

SENECA FOODS CORP /NY/
Form 10-Q
November 04, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q

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

For the Quarter Ended September 27, 2008 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, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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 October 31, 2008 |
|---------------------------------|--|
| Common Stock Class A, \$.25 Par | 4,830,518 |
| 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 September 27, 2008 | Unaudited September 29, 2007 | March 31, 2008 |
|--|------------------------------------|------------------------------------|-------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 11,661 | \$ 8,760 | \$ 10,322 |
| Accounts Receivable, Net | 80,647 | 72,447 | 62,012 |
| Inventories (Note 2): | | | |
| Finished Goods | 598,074 | 622,185 | 274,543 |
| Work in Process | 42,129 | 34,439 | 18,238 |
| Raw Materials and Supplies | 60,482 | 63,899 | 102,905 |
| Off-Season Reserve (Note 3) | (52,211) | (79,582) | - |
| Total Inventories | 648,474 | 640,941 | 395,686 |
| Deferred Income Tax Asset, Net | 6,838 | 6,565 | 6,685 |
| Refundable Income Taxes | 4,849 | 3,536 | 8,303 |
| Other Current Assets | 1,774 | 2,189 | 2,419 |
| Total Current Assets | 754,243 | 734,438 | 485,427 |
| Property, Plant and Equipment, Net | 177,958 | 182,551 | 183,051 |
| Deferred Income Tax Asset, Net | 1,004 | 1,629 | 1,196 |
| Other Assets | 2,040 | 2,650 | 2,346 |
| Total Assets | \$ 935,245 | \$ 921,268 | \$ 672,020 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accounts Payable | \$ 293,932 | \$ 247,604 | \$ 55,240 |
| Other Accrued Expenses | 42,123 | 37,897 | 40,535 |
| Accrued Vacation | 9,702 | 9,067 | 9,390 |
| Current Portion of Long-Term Debt | 10,301 | 10,001 | 10,160 |
| Total Current Liabilities | 356,058 | 304,569 | 115,325 |
| Long-Term Debt, Less Current Portion | 268,890 | 314,167 | 250,039 |
| Other Long-Term Liabilities | 28,567 | 23,875 | 27,226 |
| Total Liabilities | 653,515 | 642,611 | 392,590 |
| Commitments | | | |
| 10% Preferred Stock, Series A, Voting, Cumulative, Convertible, \$.025 Par Value Per Share | 102 | 102 | 102 |
| 10% Preferred Stock, Series B, Voting, Cumulative, Convertible, \$.025 Par Value Per Share | 100 | 100 | 100 |
| 6% Preferred Stock, Voting, Cumulative, \$.25 Par Value Convertible, Participating Preferred Stock, \$12.00 Stated Value Per Share | 50 | 50 | 50 |
| Convertible, Participating Preferred Stock, \$15.50 Stated Value Per Share | 35,599 | 35,606 | 35,600 |
| | 8,595 | 8,667 | 8,596 |

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Convertible, Participating Preferred Stock, \$24.39

| | | | |
|--|------------|------------|------------|
| Stated Value Per Share | 25,000 | 25,000 | 25,000 |
| Common Stock \$.25 Par Value Per Share | 3,079 | 3,078 | 3,079 |
| Additional Paid-in Capital | 28,479 | 28,373 | 28,460 |
| Accumulated Other Comprehensive Loss | (3,621) | (1,268) | (3,628) |
| Retained Earnings | 184,347 | 178,949 | 182,071 |
| Stockholders' Equity | 281,730 | 278,657 | 279,430 |
| Total Liabilities and Stockholders' Equity | \$ 935,245 | \$ 921,268 | \$ 672,020 |

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

Page 2

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

| | Three Months Ended | | Six Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 27, 2008 | September 29, 2007 | September 27, 2008 | September 29, 2007 |
| Net Sales | \$ 315,418 | \$ 274,445 | \$ 532,131 | \$ 463,887 |
| Costs and Expenses: | | | | |
| Cost of Product Sold | 286,614 | 248,867 | 487,465 | 417,396 |
| Selling and Administrative | 17,743 | 15,628 | 33,607 | 29,759 |
| Plant Restructuring | - | 4 | - | 90 |
| Other Operating Income | (12) | (116) | (283) | (289) |
| Total Costs and Expenses | 304,345 | 264,383 | 520,789 | 446,956 |
| Operating Income | 11,073 | 10,062 | 11,342 | 16,931 |
| Interest Expense | 3,611 | 4,977 | 7,363 | 9,001 |
| Earnings Before Income Taxes | 7,462 | 5,085 | 3,979 | 7,930 |
| Income Taxes | 3,097 | 1,930 | 1,691 | 3,045 |
| Net Earnings | \$ 4,365 | \$ 3,155 | \$ 2,288 | \$ 4,885 |
| Earnings Applicable to Common Stock | \$ 2,722 | \$ 1,965 | \$ 1,421 | \$ 3,039 |
| Basic Earnings per Common Share | \$ 0.36 | \$ 0.26 | \$ 0.19 | \$ 0.40 |
| Diluted Earnings per Common Share | \$ 0.36 | \$ 0.26 | \$ 0.19 | \$ 0.40 |

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
(In Thousands)

| | Six Months Ended | |
|---|--------------------|--------------------|
| | September 27, 2008 | September 29, 2007 |
| Cash Flows from Operating Activities: | | |
| Net Earnings | \$ 2,288 | \$ 4,885 |
| Adjustments to Reconcile Net Earnings to | | |
| Net Cash Provided by Operations: | | |
| Depreciation & Amortization | 10,949 | 10,796 |
| Gain on the Sale of Assets | (283) | (289) |
| Deferred Tax Expense (Benefit) | 39 | (4,525) |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (18,635) | (16,947) |
| Inventories | (304,999) | (340,064) |
| Off-Season Reserve | 52,211 | 79,582 |
| Other Current Assets | 5,076 | (1,549) |
| Income Taxes | 3,459 | (707) |
| Accounts Payable, Accrued Expenses and Other Liabilities | 241,633 | 184,824 |
| Net Cash Used in Operations | (8,262) | (83,994) |
| Cash Flows from Investing Activities: | | |
| Additions to Property, Plant and Equipment | (10,004) | (20,157) |
| Proceeds from the Sale of Assets | 367 | 288 |
| Net Cash Used in Investing Activities | (9,637) | (19,869) |
| Cash Flow from Financing Activities: | | |
| Long-Term Borrowing | 176,752 | 214,315 |
| Payments on Long-Term Debt and Capital Lease Obligations | (157,760) | (110,575) |
| Other | 258 | 343 |
| Dividends | (12) | (12) |
| Net Cash Provided by Financing Activities | 19,238 | 104,071 |
| Net Increase in Cash and Cash Equivalents | 1,339 | 208 |
| Cash and Cash Equivalents, Beginning of the Period | 10,322 | 8,552 |
| Cash and Cash Equivalents, End of the Period | \$ 11,661 | \$ 8,760 |

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

September 27, 2008

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 September 27, 2008 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, 2008 balance sheet was derived from the audited consolidated financial statements. The September 27, 2008 results have been restated to reflect the Company's change to the Last-In First-Out (LIFO) inventory valuation method which occurred during fiscal 2008. As previously reported in the 2008 Seneca Foods Corporation Report on Form 10-K, this resulted in a \$12,016,000 increase in Cost of Sales for the six-month period ended September 29, 2007, which reduced Net Earnings by \$7,810,000 or \$.64 per diluted share. Cost of Sales for the three-month period ended September 29, 2007 increased \$6,379,000, which reduced Net Earnings by \$4,146,000 or \$.34 per diluted share. In addition, certain previously reported amounts for periods September 29, 2007 and March 31, 2008 have been reclassified to conform to the current period classification.

The results of operations for the three and six month periods ended September 27, 2008 are not necessarily indicative of the results to be expected for the full year.

In the six months ended September 27, 2008, the Company sold \$60,908,000 of Green Giant finished goods inventory to General Mills Operations, LLC ("GMOL") for cash, on a bill and hold basis as compared to \$51,810,000 for the six-months ended September 29, 2007. Under the terms of the bill and hold agreement, title to the specified inventory transferred to GMOL. 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 2008 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 2008 Annual Report on Form 10-K.

2. The Company implemented the LIFO inventory valuation method during 2008. First-In, First-Out (FIFO) based inventory costs exceeded LIFO based inventory costs by \$52,737,000 as of the end of the second fiscal quarter of 2009. The increase in the LIFO Reserve for the first half of fiscal 2009 ended September 27, 2008 was \$24,572,000 as compared to \$12,016,000 for the first half ended September 29, 2007 and reflects the impact of significant inflationary cost increases expected throughout fiscal 2009.
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. These "off-season" variances are reserved for in a contra-inventory account and are included in the Inventory section of the Condensed Consolidated Balance Sheets. Depending on the time of year, the 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. All Off-Season Reserve balances are zero at fiscal year end.

4. In 2006, the Company announced the phase out of the Salem labeling operation which resulted in restructuring charges. During the first half of fiscal 2008 ended September 29, 2007, the Company moved out of the facility and recorded a \$90,000 additional charge, which is included under Plant Restructuring in the Unaudited Condensed Consolidated Statements of Net Earnings. There were no similar charges for the six months ended September 27, 2008.
5. During the six-month period ended September 27, 2008, there were 250 shares or \$3,000 of Convertible Participating Preferred Stock converted to Class A Common Stock.
6. Comprehensive income equaled Net Earnings for the three and six months ended September 27, 2008 and September 29, 2007.
7. The only changes in Stockholders' Equity accounts for the six months period ended September 27, 2008, is an increase of \$2,288,000 for Net Earnings, an increase of \$16,000 for the equity compensation plan, an increase of \$8,000 for a market-to-market on 401-K stock and a reduction of \$12,000 for preferred cash dividends.
8. The net periodic benefit cost for Company's pension plan consisted of:

| | Three Months Ended | | Six Months Ended | |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 27, 2008 | September 29, 2007 | September 27, 2008 | September 29, 2007 |
| Service Cost | \$ 757 | \$ 1,165 | \$ 1,513 | \$ 2,276 |
| Interest Cost | 1,434 | 1,202 | 2,869 | 2,404 |
| Expected Return on Plan Assets | (1,475) | (1,654) | (2,949) | (3,308) |
| Amortization of Transition Asset | (69) | (69) | (138) | (138) |
| Net Periodic Benefit Cost | \$ 647 | \$ 644 | \$ 1,295 | \$ 1,234 |

No pension contributions are required during fiscal 2009.

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

| | Severance | Long-Lived Asset Charges | Other Costs | Total |
|---------------------------------|-----------|--------------------------------|-------------|----------|
| | | | | |
| Balance March 31, 2008 | \$ - | \$ 250 | \$ 1,286 | \$ 1,536 |
| Cash payments/write offs | - | - | (125) | (125) |
| Balance September 27, 2008 | \$ - | \$ 250 | \$ 1,161 | \$ 1,411 |
| Total costs incurred to date | \$ 1,248 | \$ 5,499 | \$ 2,753 | \$ 9,500 |

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.

Page 6

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.

10. During the six months ended September 27, 2008, the Company sold some unused fixed assets which resulted in a gain totaling \$283,000. During the six months ended September 29, 2007, the Company sold some unused fixed assets which resulted in a gain of \$289,000. Both gains are included in Other Operating Income in the Unaudited Condensed Consolidated Statements of Net Earnings.
11. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Standards SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 redefines fair value, establishes a framework for measuring fair value and expands the disclosure requirements regarding fair value measurement. SFAS 157 was initially effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB approved the issuance of FASB Staff Position (FSP) FAS 157-2. FSP FAS 157-2 defers the effective date of SFAS 157 until April 1, 2009 (for the Company) for nonfinancial assets and nonfinancial liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. On October 10, 2008, the FASB issued FSP FAS 157-3 to clarify the application of fair value measurements of a financial asset when the market for that asset is not active. This clarifying guidance became effective upon issuance, including prior periods for which financial statements had not been issued, such as the period ended September 27, 2008 for the Company. The Company does not expect that the adoption of SFAS 157 and FSP FAS 157-3 will have a material impact on its results of operations or financial position; however, additional disclosures will be required under SFAS 157. Through September 27, 2008, SFAS 157 and FSP FAS 157-3 had no effect on the Company's consolidated results of operations or financial position with respect to its financial assets and liabilities. Effective April 1, 2009, the Company will apply the fair value measurement and disclosure provisions of SFAS 157 to its nonfinancial assets and liabilities measured on a nonrecurring basis. This is not expected to have a material impact on the Company's consolidated results of operations or financial position. The Company measures the fair value of long-lived assets on a non-recurring basis.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 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. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has assessed the impact of SFAS 159 and has determined it had no impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," ("SFAS 141(R)") to further enhance the accounting and financial reporting related to business combinations. SFAS 141(R) establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Therefore, the effects of the Company's adoption of SFAS 141(R) will depend upon the extent and magnitude of acquisitions after March 2009.

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In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS 162”). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. generally accepted accounting principles (GAAP). SFAS 162 directs the GAAP hierarchy to the entity, not the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS 162 is effective 60 days following the Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from the auditing standards. The Company does not expect SFAS 162 to have a material impact on its consolidated financial statements.

12. Earnings per share for the Quarters and Year-to-date Periods Ended September 27, 2008 and September 29, 2007 are as follows:

| | Q U A R T E R | |
|---|--------------------------------------|----------|
| | 2008 | 2007 |
| | (In thousands, except share amounts) | |
| Basic | | |
| Net Earnings | \$ 4,365 | \$ 3,155 |
| Deduct preferred stock dividends paid | 6 | 6 |
| Undistributed earnings | 4,359 | 3,149 |
| Deduct earnings allocated to participating preferred | 1,637 | 1,184 |
| Earnings allocated to common shareholders | \$ 2,722 | \$ 1,965 |
| Weighted average common shares outstanding | 7,591 | 7,581 |
| Basis earnings per common share | \$ 0.36 | \$ 0.26 |
| Diluted | | |
| Earnings allocated to common shareholders | \$ 2,722 | \$ 1,965 |
| Add dividends on convertible preferred stock | 5 | 5 |
| Earnings applicable to common stock on a diluted basis | \$ 2,727 | \$ 1,970 |
| Weighted average common shares outstanding-basic | 7,591 | 7,581 |
| Additional shares issued related to the equity compensation plan | 0.4 | - |
| Additional shares to be issued under full conversion of preferred stock | 67 | 67 |
| Total shares for diluted | 7,659 | 7,648 |
| Diluted Earnings per common share | \$ 0.36 | \$ 0.26 |
| | Y E A R T O D A T E | |
| | 2008 | 2007 |
| | (In thousands, except share amounts) | |
| Basic | | |
| Net Earnings | \$ 2,288 | \$ 4,885 |

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| | | |
|---|----------|----------|
| Deduct preferred stock dividends paid | 12 | 12 |
| Undistributed earnings | 2,276 | 4,873 |
| Deduct earnings allocated to participating preferred | 855 | 1,834 |
| Earnings allocated to common shareholders | \$ 1,421 | \$ 3,039 |
| Weighted average common shares outstanding | 7,591 | 7,579 |
| Basis earnings per common share | \$ 0.19 | \$ 0.40 |
| Diluted | | |
| Earnings allocated to common shareholders | \$ 1,422 | \$ 3,039 |
| Add dividends on convertible preferred stock | 10 | 10 |
| Earnings applicable to common stock on a diluted basis | \$ 1,432 | \$ 3,049 |
| Weighted average common shares outstanding-basic | 7,591 | 7,579 |
| Additional shares issued related to the equity compensation plan | 0.4 | - |
| Additional shares to be issued under full conversion of preferred stock | 67 | 67 |
| Total shares for diluted | 7,659 | 7,646 |
| Diluted Earnings per common share | \$ 0.19 | \$ 0.40 |

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

September 27, 2008

Seneca Foods Corporation (the "Company") 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, LLC (GMOL), a successor to the Pillsbury Company and a subsidiary of General Mills, Inc., Seneca produces canned and frozen vegetables, which are sold by GMOL 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 which resulted in favorable manufacturing variances.

In 2006, the Company announced the phase out of the Salem labeling operation which resulted in restructuring charges. During the first half of fiscal 2008 ended September 29, 2007, the Company moved out of the facility and recorded a \$90,000 additional charge, which is included under Plant Restructuring in the Unaudited Condensed Consolidated Statements of Net Earnings. There were no similar charges for the six months ended September 27, 2008.

Results of Operations:

Sales:

Second fiscal quarter results include Net Sales of \$315.4 million, which represents a 14.9% increase, or \$40.9 million, from the second quarter of fiscal 2008. The increase in sales is attributable to increased selling prices/improved sales mix of \$43.8 million which were offset in part, by reduced volume of \$2.9 million. The increase in sales is primarily from a \$20.1 million increase in Canned Vegetable sales and an \$11.9 million increase in Green Giant Alliance sales.

Net Sales for the six months ended September 27, 2008 were \$532.1 million, which represents a 14.7%, or \$68.2 million, increase from the six months ended September 29, 2007. Selling prices/improved sales mix represented \$53.9 million of the increase while sales volume accounted for \$14.3 million of this increase.. The increase in sales is primarily due to a \$39.5 million increase in Canned Vegetable sales, a \$13.1 million increase in Fruit Products sales, and a \$10.8 million increase in Green Giant Alliance sales.

The following table presents sales by product category (in millions):

| | Three Months Ended | | Six Months Ended | |
|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 27, 2008 | September 29, 2007 | September 27, 2008 | September 29, 2007 |
| Canned Vegetables | \$ 167.8 | \$ 147.7 | \$ 318.4 | \$ 278.9 |
| Green Giant Alliance | 77.2 | 65.3 | 80.1 | 69.3 |
| Frozen Vegetables | 10.5 | 9.7 | 20.6 | 17.9 |
| Fruit Products | 49.8 | 43.7 | 95.8 | 82.7 |
| Snack | 3.4 | 3.9 | 7.1 | 8.0 |

| | | | | |
|-------|----------|----------|----------|----------|
| Other | 6.7 | 4.2 | 10.1 | 7.1 |
| | \$ 315.4 | \$ 274.5 | \$ 532.1 | \$ 463.9 |

Operating Income:

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

| | Three Months Ended | | Six Months Ended | |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 27, 2008 | September 29, 2007 | September 27, 2008 | September 29, 2007 |
| Gross Margin | 9.1% | 9.4% | 8.3% | 9.9% |
| Selling | 3.5% | 3.5% | 3.8% | 3.8% |
| Administrative | 2.1% | 2.2% | 2.5% | 2.6% |
| Other Operating Income | 0.0% | 0.0% | -0.1% | -0.1% |
| Operating Income | 3.5% | 3.7% | 2.1% | 3.6% |
| Interest Expense | 1.1% | 1.8% | 1.4% | 1.9% |

For the three month period ended September 27, 2008, the gross margin decreased from the prior year quarter from 9.4% to 9.1% due primarily to higher produce and steel costs of the current year pack as compared to the prior year. FIFO based inventory costs exceeded LIFO based inventory costs by \$52,737,000 as of the end of the second quarter of 2009. The increase in the LIFO Reserve for the second quarter ended September 27, 2008 was \$14,296,000 as compared to \$6,379,000 for the second quarter ended September 29, 2007 and reflects the impact on the quarter of significant inflationary cost increases expected throughout fiscal 2009. On an after-tax basis, LIFO reduced Net Earnings by \$9,292,000 for the quarter ended September 27, 2008 and by \$4,146,000 for the quarter ended September 29, 2007.

For the six month period ended September 27, 2008, the gross margin decreased from the prior year year to date from 9.9% to 8.3% due primarily to higher costs of the current year pack as compared to the prior year. The increase in the LIFO Reserve for the six month period ended September 27, 2008 was \$24,572,000 as compared to \$12,016,000 for the six months ended September 29, 2007 and reflects the impact on the period of significant inflationary cost increases expected throughout fiscal 2009. On an after-tax basis, LIFO reduced Net Earnings by \$15,972,000 for the year to date period ended September 27, 2008 and by \$7,810,000 for the year to date period ended September 29, 2007.

Selling costs as a percentage of sales were unchanged from the prior year quarter at 3.5%. The year-to-date selling costs as a percentage of sales were also unchanged from the prior year at 3.8%.

Sales of unused fixed assets resulted in gains totaling \$12,000 during the three months ended September 27, 2008, compared to a gain of \$116,000 during the three months ended September 29, 2007. During the six months ended September 27, 2008, gains from the sale of unused fixed assets totaled \$283,000 versus a gain of \$289,000 during the six months ended September 29, 2007. All gains are included in Other Operating Income in the Unaudited Condensed Consolidated Statements of Net Earnings.

For the three month period ended September 27, 2008, interest expense as a percentage of sales decreased from 1.8% to 1.1%. For the six month period ended September 27, 2008, interest expense as a percentage of sales decreased from 1.9% to 1.4%. This was largely due to lower average borrowings and interest rates in the current year period compared to the prior year.

Income Taxes:

The effective tax rate was 41.5% and 34.8% for the three month periods ended September 27, 2008 and September 29, 2007, respectively. Of the 6.7% increase in the effective tax rate, 3.8% is due to an AMT credit adjustment recognized in connection with FIN 48 and 1.7% is an increase due to a higher effective state tax rate in the 2008 versus 2007. The effective tax rate was 42.5% and 36.4% for the six month periods ended September 27, 2008 and September 29, 2007, respectively.

Earnings per Share:

Basic and diluted earnings per share were \$.36 and \$.27 for the three months ended September 27, 2008 and September 29, 2007, respectively. Basic and diluted earnings per share were \$.19 and \$.41 for the six months ended September 27, 2008 and September 29, 2007, respectively. For details of the calculation of these amounts, refer to footnote 12 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):

| | September | | March | |
|-------------------------|------------|------------|------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Working Capital: | | | | |
| Balance | \$ 398,185 | \$ 429,869 | \$ 370,102 | \$ 334,455 |
| Change in Quarter | 71,621 | 109,875 | - | - |
| Long-Term Debt | 268,890 | 314,167 | 250,039 | 210,395 |
| Current Ratio | 2.12 | 2.41 | 4.21 | 3.86 |

As shown in the Condensed Consolidated Statements of Cash Flows, net Cash Used in Operating Activities was \$8.3 million in the first six months of fiscal 2009, compared to net Cash Used in Operating Activities of \$84.0 million in the first six months of fiscal 2008. The \$75.7 million increase in cash generation is primarily a result of the increase in inventory of \$252.7 million (net of the increase in the Off Season Reserve of \$52.2 million) in the first six months of fiscal 2009 as compared to \$272.5 million increase in inventory in the first six months of fiscal 2008 and the \$56.8 million increase in Accounts Payable, Accrued Expenses and Other Liabilities as compared to the first six months of September 29, 2007. This increase is due to higher costs including commodity and steel costs.

As compared to September 29, 2007, inventory increased \$7.5 million. The components of the inventory increase reflect a \$3.3 million increase in Finished Goods (net of the Off Season Reserve), a \$7.7 million increase in Work in Process and \$3.4 million decrease in Raw Materials and Supplies. The Finished Goods increase reflects higher per unit costs in the current year than the prior year partially offset by lower inventory quantities due to a late harvest this year. FIFO based inventory costs exceeded LIFO based inventory costs by \$52.7 million as of the end of the second quarter of 2009 as compared to \$12.0 million as of the end of the second quarter of 2008. The Work in Process increase is primarily due to cans and can supplies increase of \$8.8 million over the prior year. This is due to a combination of higher quantities and unit costs in inventory in the current year as compared to the prior year. As stated above, the current year pack is running behind prior year due to the cool weather impacting fixed charge absorption which is the main reason for the current Off-Season credit being \$27.4 million lower than the September 29, 2007 balance. When the pack is completed, absorption should be comparable to the prior year.

Cash Used in Investing Activities was \$9.6 million in the first six months of fiscal 2009 compared to \$19.8 million in the first six months of fiscal 2008. Additions to Property, Plant and Equipment were \$10.0 million in fiscal 2009 as

compared to \$20.2 million in fiscal 2008 due to fewer large capital projects in the first six months compared to the prior year.

Cash Provided by Financing Activities was \$19.2 million in the first six months of fiscal 2009, which included borrowings of \$176.8 million and the repayment of \$157.8 million of Long-Term Debt principally consisting of borrowing and repayment on the revolving credit facility. This decrease is directly related to the increase in Accounts Payable, Accrued Expenses and Other Liabilities of \$56.8 million as compared to the prior year as discussed above.

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 September 27, 2008, the outstanding balance of the Revolver was \$130.0 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.

The Company's credit facilities contain various financial covenants. At September 27, 2008, the Company was in compliance with all such financial covenants.

New Accounting Standards

Refer to footnote 11 of the Notes to Condensed Consolidated Financial Statements.

Seasonality

The Company's revenues typically have been 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 General Mills Operations, LLC at the end of each pack cycle, which typically occurs during these quarters. See the Critical Accounting Policies section below for further details. The Company's non-Green Giant sales also exhibit seasonality with the third fiscal quarter generating the highest sales due to retail sales 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 six months ended September 27, 2008, the Company sold \$60,908,000 of Green Giant finished goods inventory to GMOL for cash, on a bill and hold basis as compared to \$51,810,000 for the six-months ended September 29, 2007. Under the terms of the bill and hold agreement, title to the specified inventory transferred to GMOL. 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. These "off-season" variances are reserved for in a contra-inventory account and are included in the Inventory section of the Condensed Consolidated Balance Sheets. Depending on the time of year, the 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. All Off-Season Reserve balances are zero at fiscal year end.

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. There have been no material changes to the Company's exposure to market risk since March 31, 2008.

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 September 27, 2008, 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.

We are in the process of implementing SAP, an enterprise resource planning ("ERP") system, over a multi-year period for our entire company. During the second quarter ended September 27, 2008, we successfully replaced our financial reporting, fixed assets and procure-to-pay systems. The second phase of the SAP project will focus on our order-to-cash system. The third phase of the SAP project will focus on our human resource information system. This implementation has resulted in certain changes to business processes and internal controls impacting financial reporting. We have evaluated the control environment as affected by the implementation and believe that our controls remained effective.

There have been no other changes during the period covered by this report to the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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, 2008.

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 | | |
| 7/01/08 – 7/31/08 | - | - | - | - | N/A | N/A |
| 8/01/08 – 8/31/08 | - | - | - | - | N/A | N/A |
| 9/01/08 – 9/30/08 | 6,000 | - | \$20.76 | - | N/A | N/A |
| Total | 6,000 | - | \$20.76 | - | 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)

32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

Page 15

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
November 4, 2008
Kraig H. Kayser
President and
Chief Executive Officer

/s/Roland E. Breunig
November 4, 2008
Roland E. Breunig
Chief Financial Officer