year. The Convertible Participating Preferred Stock, Series 2006 was issued as partial consideration of the purchase price in the Signature acquisition. The 1,025,220 shares issued in that acquisition were valued at \$24.385 per share which represented the then market value of the Class A Common Stock into which the preferred shares were immediately convertible. All 1,025,200 shares were converted into Class A Common Stock in May 2010.

On July 21, 2009, certain shareholders of the Company closed on the sale of 3,756,332 shares of Class A Common Stock (including the shares sold pursuant to the underwriters' over-allotment option) pursuant to an Underwriting Agreement among the Company, the selling shareholders, Merrill Lynch Pierce Fenner & Smith Inc. and Piper Jaffray & Co. The Company received none of the proceeds of the offering. During the second quarter of fiscal 2010, 2,607,156 shares, or \$31,104,000, of Convertible Participating Preferred Stock and 556,088 shares, or \$139,000, of Class B Common Stock (at par), were converted to Class A Common Stock in connection with this secondary stock offering.

There are 407,240 shares of Series A Preferred outstanding as of March 31, 2012 which are convertible into one share of Class A Common Stock and one share of Class B Common stock for every 20 shares of Series A Preferred. There are 400,000 shares of Series B Preferred outstanding as of March 31, 2012 which are convertible into one share of Class A Common Stock and one share of Class B Common Stock for every 30 shares of Series B preferred. There are 200,000 shares of 6% Preferred outstanding as of March 31, 2012 which are callable at their par value at any time at the option of the Company. The Company paid dividends of \$20,181 on the Series A and Series B Preferred and \$3,000 on the 6% Preferred during each of fiscal 2012, 2011 and 2010.

**Common Stock** — The Class A Common Stock and the Class B Common Stock have substantially identical rights with respect to any dividends or distributions of cash or property declared on shares of common stock, and rank equally as to the right to receive proceeds on liquidation or dissolution of the Company after payment of the Company's indebtedness and liquidation right to the holders of preferred shares. However, holders of Class B Common Stock retain a full vote per share, whereas the holders of Class A Common Stock have voting rights of 1/20th of one vote per share on all matters as to which shareholders of the Company are entitled to vote.

Unissued shares of common stock reserved for conversion privileges of designated non-participating preferred stock were 33,695 of both Class A and Class B as of March 31, 2012 and 2011. Additionally, there were 410,660 and 415,351 shares of Class A reserved for conversion of the Participating Preferred Stock as of March 31, 2012 and 2011, respectively.

## Notes to Consolidated Financial Statements

**Treasury Stock** — During 2012, the Company repurchased \$1,178,000 or 51,333 shares of its Class A Common Stock. As of March 31, 2012, there is a total of \$1,435,000 or 64,833 shares of repurchased stock. These shares are not considered outstanding.

### 9. Retirement Plans

The Company has a noncontributory defined benefit pension plan (the “Plan”) covering all employees who meet certain age-entry requirements and work a stated minimum number of hours per year. Annual contributions are made to the Plan sufficient to satisfy legal funding requirements.

The following tables provide a reconciliation of the changes in the Plan’s benefit obligation and fair value of plan assets over the two-year period ended March 31, 2012 and a statement of the funded status as of March 31, 2012 and 2011:

	2012	2011
	(In thousands)	
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year	\$ 118,821	\$ 109,603
Service cost	5,424	5,141
Interest cost	6,837	6,455
Actuarial loss	14,220	2,046
Benefit payments and expenses	(4,732)	(4,424)
<b>Benefit obligation at end of year</b>	<b>\$ 140,570</b>	<b>\$ 118,821</b>
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	\$ 100,101	\$ 94,427
Actual gain on plan assets	6,029	10,098
Employer contributions	15,400	-
Benefit payments and expenses	(4,732)	(4,424)
<b>Fair value of plan assets at end of year</b>	<b>\$ 116,798</b>	<b>\$ 100,101</b>
<b>Unfunded Status</b>	<b>\$ (23,772)</b>	<b>\$ (18,720)</b>

The unfunded status increased by \$5.1 million during 2012 reflecting the current unfunded liability based on the projected benefit obligation, which increased from \$118.8 million to \$140.6 million, largely due to a reduction in the discount rate from 5.85% to 5.10% and actual fair value of plan assets as of March 31, 2012, net of a \$15.4 million contribution to the Plan during 2012. This unfunded status increase was recognized via an increase to accumulated other comprehensive income of \$9.3 million after the income tax benefit of \$5.9 million. Plan assets increased from \$100.1 million as of March 31, 2011 to \$116.8 million as of March 31, 2012 due to a continued recovery in market conditions and the contribution by the Company. The unfunded liability is reflected in other liabilities in the Consolidated Balance Sheets.

	2012	2011
	(In thousands)	
<b>Amounts Included in Accumulated Other Comprehensive Pre-Tax Loss</b>		
Transition asset	\$ -	\$ 227
Net loss	(37,719)	(22,738)
<b>Accumulated other comprehensive pre-tax loss</b>	<b>\$(37,719)</b>	<b>\$(22,511)</b>

## Notes to Consolidated Financial Statements

The following table provides the components of net periodic benefit cost for the Plan for fiscal years 2012, 2011, and 2010:

	2012	2011	2010
	(In thousands)		
Service cost	\$ 5,424	\$ 5,141	\$ 3,813
Interest cost	6,837	6,455	6,174
Expected return on plan assets	(8,140)	(7,347)	(3,801)
Amortization of net loss	1,350	1,497	2,630
Amortization of transition asset	(227)	(276)	(276)
<b>Net periodic benefit cost</b>	<b>\$ 5,244</b>	<b>\$ 5,470</b>	<b>\$ 8,540</b>

The Plan's accumulated benefit obligation was \$126,082,000 at March 31, 2012, and \$106,542,000 at March 31, 2011.

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The assumptions used to measure the Company's benefit obligation and pension expense are shown in the following table:

	2012	2011
Discount rate - benefit obligation	5.10 %	5.85 %
Discount rate - pension expense	5.85 %	6.10 %
Expected return on plan assets	8.00 %	8.00 %
Rate of compensation increase	3.00 %	3.00 %

The Company's plan assets consist of the following:

	Target Allocation 2013	Percentage of Plan Assets at March 31,	
		2012	2011
<b>Plan Assets</b>			
Equity securities	99 %	99 %	99 %
Debt securities	-	-	-
Real estate	-	-	-
Cash	1	1	1
<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

All securities, which are valued at fair market value, are considered to be level 1 due to their public active market.

### Expected Return on Plan Assets

The expected long-term rate of return on Plan assets is 8.00%. The Company expects 8.00% to fall within the 40-to-50 percentile range of returns on investment portfolios with asset diversification similar to that of the Plan's target asset allocation.

### Investment Policy and Strategy

The Company maintains an investment policy designed to achieve a long-term rate of return, including investment income through dividends and equity appreciation, sufficient to meet the actuarial requirements of the Plan. The Company seeks to accomplish its return objectives by prudently investing in a diversified portfolio of public company equities with broad industry representation seeking to provide long-term growth consistent with the performance of relevant market indices, as well as maintain an adequate level

## Notes to Consolidated Financial Statements

of liquidity for pension distributions as they fall due. The strategy of being fully invested in equities has historically provided greater rates of return over extended periods of time although the Company's gain on plan assets during 2012 was 5.9% as compared to the S&P 500 unaudited gain of 6.2%. Plan assets include Company common stock with a fair market value of \$8,336,000 as of March 31, 2012 and \$8,907,000 as of March 31, 2011.

### Cash Flows

Expected contributions for fiscal year ending March 31, 2013 (in thousands):

Expected Employer Contributions	\$	-
Expected Employee Contributions		-

Estimated future benefit payments reflecting expected future service for the fiscal years ending March 31 (in thousands):

2013	\$	5,067
2014		5,302
2015		5,785
2016		6,001
2017		6,509
2018-2021		41,810

The Company also has employees' savings 401(k) plans covering all employees who meet certain age-entry requirements and work a stated minimum number of hours per year. Participants may make contributions up to the legal limit. The Company's matching contributions are discretionary. Costs charged to operations for the Company's matching contributions amounted to \$1,422,000, \$1,572,000, and \$1,706,000, in fiscal 2012, 2011, and 2010, respectively.

### 10. Fair Value of Financial Instruments

The carrying amount and estimated fair values of the Company's debt are summarized as follows:

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Long-term debt, including current portion	\$234,209	\$231,416	\$232,619	\$230,237

The estimated fair value for long-term debt is determined by the quoted market prices for similar debt (comparable to the Company's financial strength) or current rates offered to the Company for debt with the same maturities.

### 11. Inventories

Effective December 30, 2007 (beginning of 4th quarter of Fiscal Year 2008), the Company changed its inventory valuation method from the lower of cost, determined under the FIFO method, or market to the lower of cost, determined under the LIFO method, or market. In the high inflation environment that the Company was experiencing, the Company believed that the LIFO inventory method was preferable over the FIFO method because it better compares the cost of current production to current revenue. The effect of LIFO was to reduce net earnings by \$30,771,000 in 2012, increase net earnings by \$5,104,000 in 2011 and reduce net earnings by \$7,307,000 in 2010, compared to what would have been reported using the FIFO inventory method. The reduction in earnings per share was \$2.53 (\$2.52 diluted) in 2012, the increase in earnings per share was \$0.42 (\$0.42 diluted) in 2011, and the reduction in earnings per share was \$0.61 (\$0.60 diluted) in 2010. During 2012, certain inventory quantities accounted for on the LIFO method were reduced, resulting in the liquidation of certain quantities carried at costs prevailing in prior years. The impact on net earnings of these liquidations was an increase of \$2,899,000. The inventories by category and the impact of implementing the LIFO method are shown in the following table:

## Notes to Consolidated Financial Statements

	2012	2011	2010
	(In thousands)		
Finished products	\$406,164	\$390,754	\$407,403
In process	24,451	21,680	14,813
Raw materials and supplies	139,045	132,690	121,988
	569,660	545,124	544,204
Less excess of FIFO cost over LIFO cost	137,227	89,888	97,740
Total inventories	<u>\$432,433</u>	<u>\$455,236</u>	<u>\$446,464</u>

### 12. Other Operating Income and Expense

Other operating income in 2012 included a gain of \$665,000 from the sale of property located in LeSueur, MN and a gain of \$149,000 from the sale of other property.

Other operating income in 2011 included a gain of \$736,000 as a result of the estimated fair market value of the assets acquired exceeding the purchase price of Lebanon (see Note 2, Acquisitions). The Company also recorded a gain from the reversal of an environmental reserve of \$250,000, a gain of \$249,000 from the sale of certain fixed assets and a loss of \$391,000 from the disposal of certain fixed assets.

Other operating expense in 2010 of \$156,000 is from the loss on disposal of certain fixed assets.

### 13. Segment Information

The Company manages its business on the basis of two reportable segments — the primary segment is the processing and sale of fruits and vegetables and secondarily, the processing and sale of snack products. The Company markets its product almost entirely in the United States. Export sales represented 9.4%, 8.9%, and 7.9% of total sales in 2012, 2011, and 2010, respectively. In 2012, 2011, and 2010, the sale of Green Giant vegetables accounted for 13%, 16%, and 19% of net sales, respectively. “Other” in the table below represents activity related to can sales, trucking, seed sales, and flight operations.

	Fruit and Vegetable	Snack	Other	Total
	(In thousands)			
2012:				
Net Sales	\$1,230,424	\$11,730	\$19,667	\$1,261,821
Operating income (loss)	25,955	(714)	382	25,623
Income tax expense (benefit)	6,398	(247)	114	6,265
Identifiable assets	730,147	4,739	3,150	738,036
Capital expenditures	25,636	22	1,767	27,425
Depreciation and amortization	21,780	475	436	22,691
2011:				
Net Sales	\$1,166,431	\$10,604	\$17,577	\$1,194,612
Operating income (loss)	32,641	(731)	384	32,294
Income tax expense (benefit)	5,895	(181)	82	5,796
Identifiable assets	736,982	5,891	1,835	744,708
Capital expenditures	18,733	740	-	19,473
Depreciation and amortization	21,632	509	440	22,581
2010:				
Net Sales	\$1,239,084	\$21,287	\$19,739	\$1,280,110
Operating income (loss)	85,106	327	(435)	84,998
Income tax expense (benefit)	27,014	97	(162)	26,949
Identifiable assets	711,058	6,293	1,982	719,333
Capital expenditures	20,714	69	-	20,783
Depreciation and amortization	21,502	484	429	22,415

## Notes to Consolidated Financial Statements

The fruit and vegetable segment, consisting of GMOL, canned fruit and vegetables and frozen products, represented 99%, 99% and 99% of assets and 107%, 105% and 101% of pre-tax earnings in 2012, 2011 and 2010, respectively.

Classes of similar products/services:	2012	2011	2010
		(In thousands)	
Net sales:			
GMOL *	\$ 166,231	\$ 191,526	\$ 239,622
Canned vegetables	746,535	692,574	750,751
Frozen *	96,870	86,904	48,320
Fruit	220,788	195,427	200,391
Snack	11,730	10,604	21,287
Other	19,667	17,577	19,739
Total	\$1,261,821	\$1,194,612	\$1,280,110

\* GMOL includes frozen vegetables exclusively for GMOL.

### 14. Legal Proceedings and Other Contingencies

In the ordinary course of its business, the Company is made a party to certain legal proceedings seeking monetary damages, including proceedings involving product liability claims, workers' compensation and other employee claims, tort and other general liability claims, for which it carries insurance, as well as patent infringement and related litigation. The Company is in a highly regulated industry and is also periodically involved in government actions for regulatory violations and other matters surrounding the manufacturing of its products, including, but not limited to, environmental, employee, and product safety issues. While it is not feasible to predict or determine the ultimate outcome of these matters, the Company does not believe that an adverse decision in any of these legal proceedings would have a material adverse impact on its financial position, results of operations, or cash flows.

On August 2, 2007, the Company received two civil citations from CalOSHA (the California state agency responsible for enforcing occupational safety and health regulations), relating to the accidental death of a warehouse employee at the Company's Modesto facility on February 5, 2007. The Company appealed the citations to the California Occupational Safety and Health Appeals Board, and a hearing was held in early June 2010. The result of the hearing was that the citations were modified by agreement with CalOSHA and a civil penalty was imposed and paid by the Company during fiscal year 2011, thereby resolving the issue without a material adverse impact on the Company's financial position, results of operations, or cash flows.

In June 2010, the Company received a Notice of Violation of the California Safe Drinking Water and Toxic Enforcement Act of 1986, commonly known as Proposition 65, from the Environmental Law Foundation ("ELF"). This notice was made to the California Attorney General and various other government officials, and to 49 companies including Seneca Foods Corporation whom ELF alleges manufactured, distributed or sold packaged peaches, pears, fruit cocktail and fruit juice that contain lead without providing a clear and reasonable warning to consumers. Under California law, proper notice must be made to the State and involved firms at least 60 days before any suit under Proposition 65 may be filed by private litigants like ELF. That 60-day period has expired and to date neither the California Attorney General nor any appropriate district attorney or city attorney has initiated an action against the Company. However, private litigant ELF filed an action against the Company and 27 other named companies on September 28, 2011, in Superior Court of Alameda County, California, alleging violations of Proposition 65 and seeking various measures of relief, including injunctive and declaratory relief and civil penalties. The Company, along with the other named companies, is vigorously defending itself from such claim and has filed a responsive answer. The discovery process is ongoing and the litigation is proceeding in accordance with court schedules. As this matter is still at a very early stage, we are not able to predict the probability of the outcome or estimate of loss, if any, related to this matter. Additionally, in the ordinary course of its business, the Company is made party to certain legal proceedings seeking monetary damages, including proceedings invoking product liability claims, either directly or through indemnification obligations, and we are not able to predict the probability of the outcome or estimate of loss, if any, related to any such matter.

# Notes to Consolidated Financial Statements

## 15. Plant Restructuring

During 2012 and 2010 there were no material adjustments to Plant Restructuring.

During fiscal 2011, the Company implemented workforce reductions at its plants in Buhl, Idaho and Mayville, Wisconsin and certain other locations that resulted in a restructuring charge of \$1,354,000 primarily for severance costs. This charge is included under Plant Restructuring in the Consolidated Statements of Net Earnings. Under the Alliance Agreement, GMOL shares in the cost of these restructurings, plus future depreciation and lease costs. GMOL's portion of these restructuring costs was paid to the Company during 2011. The Company deferred a portion of this payment to match the depreciation and lease costs that will be incurred in the future. As of March 31, 2012, this deferral totaled \$6,021,000 comprised of \$1,869,000 included in other accrued expenses and \$4,152,000 included in other long-term liabilities on the Consolidated Balance Sheets.

The other costs relate to outstanding lease payments which will be paid over the remaining lives of the corresponding lease terms, which are up to two years.

The following table summarizes the restructuring and related asset impairment charges recorded and the accruals established during 2010, 2011 and 2012:

	Severance	Long-Lived Asset Charges	Other Costs	Total
	(In thousands)			
Balance March 31, 2009	\$ -	\$ 250	\$1,035	\$ 1,285
Second-quarter charge to expense	-	-	19	19
Cash payments/write offs	-	-	(258)	(258)
Third-quarter credit to expense	-	-	(2)	(2)
Balance March 31, 2010	-	250	794	1,044
First-quarter charge to expense	-	-	1	1
Second-quarter charge to expense	1,210	-	-	1,210
Third-quarter charge to expense	109	-	-	109
Cash payments/write offs	(889)	(250)	(283)	(1,422)
Fourth-quarter charge to expense	26	-	8	34
Balance March 31, 2011	456	-	520	976
First-quarter charge to expense	54	-	-	54
Second-quarter (credit) charge to expense	(19)	-	4	(15)
Cash payments/write offs	(454)	-	(524)	(978)
Balance March 31, 2012	\$ 37	\$ -	\$ -	\$ 37

## 16. Certain Transactions

A small percentage (less than 1% in fiscal year 2012) of vegetables supplied to the Company's New York processing plants are grown by a director of Seneca Foods Corporation, which supplied the Company approximately \$872,000 pursuant to a raw vegetable grower contract in fiscal 2012. The Chairman of the Audit Committee reviewed the relationship and determined that the contract was negotiated at arm's length and on no more favorable terms than to other growers in the marketplace.

# Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Seneca Foods Corporation  
Marion, New York

We have audited the accompanying consolidated balance sheets of Seneca Foods Corporation as of March 31, 2012 and 2011 and the related consolidated statements of net earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seneca Foods Corporation at March 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Seneca Foods Corporation's internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 8, 2012 expressed an unqualified opinion thereon.

*BDO USA, LLP*

Milwaukee, Wisconsin

June 8, 2012

## **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2012. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment, management believes that, as of March 31, 2012, our internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accountant has issued its report on the effectiveness of the Company's internal control over financial reporting. The report appears on the next page.

# Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Board of Directors and Stockholders  
Seneca Foods Corporation  
Marion, New York

We have audited Seneca Foods Corporation's internal control over financial reporting as of March 31, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Form 10-K, Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2012, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Standards Board (United States), the consolidated balance sheets of Seneca Foods Corporation as of March 31, 2012 and 2011, and the related consolidated statements of net earnings, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2012 and our report dated June 8, 2012 expressed an unqualified opinion thereon.

**BDO USA, LLP**  
Milwaukee, Wisconsin

June 8, 2012

## Shareholder Information and Quarterly Results

The Company's common stock is traded on The NASDAQ Global Stock Market. The 9.6 million Class A outstanding shares and 2.1 million Class B outstanding shares are owned by 234 and 222 shareholders of record, respectively. The high and low closing prices of the Company's common stock during each quarter of the past two years are shown below:

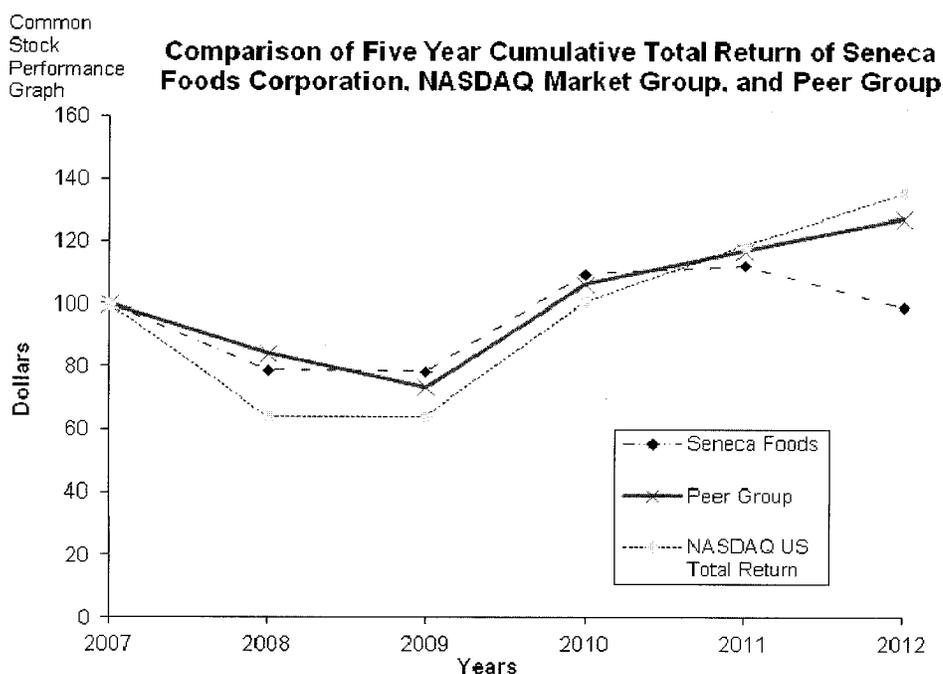
Class A: Quarter	2012		2011	
	High	Low	High	Low
First	\$29.73	\$23.00	\$32.68	\$28.89
Second	25.90	19.27	32.19	23.89
Third	27.01	18.34	28.57	22.02
Fourth	29.43	22.50	29.87	24.75

Class B: Quarter	2012		2011	
	High	Low	High	Low
First	\$29.70	\$22.97	\$32.99	\$29.22
Second	25.85	19.20	32.74	24.10
Third	26.35	19.30	28.61	22.30
Fourth	29.20	23.02	29.64	23.12

### Common Stock Performance Graph

The graph below shows the cumulative, five year total return for the Company's Common Stock compared with the NASDAQ Market Index (which includes the Company) and a peer group of companies (described below).

Performance data assumes that \$100.00 was invested on March 31, 2007, in the Company's Class A Common Stock, the NASDAQ Market, and the peer group. The data assumes the reinvestment of all cash dividends and the cash value of other distributions. Stock price performance shown in the graph is not necessarily indicative of future stock price performance. The companies in the peer group are Hanover Foods Corporation, John B. Sanfilippo & Son Inc., Ralcorp Holdings, Inc., Treehouse Foods, Inc. and Hain Celestial Group, Inc.



# Shareholder Information and Quarterly Results

## Quarterly Results

As of March 31, 2012, the most restrictive credit agreement limitation on the Company's payment of dividends, to holders of Class A or Class B Common Stock is an annual total limitation of \$50,000, reduced by aggregate annual dividend payments totaling \$23,000 that the Company presently pays on two outstanding classes of preferred stock. Payment of dividends to common stockholders is made at the discretion of the Company's Board of Directors and depends, among other factors, on earnings; capital requirements; and the operating and financial condition of the Company. The Company has not declared or paid a common dividend in many years.

The following is a summary of the unaudited interim results of operations by quarter:

	First	Second	Third	Fourth
	(In thousands, except per share data)			
Year ended March 31, 2012:				
Net sales	\$259,083	\$283,616	\$447,918	\$271,204
Gross margin	5,856	21,353	50,037	15,573
Net (loss) earnings	(7,975)	2,883	18,530	(2,182)
Basic (loss) earnings per common share	(0.66)	0.24	1.53	(0.18)
Diluted (loss) earnings per common share	(0.66)	0.24	1.52	(0.18)
Year ended March 31, 2011:				
Net sales	\$219,942	\$275,448	\$446,250	\$252,972
Gross margin	25,284	19,127	34,514	14,300
Net earnings (loss)	5,275	2,811	11,462	(1,877)
Basic earnings (loss) per common share	0.43	0.23	0.94	(0.15)
Diluted earnings (loss) per common share	0.43	0.23	0.94	(0.15)

Earnings for the fourth quarter have historically reflected adjustments of previously estimated raw material cost and production levels. Due to the dependence on the fruit and vegetable yields of the Company's food processing segment, interim costing must be estimated.

# Corporate Information

## Directors

Arthur H. Baer  
Budget Officer  
Columbia County, New York

Peter R. Call  
President  
My-T Acres, Inc.

John P. Gaylord  
President  
Jacintoport Terminal Company

Susan A. Henry, Ph.D.  
Dean Emerita and Professor, College of Agriculture  
and Life Sciences, Cornell University

Samuel T. Hubbard, Jr.  
Former COO, Homewise, Inc.

Kraig H. Kayser  
President, Chief Executive Officer  
and acting Chief Financial Officer

Thomas Paulson  
Chief Financial Officer  
Tennant Company

Susan W. Stuart  
Marketing Consultant

Arthur S. Wolcott  
Chairman

## Officers

Arthur S. Wolcott  
Chairman

Kraig H. Kayser  
President, Chief Executive Officer  
and acting Chief Financial Officer

Paul L. Palmby  
Executive Vice President and  
Chief Operating Officer

Carl A. Cichetti  
Senior Vice President -  
Technology and Planning

Dean E. Erstad  
Senior Vice President -  
Sales and Marketing

Cynthia L. Fohrd  
Senior Vice President and  
Chief Administrative Officer

Aaron M. Girard  
Senior Vice President -  
Logistics and Frozen

John D. Exner  
General Counsel and Assistant Secretary

Jeffrey L. Van Riper  
Vice President, Controller and Secretary

Sarah S. Mortensen  
Assistant Secretary

## Operations

Western Vegetable Operations  
Jon A. Brekken  
Vice President

Technical Services & Development  
Matt J. Henschler  
Vice President

Warehousing  
Daniel F. Janke  
Vice President

Accounting  
Christopher C. Kelso  
Vice President

Procurement  
Vincent J. Lammers  
Vice President

Fruit and Snack  
Timothy R. Nelson  
Vice President

Customer Service  
Richard L. Waldorf  
Vice President

Eastern Vegetable Operations  
David W. Zentgrebe  
Vice President

## Sales and Marketing Groups

Branded Sales  
Carl B. Bowling  
Vice President

Private Label Retail  
George E. Hopkins, III  
Vice President

International  
Kevin F. Lipps  
Vice President

Food Service  
Stephen J. Ott  
Vice President

Marketing  
Bruce S. Wolcott  
Vice President

## Manufacturing Plants and Warehouses

	Square Footage	Acres
	(000)	
<b>Food Group</b>		
Modesto, California	2,213	114
Buhl, Idaho	606	141
Payette, Idaho	382	43
Princeville, Illinois	271	303
Arlington, Minnesota	264	541
Blue Earth, Minnesota	286	346
Bricelyn, Minnesota	57	7
Glencoe, Minnesota	646	783
LeSueur, Minnesota	24	27
Montgomery, Minnesota	556	1,010
Rochester, Minnesota	1,078	840
Geneva, New York	779	608
Leicester, New York	198	91
Marion, New York	348	181
Lebanon, Pennsylvania	120	16
Dayton, Washington	253	41
Yakima, Washington	122	8
Baraboo, Wisconsin	258	11
Cambria, Wisconsin	412	406
Clyman, Wisconsin	424	571
Cumberland, Wisconsin	375	304
Gillett, Wisconsin	317	105
Janesville, Wisconsin	1,119	302
Mayville, Wisconsin	297	367
Oakfield, Wisconsin	227	2,228
Ripon, Wisconsin	353	75
<b>Non-Food Group</b>		
Penn Yan, New York	27	4
<b>Total</b>	<u>12,012</u>	<u>9,473</u>

# Corporate Information

## Forward Looking Statements

Except for the historical information contained herein, the matters discussed in this annual report are forward-looking statements as defined in the Private Securities Litigation Reform Act (PSLRA) of 1995. The Company wishes to take advantage of the “safe harbor” provisions of the PSLRA by cautioning that numerous important factors, which involve risks and uncertainties, including but not limited to economic, competitive, governmental, and technological factors affecting the Company’s operations, markets, products, services and prices, and other factors discussed in the Company’s filings with the Securities and Exchange Commission, in the future, could affect the Company’s actual results and could cause its actual consolidated results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company.

## Shareholder Information

For investor information, including comprehensive earnings releases: <http://www.senecafoods.com/Investors/index.shtml>

## Annual Meeting

The 2012 Annual Meeting of Shareholders will be held on Thursday, August 2, 2012, beginning at 1:00 PM (CDT) at the Company’s offices at 418 East Conde Street, Janesville, Wisconsin. A formal notice of the meeting, together with a proxy statement and proxy form, will be mailed to shareholders of record as of June 22, 2012.

## How To Reach Us

Seneca Foods Corporation  
3736 South Main Street  
Marion, New York 14505  
(315) 926-8100  
[www.senecafoods.com/investors](http://www.senecafoods.com/investors)  
[investors@senecafoods.com](mailto:investors@senecafoods.com)

## Additional Information

### Annual Report and Other Investor Information

A copy of the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2012, as filed with the Securities and Exchange Commission, will be provided by the Company to any shareholder who so requests in writing to:

Jeffrey L. Van Riper  
Seneca Foods Corporation  
3736 South Main Street  
Marion, New York 14505  
(315) 926-8100

This annual report is also available online at <http://www.senecafoods.com/investors>

### Foundation/Contribution Requests

Seneca Foods Foundation  
Cynthia L. Fohrd  
3736 South Main Street  
Marion, New York 14505  
(315) 926-8100  
[foundation@senecafoods.com](mailto:foundation@senecafoods.com)

### Independent Registered Public Accounting Firm

BDO USA, LLP  
Milwaukee, Wisconsin

### General Counsel

Jaecle Fleischmann & Mugel, LLP  
Buffalo, New York

### Transfer Agent and Registrar

Computershare  
250 Royal Street  
Canton, Massachusetts 02940  
(800) 622-6757 (US, Canada, Puerto Rico)  
(781) 575-4735 (Non-US)  
[www.computershare.com/investor](http://www.computershare.com/investor)

### Corporate Governance

[www.senecafoods.com/investors/governance.shtml](http://www.senecafoods.com/investors/governance.shtml)

### Code of Business Ethic

[www.senecafoods.com/investors/ethics.shtml](http://www.senecafoods.com/investors/ethics.shtml)  
Hotline (800) 213-9185



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