

SENECA FOODS CORP /NY/
Form 10-Q
August 08, 2007

Form 10-Q

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

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

For the Quarter Ended June 30, 2007

Commission File Number 0-01989

Seneca Foods Corporation

(Exact name of Company as specified in its charter)

New York

16-0733425

(State or other jurisdiction of
incorporation or organization)

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

3736 South Main Street, Marion, New York
(Address of principal executive offices)

14505
(Zip Code)

Company's telephone number, including area code 315/926-8100

Not Applicable

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

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Company is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of each of the issuer's classes of common stock at the latest practical date are:

| Class | Shares Outstanding at July 31, 2007 |
|---------------------------------|-------------------------------------|
| Common Stock Class A, \$.25 Par | 4,815,284 |
| Common Stock Class B, \$.25 Par | 2,760,905 |

PART I ITEM 1 FINANCIAL INFORMATION
 SENECA FOODS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In Thousands, Except Per Share Data)

| | Unaudited June 30, 2007 | March 31, 2007 |
|--|-------------------------------|-------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 5,869 | \$ 8,552 |
| Accounts Receivable, Net | 49,383 | 55,500 |
| Inventories: | | |
| Finished Goods | 248,339 | 286,866 |
| Work in Process | 16,916 | 21,635 |
| Raw Materials | 98,886 | 71,986 |
| | 364,141 | 380,487 |
| Off-Season Reserve (Note 3) | 47,671 | - |
| Deferred Income Tax Asset, Net | 6,371 | 6,260 |
| Other Current Assets | 901 | 640 |
| Total Current Assets | 474,336 | 451,439 |
| Property, Plant and Equipment, Net | 180,349 | 172,235 |
| Other Assets | 2,888 | 3,041 |
| Total Assets | \$ 657,573 | \$ 626,715 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 85,425 | \$ 58,615 |
| Accrued Expenses | 40,764 | 38,980 |
| Accrued Vacation | 8,972 | 8,999 |
| Income Taxes Payable | 5,324 | 357 |
| Current Portion of Long-Term Debt and Capital | | |
| Lease Obligations | 10,033 | 10,033 |
| Total Current Liabilities | 150,518 | 116,984 |
| Long-Term Debt, Less Current Portion | 205,710 | 210,395 |
| Deferred Income Taxes | 177 | 4,120 |
| Other Long-Term Liabilities | 22,014 | 21,645 |
| Total Liabilities | 378,419 | 353,144 |
| Commitments | | |
| 10% Preferred Stock, Series A, Voting, Cumulative, Convertible, \$.025 Par Value Per Share | 102 | 102 |
| 10% Preferred Stock, Series B, Voting, Cumulative, Convertible, \$.025 Par Value Per Share | 100 | 100 |
| 6% Preferred Stock, Voting, Cumulative, \$.25 Par Value Convertible, Participating Preferred Stock, \$12.00 Stated Value Per Share | 50 | 50 |
| | 35,679 | 35,691 |
| Convertible, Participating Preferred Stock, \$15.50 Stated Value Per Share | 8,667 | 8,676 |

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| | | |
|---|------------|------------|
| Convertible, Participating Preferred Stock, \$24.39 | | |
| Stated Value Per Share | 25,000 | 25,000 |
| Common Stock \$.25 Par Value Per Share | 3,075 | 3,075 |
| Paid in Capital | 28,298 | 28,277 |
| Accumulated Other Comprehensive Income | (1,275) | (1,253) |
| Retained Earnings | 179,458 | 173,853 |
| Stockholders' Equity | 279,154 | 273,571 |
| Total Liabilities and Stockholders' Equity | \$ 657,573 | \$ 626,715 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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SENECA FOODS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS
(Unaudited)
(In Thousands, Except Per Share Data)

| | Three Months Ended | |
|-------------------------------------|--------------------|-----------------|
| | June 30, 2007 | July 1, 2006 |
| Net Sales | \$ 189,442 | \$ 148,341 |
| Costs and Expenses: | | |
| Cost of Product Sold | 162,892 | 127,482 |
| Selling and Administrative | 14,131 | 11,979 |
| Plant Restructuring | 86 | - |
| Other Operating Income | (173) | (688) |
| Total Costs and Expenses | 176,936 | 138,773 |
| Operating Income | 12,506 | 9,568 |
| Interest Expense | 4,024 | 3,628 |
| Earnings Before Income Taxes | 8,482 | 5,940 |
| Income Taxes | 3,088 | 2,281 |
| Net Earnings | \$ 5,394 | \$ 3,659 |
| Earnings Applicable to Common Stock | \$ 3,359 | \$ 2,244 |
| Basic Earnings per Common Share | \$ 0.44 | \$ 0.33 |
| Diluted Earnings per Common Share | \$ 0.44 | \$ 0.33 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SENECA FOODS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

| | Three Months Ended | |
|--|--------------------|-----------------|
| | June 30, 2007 | July 1, 2006 |
| Cash Flows from Operating Activities: | | |
| Net Earnings | \$ 5,394 | \$ 3,659 |
| Adjustments to Reconcile Net Earnings to | | |
| Net Cash Provided by Operations: | | |
| Depreciation & Amortization | 5,497 | 5,390 |
| Gain on the Sale of Assets | (121) | (688) |
| Deferred Tax Benefit | (3,831) | (536) |
| Changes in Working Capital (excluding effects of | | |
| business combination): | | |
| Accounts Receivable | 6,117 | 5,949 |
| Inventories | 16,346 | 6,051 |
| Off-Season Reserve | (47,671) | (42,013) |
| Other Current Assets | (261) | (590) |
| Income Taxes | 4,967 | (3,237) |
| Accounts Payable, Accrued Expenses | | |
| and Other Liabilities | 28,184 | 26,891 |
| Net Cash Provided by Operations | 14,621 | 876 |
| Cash Flows from Investing Activities: | | |
| Additions to Property, Plant and Equipment | (12,857) | (3,408) |
| Proceeds from the Sale of Assets | 121 | 685 |
| Net Cash Used in Investing Activities | (12,736) | (2,723) |
| Cash Flow from Financing Activities: | | |
| Payments on Notes Payable | - | (40,936) |
| Borrowing on Notes Payable | - | 39,390 |
| Long-Term Borrowing | 45,248 | 43 |
| Payments on Long-Term Debt and Capital Lease Obligations | (49,933) | (1,577) |
| Other | 129 | 547 |
| Dividends Paid | (12) | (12) |
| Net Cash Used in Financing Activities | (4,568) | (2,545) |
| Net Decrease in Cash and Cash Equivalents | (2,683) | (4,392) |
| Cash and Cash Equivalents, Beginning of the Period | 8,552 | 6,046 |
| Cash and Cash Equivalents, End of the Period | \$ 5,869 | \$ 1,654 |
| Supplemental information of non-cash investing and financing activities: None. | | |

None.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

SENECA FOODS CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

June 30, 2007

1. Unaudited Condensed Consolidated Financial Statements

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are normal and recurring in nature, necessary to present fairly the financial position of Seneca Foods Corporation (the "Company") as of June 30, 2007 and results of its operations and its cash flows for the interim periods presented. All significant intercompany transactions and accounts have been eliminated in consolidation. The March 31, 2007 balance sheet was derived from the audited consolidated financial statements.

The results of operations for the three month period ended June 30, 2007 are not necessarily indicative of the results to be expected for the full year.

In the three months ended June 30, 2007, the Company sold product for cash, on a bill and hold basis of \$1,449,000 of Green Giant finished goods inventory to General Mills Operations, Inc. ("GMOI"). There was no similar sale for the three months ended July 1, 2006. Under the terms of the bill and hold agreement, title to the specified inventory transferred to GMOI. The Company believes it has met the criteria required for bill and hold treatment.

The accounting policies followed by the Company are set forth in Note 1 to the Company's Consolidated Financial Statements in the 2007 Seneca Foods Corporation Annual Report on Form 10-K.

Other footnote disclosures normally included in annual financial statements prepared in accordance with U. S. generally accepted accounting principles have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes included in the Company's 2007 Annual Report on Form 10-K.

2. The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" ("FIN 48"), on April 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing 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. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of adopting FIN 48 of \$223,000 was recorded as an increase to Retained earnings. The total amount of unrecognized tax benefits as of the date of adoption was \$4,175,000. The change in the FIN 48 liability in the first fiscal quarter of 2008 is not significant.

Included in the balance at adoption are \$2,954,000 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 affect 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. As of the date of adoption, the Company had \$450,000 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. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2004.

3. The seasonal nature of the Company's food processing business results in a timing difference between expenses (primarily overhead expenses) incurred and absorbed into product cost. All Off-Season Reserve balances, which essentially represent a contra-inventory account, are zero at fiscal year end. Depending on the time of year, Off-Season Reserve is either the excess of absorbed expenses over incurred expenses to date or the excess of incurred expenses over absorbed expenses to date. Other than at the end of the first and fourth fiscal quarter of each year, absorbed expenses exceed incurred expenses due to timing of production.
4. During the first fiscal quarter of 2007, the Company entered into a Natural Gas Hedge in the form of a swap transaction where the Company purchased, on a forward basis, 50% of its requirements for natural gas during the June 1, 2006 to December 31, 2006 time frame at \$7.00 per decatherm. The Company realized a \$43,000 loss on this hedge during the first fiscal quarter of 2007 and marked the remaining hedge to market resulting in a Net Unrealized Loss on this hedge of \$78,000 which was recorded as an Accumulated Other Comprehensive Loss on the Balance Sheet. No hedging transactions remain open as of June 30, 2007.
5. With the closure of a Washington facility in the fall of 2004, the Company's labeling and warehousing requirements at its Oregon location were dramatically reduced. During the quarter ended October 1, 2005, the Company announced the phase out of the labeling operation within the leased distribution facility in Oregon which resulted in a restructuring charge of \$1,461,000. During the quarter ended July 1, 2006, the Company recorded an additional restructuring charge of \$290,000 which represented a planned further reduction in utilization of the facility. The total restructuring charge of \$1,751,000 consisted of a provision for future lease payments of \$1,306,000, a cash severance charge of \$368,000, and a non-cash impairment charge of \$77,000. The Company intends to use a portion of the facility for warehousing and will attempt to sublease the remaining unutilized portion of the facility until the February 2008 expiration of the lease. During the quarter ended June 30, 2007, the Company moved out of the facility and recorded an \$86,000 charge as a result, which is included under Plant Restructuring in the Unaudited Condensed Consolidated Statements of Net Earnings.
6. On November 20, 2006, the Company issued a mortgage payable to GE Commercial Finance Business Property Corporation for \$23.8 million with an interest rate of 6.98% and a term of 15 years. The proceeds were used to pay down debt associated with the acquisition of Signature Fruit Company, LLC. This mortgage is secured by a portion of property in Modesto, California acquired via the Signature Fruit Company, LLC acquisition.
7. In September 2006, the FASB issued Statement of Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)". This standard requires employers to recognize the underfunded or overfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through accumulated other comprehensive income, which is a component of stockholders' equity. Additionally, SFAS No. 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position, which is consistent with the Company's present measurement date. The actual change recorded in fourth fiscal quarter of 2007 was a \$1,253,000 after-tax decrease to accumulated other comprehensive income, which resulted in a reduction to stockholders' equity. SFAS No. 158 did not change the amount of actuarially determined expense that is recorded in the consolidated statement of income. The new reporting requirements and related new footnote disclosure rules of SFAS No. 158 were effective for fiscal years ending after December 15, 2006.
8. During the three month period ended June 30, 2007, there were 1,600 shares or \$21,000 of Participating Convertible Preferred Stock converted to Class A Common Stock. During the three month period ended July 1, 2006, there were no conversions of Participating Convertible Preferred Stock to Class A Common Stock.

9. For the three months ended June 30, 2007, comprehensive income totaled \$5,372,000, including a \$22,000 Net Unrealized Loss on Securities classified as available-for-sale, which are purchased solely for the Company's 401(k) match. Comprehensive income equaled Net Earnings for the three months ended July 1, 2006.
10. The only changes in Stockholders' Equity accounts for the three months period ended June 30, 2007, other than the Accumulated Other Comprehensive Income described above, is an increase of \$5,394,000 for Net Earnings, an increase of \$223,000 related to implementing FIN 48 as described above and a reduction of \$12,000 for preferred cash dividends.

11. The net periodic benefit cost for pension plans consist of:

| | Three Months Ended | |
|----------------------------------|--------------------|-----------------|
| | June 30, 2007 | July 1, 2006 |
| Service Cost | \$ 1,111 | \$ 1,059 |
| Interest Cost | 1,202 | 1,117 |
| Expected Return on Plan Assets | (1,654) | (1,458) |
| Amortization of Transition Asset | (69) | (69) |
| Net Periodic Benefit Cost | \$ 590 | \$ 649 |

No pension contributions are required during fiscal 2008.

12. The following table summarizes the restructuring and related asset impairment charges recorded and the accruals established:

| | Severance | Long-Lived Asset Charges | Other Costs | Total |
|-------------------------------------|-----------|--------------------------------|-------------|-----------|
| Total expected restructuring charge | \$ 1,248 | \$ 5,304 | \$ 3,758 | \$ 10,310 |
| Balance March 31, 2007 | \$ 84 | \$ 267 | \$ 2,329 | \$ 2,680 |
| First quarter charge | | | 86 | 86 |
| Cash payments | | | (319) | (319) |
| Balance June 30, 2007 | \$ 84 | \$ 267 | \$ 2,096 | \$ 2,447 |
| Total costs incurred to date | \$ 1,164 | \$ 5,037 | \$ 1,662 | \$ 7,863 |

The restructuring costs above relate to the phase out of the labeling operation of the leased distribution facility in Oregon, the closure of corn plants in Wisconsin and Washington and of a green bean plant in upstate New York plus the removal of canned meat production from a plant in Idaho. The corn plant in Washington has been sold. The restructuring is complete in the Idaho plant and the New York plant. The Wisconsin plant is closed and is being operated as a warehouse.

The remaining severance costs are expected to be paid prior to September 30, 2007. 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 five years.

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13. During the first fiscal quarter of 2008, the Company sold some unused fixed assets which resulted in a gain of \$173,000. During the first fiscal quarter of 2007, the Company sold a closed plant in New York and a receiving station in Washington which resulted in gains of \$282,000 and \$406,000, respectively. These gains and losses are included in Other Operating (Income) Loss in the Unaudited Condensed Consolidated Statements of Net Earnings.
14. In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements" ("FASB 157"). FASB 157 redefines fair value, establishes a framework for measuring fair value and expands the disclosure requirements regarding fair value measurement. FASB 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect that the adoption of FASB 157 will have a material impact on its results of operations or financial position; however, additional disclosures will be required under FASB 157.
15. In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FASB 159"). FASB 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FASB 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. FASB 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the potential impact of FASB 159 on our consolidated financial statements.

16. Earnings per share (In thousands, except per share data):

| Quarters and Year-to-date Periods Ended June 30, 2007 and July 1, 2006 | Q U A R T E R | |
|---|--------------------------------------|----------|
| | 2007 | 2006 |
| | (In thousands, except share amounts) | |
| Basic | | |
| Net Earnings | \$ 5,394 | \$ 3,659 |
| Deduct preferred stock dividends | 6 | 6 |
| Undistributed earnings | 5,388 | 3,653 |
| Earnings allocated to participating preferred | 2,029 | 1,409 |
| Earnings allocated to common shareholders | \$ 3,359 | \$ 2,244 |
| Weighted average common shares outstanding | 7,576 | 6,835 |
| Basis earnings per common share | \$ 0.44 | \$ 0.33 |
| Diluted | | |
| Earnings allocated to common shareholders | \$ 3,359 | \$ 2,244 |
| Add dividends on convertible preferred stock | 5 | 5 |
| Earnings applicable to common stock on a diluted basis | \$ 3,364 | \$ 2,249 |
| Weighted average common shares outstanding-basic | 7,576 | 6,835 |
| Additional shares to be issued under full conversion of preferred stock | 67 | 67 |

| | | | |
|-----------------------------------|----|-------|---------|
| Total shares for diluted | | 7,643 | 6,902 |
| Diluted Earnings per common share | \$ | 0.44 | \$ 0.33 |

17. On August 18, 2006, the Company completed its acquisition of 100% of the membership interest in Signature Fruit Company, LLC (“Signature”) from John Hancock Life Insurance Company and John Hancock Variable Life Insurance Company. The rationale for the acquisition was twofold: (1) to broaden the Company’s product offerings into the canned fruit business; and (2) to take advantage of distribution efficiencies by combining vegetables and fruits on shipments since the customer base of the two companies is similar. The purchase price totaled \$47.3 million plus the assumption of certain liabilities. This acquisition was financed with proceeds from a newly expanded \$250.0 million revolving credit facility, and \$25.0 million of the Company’s Participating Convertible Preferred Stock. The Preferred Stock is convertible into the Company’s Class A Common Stock on a one-for-one basis subject to antidilution adjustments. The Preferred Stock was valued at \$24.385 per share based on the market value of the Class A Common Stock during the 30 day average period prior to the acquisition. A dividend of \$784,000 was recorded based on the beneficial conversion of this Preferred Stock for the difference between the exercise price of \$24.385 and the average price when the acquisition was announced. The purchase price to acquire Signature was allocated based on the internally developed fair value of the assets and liabilities acquired and are subject to revision after the results of the independent valuation of property, plant, and equipment becomes available. The purchase price of \$47.3 million has been calculated as follows (in millions):

| | | |
|---|----|------|
| Cash | \$ | 20.0 |
| Issuance of convertible preferred stock | | 25.0 |
| Closing costs | | 2.3 |
| Purchase Price | \$ | 47.3 |

The total purchase price of the transaction has been allocated as follows:

| | | |
|-------------------------------|----|--------|
| Current assets | \$ | 131.6 |
| Property, plant and equipment | | 26.1 |
| Other assets | | 2.3 |
| Current liabilities | | (59.2) |
| Long-term debt | | (45.5) |
| Other non-current liabilities | | (8.0) |
| Total | \$ | 47.3 |

The Company negotiated the sale of one of the plants and associated warehouses located in California that were acquired in the Signature Fruit acquisition. During the fourth fiscal quarter of 2007, the plant was sold which resulted in cash proceeds of \$27.8 million. There was no gain or loss recorded on this sale since the property was valued at the net proceeds as part of the purchase price allocation. The proceeds were used to reduce debt under the Revolving Credit Facility.

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

June 30, 2007

Seneca Foods Corporation is primarily a vegetable and fruit processing company with manufacturing facilities located throughout the United States. Its products are sold under the Libby's®, Aunt Nellie's Farm Kitchen®, Stokely's®, READ®, and Seneca® labels as well as through the private label and industrial markets. In addition, under an alliance with General Mills Operations, Inc. (GMOI), a successor to the Pillsbury Company and a subsidiary of General Mills, Inc., Seneca produces canned and frozen vegetables, which are sold by General Mills Operations, Inc. under the Green Giant® label.

The Company's raw product is harvested mainly between June through November. The Company experienced favorable growing conditions last summer and early fall reflecting a combination of adequate heat units and moisture. These beneficial growing conditions favorably impacted crop yields and plant recovery rates, and further resulted in favorable manufacturing variances.

On August 18, 2006, the Company completed its acquisition of 100% of the membership interest in Signature Fruit Company, LLC ("Signature") from John Hancock Life Insurance Company and John Hancock Variable Life Insurance Company. The rationale for the acquisition was twofold: (1) to broaden the Company's product offerings into the canned fruit business; and (2) to take advantage of distribution efficiencies by combining vegetables and fruits on shipments since the customer base of the two companies is similar. The purchase price totaled \$47.3 million plus the assumption of certain liabilities. This acquisition was financed with proceeds from a newly expanded \$250.0 million revolving credit facility, and \$25.0 million of the Company's Participating Convertible Preferred Stock. The Preferred Stock is convertible into the Company's Class A Common Stock on a one-for-one basis subject to antidilution adjustments. The Preferred Stock was valued at \$24.385 per share based on the market value of the Class A Common Stock during the 30 day average period prior to the acquisition. A dividend of \$784,000 was recorded based on the beneficial conversion of this Preferred Stock for the difference between the exercise price of \$24.385 and the average price when the acquisition was announced. The purchase price to acquire Signature was allocated based on the internally developed fair value of the assets and liabilities acquired and are subject to revision after the results of the independent valuation of property, plant, and equipment becomes available. The purchase price of \$47.3 million has been calculated as follows (in millions):

| | | |
|---|----|------|
| Cash | \$ | 20.0 |
| Issuance of convertible preferred stock | | 25.0 |
| Closing costs | | 2.3 |
| Purchase Price | \$ | 47.3 |

The total purchase price of the transaction has been allocated as follows:

| | | |
|-------------------------------|----|--------|
| Current assets | \$ | 131.6 |
| Property, plant and equipment | | 26.1 |
| Other assets | | 2.3 |
| Current liabilities | | (59.2) |
| Long-term debt | | (45.5) |
| Other non-current liabilities | | (8.0) |
| Total | \$ | 47.3 |

The Company negotiated the sale of one of the plants and associated warehouses located in California that were acquired in the Signature Fruit acquisition. During the fourth fiscal quarter of 2007, the plant was sold which resulted

in cash proceeds of \$27.8 million. There was no gain or loss recorded on this sale since the property was valued at the net proceeds as part of the purchase price allocation. The proceeds were used to reduce debt under the Revolving Credit Facility.

During fiscal 2005, the Company implemented a restructuring program which principally involved the closure of three processing facilities, including a green bean plant in upstate New York and corn plants in Wisconsin and Washington. The rationalization of the Company's productive capacity: (1) improved the Company's overall cost structure and competitive position; (2) addressed the excess capacity situation arising from the recent acquisition of Chiquita Processed Foods and decline in GMOI volume requirements; and (3) mitigated the effect of inflationary pressures on the Company's raw material inputs such as steel and fuel.

With the closure of a Washington facility in the fall of 2004, the Company's labeling and warehousing requirements at its Oregon location were dramatically reduced. During the quarter ended October 1, 2005, the Company announced the phase out of the labeling operation within the leased distribution facility in Oregon which resulted in a restructuring charge of \$1,461,000. During the quarter ended July 1, 2006, the Company recorded an additional restructuring charge of \$290,000 which represented a planned further reduction in utilization of the facility. The total restructuring charge of \$1,751,000 consisted of a provision for future lease payments of \$1,306,000, a cash severance charge of \$368,000, and a non-cash impairment charge of \$77,000. The Company intends to use a portion of the facility for warehousing and will attempt to sublease the remaining unutilized portion of the facility until the February 2008 expiration of the lease. During the quarter ended June 30, 2007, the Company moved out of the facility and recorded an \$86,000 charge as a result, which is included under Plant Restructuring in the Unaudited Condensed Consolidated Statements of Net Earnings.

Results of Operations:

Sales:

First fiscal quarter results include Net Sales of \$189.4 million, which represent a 27.7% increase, or \$41.1 million from the first fiscal quarter of fiscal 2007. This sales increase primarily reflects sales from the Signature Fruit acquisition which amounted to approximately \$38.7 million.

The following table presents the changes by business:

| | Three Months Ended | |
|-------------------------|--------------------|-----------------|
| | June 30, 2007 | July 1, 2006 |
| Canned Vegetables | \$ 131.3 | \$ 130.1 |
| Green Giant Alliance | 3.9 | 3.1 |
| Frozen Vegetables | 8.2 | 6.6 |
| Fruit and Chip Products | 43.1 | 5.2 |
| Other | 2.9 | 3.3 |
| | \$ 189.4 | \$ 148.3 |

Operating Income:

The following table presents components of Operating Income as a percentage of Net Sales:

| | Three Months Ended | |
|------------------------|--------------------|-----------------|
| | June 30, 2007 | July 1, 2006 |
| Gross Margin | 14.0% | 14.1% |
| Selling | 4.3% | 4.9% |
| Administrative | 3.1% | 3.2% |
| Other Operating Income | -0.1% | -0.5% |
| Operating Income | 6.7% | 6.5% |
| Interest Expense | 2.1% | 2.4% |

For the three month period ended June 30, 2007, the gross margin remained largely unchanged from the prior year quarter at 14.0%. Selling costs as a percentage of sales declined as the result of an \$857,000 reduction in advertising expenditures from the first fiscal quarter of 2007.

During the first fiscal quarter of 2008, the Company sold some unused fixed assets which resulted in a gain of \$173,000. During the first fiscal quarter of 2007, the Company sold a closed plant in Newark, New York and a receiving station in Pasco, Washington which resulted in gains of \$282,000 and \$406,000, respectively. These gains are included in Other Operating Income in the Statements of Net Earnings.

Interest as a percentage of sales decreased from 2.4% to 2.1%. Although the interest dollars increased 11.1% from \$3.6 million in the three month period ended July 1, 2006 to \$4.0 million in the three month period ended June 30, 2007, the sales increase between the same two periods was 27.7% largely due to the Signature Fruit acquisition. Since the sales increase was greater than the interest increase, the result was a decline in interest as a percentage of sales.

Income Taxes:

The effective tax rate was 36.4% and 38.4% for the three month periods ended June 30, 2007 and July 1, 2006, respectively. The 2.0% effective tax rate reduction is a largely a function of increased research and experimentation and manufacturers credits recognized as compared to the prior year.

Earnings per Share

Basic and diluted earnings per share were \$.44 and \$.33 for the three months ended June 30, 2007 and July 1, 2006, respectively. For details of the calculation of these amounts, refer to footnote 16 of the Notes to Condensed Consolidated Financial Statements.

Liquidity and Capital Resources:

The financial condition of the Company is summarized in the following table and explanatory review (in thousands except ratios):

| | June | | March | |
|--|------|------|-------|------|
| | 2007 | 2006 | 2007 | 2006 |

Working Capital:

| | | | | |
|-------------------|----------|---------|---------|---------|
| Balance | 323,818 | 234,126 | 334,455 | 229,510 |
| Change in Quarter | (10,637) | 4,616 | - | - |
| Long-Term Debt | 205,710 | 141,234 | 210,395 | 142,586 |
| Current Ratio | 3.15 | 2.42 | 3.86 | 2.63 |

As shown in the Condensed Consolidated Statements of Cash Flows, Cash Provided by Operating Activities was \$14.6 million in the first fiscal quarter of 2008, compared to Cash Provided by Operating Activities of \$0.9 million in the first fiscal quarters of 2007. The \$13.7 million increase in cash generation is primarily a result of the reduction of inventory of \$16.3 million in the first fiscal quarter of 2008 as compared to \$6.1 million in the first fiscal quarter of 2007.

As compared to July 1, 2006, Inventory increased \$66.7 million (including the increase in the Off Season Reserve of \$5.7 million). The Inventory increase primarily reflects a \$63.7 million increase (including the Off Season Reserve increase) in Finished Goods, a \$0.7 million decrease in Work in Process and \$3.7 million increase in Raw Materials. The Finished Goods increase reflects a larger harvest this year and the Signature acquisition discussed above. The Raw Materials increase is primarily due to Signature of \$8.1 million partially offset by a reduction in Cans and Ends of \$2.9 million.

Cash Used in Investing Activities was \$12.7 million in the first fiscal quarter of 2008 compared to \$2.7 million in the first fiscal quarter of 2007. Additions to Property, Plant and Equipment were \$12.8 million in fiscal 2008 as compared to \$3.4 million in fiscal 2007. In fiscal 2008, a warehouse in Gillett, Wisconsin was the most significant capital project with \$2.6 million spent as of the end of the first fiscal quarter.

Cash Used in Financing Activities was \$4.6 million in the first fiscal quarter of 2008, principally consisting of borrowing on the revolving credit facility of \$45.2 million and the repayment of \$49.9 million of Long-Term Debt.

In connection with the August 18, 2006 acquisition of Signature Fruit Company, LLC, the Company expanded its revolving credit facility ("Revolver") from \$100 million to \$250 million with a five-year term to finance its seasonal working capital requirements. As of June 30, 2007, the outstanding balance of the Revolver was \$55.2 million. We believe that cash flows from operations and availability under our Revolver will provide adequate funds for our working capital needs, planned capital expenditures, and debt service obligations for at least the next 12 months.

On November 20, 2006, the Company issued a mortgage payable to GE Commercial Finance Business Property Corporation for \$23.8 million with an interest rate of 6.98% and a term of 15 years. The proceeds were used to pay down debt associated with the acquisition of Signature Fruit Company, LLC. This mortgage is secured by a portion of property in Modesto, California acquired via the Signature Fruit Company, LLC acquisition.

The Company's credit facilities contain various financial covenants. At June 30, 2007, the Company was in compliance with all such financial covenants.

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements" ("FASB 157"). FASB 157 redefines fair value, establishes a framework for measuring fair value and expands the disclosure requirements regarding fair value measurement. FASB 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect that the adoption of FASB 157 will have a material impact on its results of operations or financial position; however, additional disclosures will be required under FASB 157.

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FASB 159"). FASB 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. FASB 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. FASB 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the potential impact of FASB 159 on our consolidated financial statements.

Seasonality

The Company's revenues typically have been higher in the second and third fiscal quarters, primarily because the Company sells, on a bill and hold basis, Green Giant canned and frozen vegetables to General Mills Operations, Inc. at the end of each pack cycle. The two largest commodities are peas and corn, which are sold in the second and third fiscal quarters, respectively. See the Critical Accounting Policies section below for further details. In addition, the Company's non-Green Giant sales have exhibited seasonality with the third fiscal quarter generating the highest sales. The third fiscal quarter reflects increased sales of the Company's products during the holiday period.

Forward-Looking Statements

Statements that are not historical facts, including statements about management's beliefs or expectations, 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 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. These factors include, among others: general economic and business conditions; cost and availability of commodities and other raw materials such as vegetables, steel and packaging materials; transportation costs; climate and weather affecting growing conditions and crop yields; leverage and ability to service and reduce the Company's debt; foreign currency exchange and interest rate fluctuations; effectiveness of marketing and trade promotion programs; changing consumer preferences; competition; product liability claims; the loss of significant customers or a substantial reduction in orders from these customers; changes in, or the failure or inability to comply with, U.S., foreign and local governmental regulations, including environmental regulations; and other factors discussed in the Company's filings with the Securities and Exchange Commission.

Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as the date hereof. The Company assumes no obligation to update forward-looking statements.

Critical Accounting Policies

In the three months ended June 30, 2007, the Company sold product for cash, on a bill and hold basis of \$1,449,000 of Green Giant finished goods inventory to General Mills Operations, Inc. ("GMOI"). There was no similar sale for the three months ended July 1, 2006. Under the terms of the bill and hold agreement, title to the specified inventory transferred to GMOI. Under the terms of the bill and hold agreement, title to the specified inventory transferred to GMOI. The Company believes it has met the criteria required for bill and hold treatment.

The seasonal nature of the Company's Food Processing business results in a timing difference between expenses (primarily overhead expenses) incurred and absorbed into product cost. All Off-Season Reserve balances, which essentially represent a contra-inventory account, are zero at fiscal year end. Depending on the time of year, Off-Season Reserve is either the excess of absorbed expenses over incurred expenses to date or the excess of incurred expenses over absorbed expenses to date. Other than at the end of the first and fourth fiscal quarter of each year, absorbed expenses exceed incurred expenses due to timing of production.

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 our products to consumers, amounts paid to obtain favorable display positions in retailers' stores, and amounts paid to retailers for shelf space in retail stores. Accruals for trade promotions are 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 us. 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.

ITEM 3 Quantitative and Qualitative Disclosures about Market Risk

In the ordinary course of business, the Company is exposed to various market risk factors, including changes in general economic conditions, competition and raw material pricing and availability. In addition the Company is exposed to fluctuations in interest rates, primarily related to its revolving credit facility. To manage interest rate risk, the Company uses both fixed and variable interest rate debt. During fiscal 2007, the Company entered into a natural gas hedge for 50% of its requirements during the production season from June 1 to December 31, 2006. The Company has not entered into a similar hedge arrangement during fiscal 2008. There have been no other material changes to the Company's exposure to market risk since March 31, 2007.

ITEM 4 Controls and Procedures

The Company maintains a system of internal and disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported on a timely basis. The Company's Board of Directors, operating through its Audit Committee, which is composed entirely of independent outside directors, provides oversight to the financial reporting process.

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended) as of the end of the period covered by this report. Our disclosure controls and procedures have been designed to ensure that information we are required to disclose in our reports that we file with the SEC under the Exchange Act is recorded, processed and reported on a timely basis. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of June 30, 2007, our disclosure controls and procedures were effective at providing reasonable assurance that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that our controls and procedures are effective in timely alerting them to material information required to be included in this report.

There were no changes in the Company's internal control over financial reporting during its most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect its internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Form 10-K for the period ended March 31, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

| Period | Total Number of Shares Purchased (1) | | Average Price Paid per Share | | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) or Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------|--------------------------------------|----------------|------------------------------|----------------|--|--|
| | Class A Common | Class B Common | Class A Common | Class B Common | | |
| 4/01/07 – 4/30/07 | 1,200 | - | \$26.95 | - | N/A | N/A |
| 5/01/07 – 5/31/07 | 13,122 | - | \$29.25 | - | N/A | N/A |
| 12/01/06 – 12/31/06 | - | - | - | - | N/A | N/A |
| Total | 14,322 | - | \$29.06 | - | N/A | N/A |

(1) These purchases were made in open market transactions by the trustees under the Seneca Foods Corporation Employees' Savings Plan 401(k) Retirement Savings Plan to provide employee matching contributions under the plan.

Item 3. Defaults on Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Certification of Kraig H. Kayser pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

31.2 Certification of Roland E. Breunig pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Seneca Foods Corporation
(Company)

/s/Kraig H. Kayser

August 7, 2007

Kraig H. Kayser

President and

Chief Executive Officer

/s/Jeffrey L. Van Riper

August 7, 2007

Jeffrey L. Van Riper

Controller and

Chief Accounting Officer

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