

Seneca Foods Corp  
Form 10-Q  
January 31, 2013

---

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 December 29, 2012

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 registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 January 25, 2013
-------	--

Edgar Filing: Seneca Foods Corp - Form 10-Q

Common Stock Class A, \$.25 Par	8,745,078
Common Stock Class B, \$.25 Par	2,057,882

---

Seneca Foods Corporation  
Quarterly Report on Form 10-Q  
Table of Contents

		Page
PART 1	FINANCIAL INFORMATION	
Item 1	Financial Statements:	
	<u>Condensed Consolidated Balance Sheets-December 29, 2012, December 31, 2011 and March 31, 2012</u>	1
	<u>Condensed Consolidated Statements of Net Earnings-Three and Nine Months Ended</u> December 29, 2012 and December 31, 2011	2
	<u>Condensed Consolidated Statements of Comprehensive Income-Nine Months Ended</u> December 29, 2012 and December 31, 2011	2
	<u>Condensed Consolidated Statements of Cash Flows-Nine Months Ended</u> December 29, 2012 and December 31, 2011	3
	<u>Condensed Consolidated Statements of Stockholders' Equity-Nine Months Ended</u> December 29, 2012	4
	<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	18
Item 4	<u>Controls and Procedures</u>	19
PART II	OTHER INFORMATION	
Item 1	<u>Legal Proceedings</u>	20
Item 1A	<u>Risk Factors</u>	20
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
Item 3	<u>Defaults Upon Senior Securities</u>	20
Item 4	<u>Mine Safety Disclosures</u>	20
Item 5	<u>Other Information</u>	20

Item 6	<u>Exhibits</u>	20
<u>SIGNATURES</u>		22

---

SENECA FOODS CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In Thousands, Except Per Share Data)

	Unaudited December 29, 2012	Unaudited December 31, 2011	March 31, 2012
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 12,507	\$ 11,218	\$ 9,420
Accounts Receivable, Net	70,008	74,678	77,105
Loan Receivable (Note 2)	-	10,000	10,000
Inventories (Note 3):			
Finished Goods	443,492	435,933	307,912
Work in Process	9,939	15,541	16,083
Raw Materials and Supplies	74,175	86,389	108,438
Total Inventories	527,606	537,863	432,433
Deferred Income Tax Asset, Net	8,105	7,996	8,637
Refundable Income Taxes	-	-	316
Other Current Assets	15,292	8,205	5,339
Total Current Assets	633,518	649,960	543,250
Property, Plant and Equipment, Net	186,354	185,237	192,825
Deferred Income Tax Asset, Net	1,882	-	403
Other Assets	1,274	1,653	1,558
Total Assets	\$ 823,028	\$ 836,850	\$ 738,036
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current Liabilities:			
Accounts Payable	\$ 98,341	\$ 89,588	\$ 61,074
Accrued Vacation	10,493	10,308	10,506
Accrued Payroll	5,694	6,061	7,793
Other Accrued Expenses	30,517	33,280	31,459
Income Taxes Payable	3,637	2,452	-
Current Portion of Long-Term Debt	41,504	12,257	7,336
Total Current Liabilities	190,186	153,946	118,168
Long-Term Debt, Less Current Portion (Note 4)	228,412	285,910	226,873
Deferred Income Taxes	-	8,739	-
Other Long-Term Liabilities	40,595	21,363	38,322
Total Liabilities	459,193	469,958	383,363
Commitments			
Stockholders' Equity:			
Preferred Stock	5,467	6,271	6,268
Common Stock, \$.25 Par Value Per Share	2,955	2,938	2,938
Additional Paid-in Capital	93,001	92,088	92,139
Treasury Stock, at cost	(29,883 )	(785 )	(1,435 )
Accumulated Other Comprehensive Loss	(23,266 )	(13,884 )	(23,319 )
Retained Earnings	315,561	280,264	278,082

Edgar Filing: Seneca Foods Corp - Form 10-Q

Total Stockholders' Equity	363,835	366,892	354,673
Total Liabilities and Stockholders' Equity	\$823,028	\$836,850	\$738,036

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

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

	Three Months Ended		Nine Months Ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Net Sales	\$452,731	\$446,891	\$1,001,375	\$987,416
Costs and Expenses:				
Cost of Product Sold	407,740	396,854	886,404	910,170
Selling and Administrative	18,544	19,195	49,617	50,708
Restructuring	2,510	-	2,510	39
Other Operating Income	(38 )	(707 )	(330 )	(876 )
Total Costs and Expenses	428,756	415,342	938,201	960,041
Operating Income	23,975	31,549	63,174	27,375
Interest Expense, Net	1,943	2,164	5,257	5,830
Earnings Before Income Taxes	22,032	29,385	57,917	21,545
Income Taxes	7,242	10,855	20,415	8,107
Net Earnings	\$14,790	\$18,530	\$37,502	\$13,438
Earnings Attributable to Common Stock	\$14,265	\$17,897	\$36,188	\$12,964
Basic Earnings per Common Share (Note 10)	\$1.32	\$1.53	\$3.21	\$1.10
Diluted Earnings per Common Share (Note 10)	\$1.32	\$1.52	\$3.19	\$1.10

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

SENECA FOODS CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)  
(In Thousands)

	Three Months Ended		Nine Months Ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Comprehensive income:				
Net earnings	\$14,790	\$18,530	\$37,502	\$13,438
Change in pension and post retirement benefits (net of tax)	(11 )	278	53	98
Total	\$14,779	\$18,808	\$37,555	\$13,536



Edgar Filing: Seneca Foods Corp - Form 10-Q

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)

	Nine Months Ended	
	December 29, 2012	December 31, 2011
Cash Flows from Operating Activities:		
Net Earnings	\$37,502	\$13,438
Adjustments to Reconcile Net Earnings to		
Net Cash Used in Operations:		
Depreciation & Amortization	17,182	16,874
Gain on the Sale of Assets	(330 )	(876 )
Deferred Income Tax (Benefit) Expense	(981 )	5,127
Changes in Operating Assets and Liabilities:		
Accounts Receivable	7,097	3,858
Inventories	(95,173 )	(82,627 )
Other Current Assets	(6,279 )	(8,140 )
Income Taxes	3,953	1,963
Accounts Payable, Accrued Expenses and Other Liabilities	36,415	2,389
Net Cash Used in Operations	(614 )	(47,994 )
Cash Flows from Investing Activities:		
Additions to Property, Plant and Equipment	(14,103 )	(13,736 )
Proceeds from the Sale of Assets	350	921
Payment of Loan Receivable	10,000	-
Net Cash Used in Investing Activities	(3,753 )	(12,815 )
Cash Flow from Financing Activities:		
Long-Term Borrowing	489,129	358,609
Payments on Long-Term Debt	(453,422 )	(293,061 )
Borrowings on Notes Payable	-	3,555
Other	207	(1,298 )
Purchase of Treasury Stock	(28,448 )	(528 )
Dividends	(12 )	(12 )
Net Cash Provided by Financing Activities	7,454	67,265
Net Increase in Cash and Cash Equivalents	3,087	6,456
Cash and Cash Equivalents, Beginning of the Period	9,420	4,762
Cash and Cash Equivalents, End of the Period	\$12,507	\$11,218

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

SENECA FOODS CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS STOCKHOLDERS' EQUITY  
(Unaudited)  
(In Thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings
Balance March 31, 2012	\$6,268	\$2,938	\$92,139	\$(1,435 )	\$ (23,319 )	\$278,082
Net earnings	-	-	-	-	-	37,502
Cash dividends						
on preferred stock	-	-	-	-	-	(23 )
Equity incentive program	-	3	46	-	-	-
Stock issued for profit sharing plan (Note 5)	-	-	29	-	-	-
Preferred stock conversion (Note 5)	(801 )	14	787	-	-	-
Purchase treasury stock (Note 5)				(28,448 )		
Change in pension and post retirement benefits adjustment (net of tax benefit \$34)	-	-	-	-	53	-
Balance December 29, 2012	\$5,467	\$2,955	\$93,001	\$(29,883 )	\$ (23,266 )	\$315,561

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)  
December 29, 2012

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 December 29, 2012 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, 2012 balance sheet was derived from the audited consolidated financial statements. Certain previously reported amounts for the period ended December 31, 2011 have been reclassified to conform to the current period classification.

The results of operations for the three and nine month periods ended December 29, 2012 are not necessarily indicative of the results to be expected for the full year.

In the nine months ended December 29, 2012, the Company sold \$151,240,000 of Green Giant finished goods inventory to General Mills Operations, LLC ("GMOL") for cash, on a bill and hold basis, as compared to \$150,981,000 for the nine months ended December 31, 2011. 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 Company's 2012 Annual Report on Form 10-K. In addition, the following accounting policy has changed this fiscal year based on adopting ASU No. 2011-04, "Fair Value Measurements and Disclosures":

**Fair Value of Financial Instruments**--The fair values of cash and cash equivalents, accounts receivable, short-term debt (classified as Level 2 in the fair value hierarchy) and accounts payable approximate cost because of the immediate and short-term maturity of these financial instruments. See note 11 Fair Value of Financial Instruments, for a discussion of the fair value of long-term debt.

**Acquisition**--On January 15, 2013, the Company completed the acquisition of 100% of the membership interest of Independent Foods, LLC. The business, based in Sunnyside, Washington, is a processor of canned pears, apples and cherries in the United States. The rationale for the acquisition was twofold: (1) the business is a complementary fit with the Company's existing business and (2) it provides an extension of the Company's product offerings. The purchase price was approximately \$5.3 million plus the assumption of certain liabilities. In conjunction with the closing, the Company paid \$19.5 million of liabilities acquired. Since this acquisition was not completed until the fourth quarter of 2013, the Company will be reporting more details in future reports.

Other footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States 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 2012 Annual Report on Form 10-K.

All references to years are fiscal years ended or ending March 31 unless otherwise indicated. Certain percentage tables may not foot due to rounding.



2. During the quarter ended October 1, 2011, 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 the 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 the Borrower concerning the Company's possible acquisition of the Borrower through a merger transaction. The Company and the Borrower are no longer pursuing such potential acquisition. All of the Borrower obligations under the Borrower Credit Facility, including those owing to the Company, were due to mature on March 30, 2012. In April 2012, the Company received a partial repayment of \$3.7 million. In June 2012, the Company received the remaining \$6.3 million due plus interest accrued and the Company has no further obligations with respect to the Loan Commitment.
  
3. First-In, First-Out ("FIFO") based inventory costs exceeded LIFO based inventory costs by \$136.1 million as of the end of the third quarter of fiscal 2013 as compared to \$119.9 million as of the end of the third quarter of fiscal 2012. The change in the LIFO Reserve for the three months ended December 29, 2012 was an increase of \$1,268,000 as compared to an increase of \$10,774,000 for the three months ended December 31, 2011. The change in the LIFO Reserve for the nine months ended December 29, 2012 was a decrease of \$1,176,000 as compared to an increase of \$30,055,000 for the nine months ended December 31, 2011. This reflects the projected impact of reduced inflationary cost increases expected in fiscal 2013 versus fiscal 2012.
  
4. The Company completed the closing of a new five year revolving credit facility ("Revolver") on July 20, 2011. Available borrowings under the Revolver total \$250,000,000 from April through July and \$350,000,000 from August through March. The Revolver balance as of December 29, 2012 was \$185,860,000 and is included in Long-Term Debt in the accompanying Condensed Consolidated Balance Sheet due to its five year term. 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 decrease in average amount of Revolver borrowings during the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012 was attributable to improved operating results partially offset by the share repurchases and additional seasonal working capital needs.

SENECA FOODS CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
December 29, 2012

General terms of the Revolver include payment of interest at LIBOR plus a defined spread.

The following table documents the quantitative data for Revolver borrowings during the third quarter and year-to-date periods of fiscal 2013 and fiscal 2012:

	Third Quarter		Year-to-Date	
	2013	2012	2013	2012
	(In thousands)		(In thousands)	
Reported end of period:				
Outstanding borrowings	\$185,860	\$206,346	\$185,860	\$206,346
Weighted average interest rate	1.48	% 1.89	% 1.48	% 1.89
Reported during the period:				
Maximum amount of borrowings	\$258,000	\$268,363	\$258,000	\$268,363
Average outstanding borrowings	188,302	215,397	150,773	163,772
Weighted average interest rate	1.47	% 1.78	% 1.51	% 1.61

5. During the nine-month period ended December 29, 2012, there were 33,760 shares, or \$8,000, of Class B Common Stock (at Par), converted to Class A Common Stock and there were 52,200 shares, or \$801,000 of Participating Preferred Stock, also converted to Class A Common Stock. During the nine month period ended December 29, 2012, the Company repurchased 89,046, shares or \$2,518,000 of its Class A Common Stock. As of December 29, 2012, 153,879 shares or \$3,953,000 of stock have been repurchased under the Company's share repurchase program. In addition, on August 30, 2012, the Company repurchased 864,334 shares of Class A Common Stock in a Board approved transaction outside of the Company's share repurchase program for \$25,930,000. All shares were repurchased as Treasury Stock and are not considered outstanding. During the three month period ended June 30, 2012, there were 1,330 shares, or \$29,000 of Class B Common Stock issued in lieu of cash compensation under the Company's Profit Sharing Bonus Plan.

6. The net periodic benefit cost for the Company's pension plan consisted of:

	Three Months Ended		Nine Months Ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
	(In thousands)			
Service Cost	\$2,925	\$761	\$7,369	\$3,763
Interest Cost	1,764	1,705	5,291	5,115
Expected Return on Plan Assets	(2,291)	(1,957)	(6,873)	(5,871)
Amortization of Actuarial Loss	338	374	1,013	1,123
Amortization of Transition Asset	(56)	(69)	(170)	(207)
Net Periodic Benefit Cost	\$2,680	\$814	\$6,630	\$3,923





A contribution of \$3,000,000 was made to the Pension Plan during the three month period ended December 29, 2012 and a contribution of \$15,400,000 was made during the three month period ended December 31, 2011.

7. The following table summarizes the restructuring charges recorded and the accruals established:

	Severance	Long-Lived Asset Charges	Other Costs	Total
	(In thousands)			
Balance March 31, 2012	\$37	\$-	\$-	\$37
Third Quarter Charge	-	1,107	1,403	2,510
Cash payments/write offs	(15 )	-	-	(15 )
Balance December 29, 2012	\$22	\$1,107	\$1,403	\$2,532

During the third quarter of fiscal 2013, the Company implemented a product rationalization program and recorded a restructuring charge of \$2,510,000 for related equipment costs, lease impairment costs (net of realizable value), and certain inventory costs.

8. During the nine months ended December 29, 2012 and December 31, 2011, the Company sold some unused fixed assets which resulted in a gain of \$330,000 and \$876,000, respectively. During the three months ended September 29, 2012, the Company sold unused land in Cambria, Wisconsin which resulted in a book gain of \$239,000. A portion of the tax gain on this sale is expected to be deferred via a Like Kind Exchange transaction within six months of the sale of this property. During the three months ended December 31, 2011, the Company sold an unused facility in LeSueur, Minnesota which resulted in a book gain of \$665,000. These gains are included in other operating income in the Unaudited Condensed Consolidated Statements of Net Earnings.

9. Recently Issued and Adopted Accounting Standards - There were no recently issued accounting pronouncements that impacted the Company's condensed consolidated financial statements. In addition, the Company did not adopt any new accounting pronouncements during the quarter ended December 29, 2012.

SENECA FOODS CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
December 29, 2012

10. Earnings per share for the Quarters Ended December 29, 2012 and December 31, 2011 are as follows:

	Q U A R T E R		Y E A R T O D A T E	
	Fiscal 2013	Fiscal 2012	Fiscal 2013	Fiscal 2012
	(In thousands, except per share amounts)			
<b>Basic</b>				
Net earnings	\$14,790	\$18,530	\$37,502	\$13,438
Deduct preferred stock dividends paid	6	6	17	17
Undistributed earnings	14,784	18,524	37,485	13,421
Earnings attributable to participating preferred	519	627	1,297	457
Earnings attributable to common shareholders	\$14,265	\$17,897	\$36,188	\$12,964
Weighted average common shares outstanding	10,767	11,728	11,276	11,734
Basic earnings per common share	\$1.32	\$1.53	\$3.21	\$1.10
<b>Diluted</b>				
Earnings attributable to common shareholders	\$14,265	\$17,897	\$36,188	\$12,964
Add dividends on convertible preferred stock	5	5	15	15
Earnings attributable to common stock on a diluted basis	\$14,270	\$17,902	\$36,203	\$12,979
Weighted average common shares outstanding-basic	10,767	11,728	11,276	11,734
Additional shares issuable related to the equity compensation plan	4	4	4	4
Additional shares to be issued under full conversion of preferred stock	67	67	67	67
Total shares for diluted	10,838	11,799	11,347	11,805
Diluted earnings per common share	\$1.32	\$1.52	\$3.19	\$1.10

SENECA FOODS CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
December 29, 2012

11. As required by Accounting Standards Codification ("ASC") 825, "Financial Instruments," the Company estimates the fair values of financial instruments on a quarterly basis. The estimated fair value for long-term debt (classified as Level 2 in the fair value hierarchy) 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. Long-term debt, including current portion had a carrying amount of \$269,916,000 and an estimated fair value of \$267,050,000 as of December 29, 2012. As of March 31, 2012, the carrying amount was \$234,209,000 and the estimated fair value was \$231,416,000. The fair values of all the other financial instruments approximate their carrying value due to their short-term nature.
12. 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.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
December 29, 2012

Seneca Foods Corporation (the "Company") is a leading low cost producer and distributor of high quality processed fruits and vegetables. The Company's product offerings include canned, frozen and bottled produce and snack chips. Its products are sold under private label as well as national and regional brands that the Company owns or licenses, including Seneca®, Libby's®, Aunt Nellie's Farm Kitchen®, Stokely's®, Read® Taste of the West®, Cimarron® and Tendersweet®. The Company's canned fruits and vegetables are sold nationwide by major grocery outlets, including supermarkets, mass merchandisers, limited assortment stores, club stores and dollar stores. The Company also sells its products to foodservice distributors, industrial markets, other food processors, export customers in over 80 countries and federal, state and local governments for school and other food programs. In addition, the Company packs Green Giant®, Le Sueur® and other brands of canned vegetables as well as select Green Giant® frozen vegetables for General Mills Operations, LLC ("GMOL") under a long-term Alliance Agreement.

The Company's raw product is harvested mainly between June through November. The Company experienced unfavorable growing conditions related to our pea harvest this summer reflecting a combination of high temperatures and uneven moisture. These difficult growing conditions unfavorably impacted pea crop yields and plant recovery rates which resulted in unfavorable manufacturing variances.

Acquisition--On January 15, 2013, the Company completed the acquisition of 100% of the membership interest of Independent Foods, LLC. The business, based in Sunnyside, Washington, is a processor of canned pears, apples and cherries in the United States. The rationale for the acquisition was twofold: (1) the business is a complementary fit with the Company's existing business and (2) it provides an extension of the Company's product offerings. The purchase price was approximately \$5.3 million plus the assumption of certain liabilities. In conjunction with the closing, the Company paid \$19.5 million of liabilities acquired. Since this acquisition was not completed until the fourth quarter of 2013, the Company will be reporting more details in future reports.

Results of Operations:

Sales:

Third fiscal quarter 2013 results include net sales of \$452.7 million, which represents a 1.3%, or \$5.8 million, increase from the third quarter of fiscal 2012. The increase in sales is attributable to a sales volume increase of \$28.1 million partially offset by decreased selling prices and less favorable sales mix of \$22.3 million. The increase in sales is primarily from a \$4.0 million increase in Canned Vegetable sales due to increased volume and a \$9.2 million increase in Fruit sales, partially offset by a \$7.0 million decrease in Green Giant Alliance sales and a \$1.1 million decrease in Frozen sales.

Nine months ended December 29, 2012 results include net sales of \$1,001.4 million, which represents a 1.4%, or \$14.0 million, increase from the nine months ended December 31, 2011. The increase in sales is attributable to increased selling prices and more favorable sales mix of \$32.0 million partially offset by a sales volume reduction of \$18.0 million. The increase in sales is primarily from an \$8.6 million increase in Canned Vegetable sales due to increased net unit selling prices, a \$14.1 million increase in Fruit sales and a \$2.5 million increase in Green Giant

Alliance sales, partially offset by a \$12.7 million decrease in Frozen sales.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
December 29, 2012

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

	Three Months Ended		Nine Months Ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Canned Vegetables	\$243.4	\$239.4	\$582.6	\$574.0
Green Giant Alliance	113.1	120.1	164.6	162.1
Frozen	21.5	22.6	61.2	73.9
Fruit Products	66.5	57.3	170.0	155.9
Snack	2.8	2.8	8.7	9.3
Other	5.4	4.7	14.3	12.2
	\$452.7	\$446.9	\$1,001.4	\$987.4

Operating Income:

The following table presents components of operating income as a percentage of net sales:

	Three Months Ended				Nine Months Ended			
	December 29, 2012	%	December 31, 2011	%	December 29, 2012	%	December 31, 2011	%
Gross Margin	9.9	%	11.2	%	11.5	%	7.8	%
Selling	2.4	%	2.5	%	2.7	%	2.9	%
Administrative	1.7	%	1.8	%	2.2	%	2.2	%
Restructuring	0.6	%	-	%	0.3	%	-	%
Other Operating Income	-	%	-0.2	%	-	%	-0.1	%
Operating Income	5.2	%	7.1	%	6.3	%	2.8	%
Interest Expense, Net	0.4	%	0.5	%	0.5	%	0.6	%

For the three month period ended December 29, 2012, the gross margin decreased from the prior year quarter from 11.2% to 9.9% due primarily to lower net selling prices (after considering promotions) compared to the prior year which was partially offset by a lower LIFO charge in the current year as compared to the prior year. The LIFO charge for the third quarter ended December 29, 2012 was \$1,268,000 as compared to \$10,774,000 for the third quarter ended December 31, 2011 and reflects the impact on the current quarter of the current inflationary cost decreases expected in fiscal 2013, compared to fiscal 2012. On an after-tax basis, LIFO reduced net earnings by \$824,000 for the quarter ended December 29, 2012 and \$7,003,000 for the quarter ended December 31, 2011, based on the statutory federal

income tax rate.

For the nine month period ended December 29, 2012, the gross margin increased from the prior year period from 7.8% to 11.5% due primarily to a LIFO credit in the current year as compared to a charge in prior year and higher net selling prices (after considering promotions) compared to the prior year end. The LIFO credit for the nine months ended December 29, 2012 was \$1,176,000 as compared to a charge of \$30,055,000 for the nine months ended December 31, 2011 and reflects the impact on the nine months of reduced inflationary cost increases expected in fiscal 2013, compared to fiscal 2012. On an after-tax basis, LIFO increased net earnings by \$764,000 for the nine months ended December 29, 2012 and reduced net earnings by \$19,536,000 for the nine months ended December 31, 2011, based on the statutory federal income tax rate.

12

---

For the three month period ended December 29, 2012, selling costs as a percentage of sales decreased from 2.5% to 2.4% from the same period in the prior year. For the nine month period ended December 29, 2012, selling costs as a percentage of sales decreased from 2.9% to 2.7% as a result of slightly higher Green Giant Alliance sales which do not incur brokerage commissions.

For the three month period ended December 29, 2012, administrative expense as a percentage of sales decreased from 1.8% to 1.7% from the same period in the prior year. For the nine month period ended December 29, 2012, administrative expense as a percentage of sales were unchanged at 2.2% from the third quarter ended December 31, 2011. Administrative expense decreased for the three month period ended December 29, 2012 due primarily to lower employment costs in the current period.

During the third quarter of fiscal 2013, the Company implemented a product rationalization program and recorded a restructuring charge of \$2,510,000 for related equipment costs, lease impairment costs (net of realizable value), and certain inventory costs. This charge is included in restructuring in the Unaudited Condensed Consolidated Statements of Net Earnings.

During the nine months ended December 29, 2012, the Company sold some unused fixed assets which resulted in a gain of \$330,000. During the nine months ended December 31, 2011, the Company sold some unused fixed assets which resulted in a gain of \$876,000. During the three months ended December 31, 2011, the Company sold an unused facility in LeSueur, Minnesota which resulted in a book gain of \$665,000. These gains are included in other operating income in the Unaudited Condensed Consolidated Statements of Net Earnings.

Interest expense for the third quarter ended December 29, 2012, as a percentage of sales, decreased from 0.5% to 0.4% from the third quarter ended December 31, 2011. Interest expense for the nine months ended December 29, 2012, as a percentage of sales, decreased from 0.6% to 0.5% from the nine months ended December 31, 2011. This decrease was due to lower interest expense related to the Company's Revolver and decreased long-term debt interest attributable to scheduled debt payments, partially offset, in part, by lower income and fees earned on the Loan Receivable.

#### Income Taxes:

The effective tax rate was 35.2% and 37.6% for the nine month periods ended December 29, 2012 and December 31, 2011, respectively. Of the 2.4 percentage point decrease in the effective tax rate for this period, the major contributor was a lower pension contribution in the current year (\$3.0 million this year versus \$15.4 million last year) as compared to the prior year, this increased the manufacturers deduction in the current year which resulted in a lower effective tax rate percentage in the current year than the prior year. This item were partially offset by higher state income tax rates.



Earnings per Share:

Basic earnings per share was \$1.32 and \$1.53 for the three months ended December 29, 2012 and December 31, 2011, respectively. Diluted earnings per share was \$1.32 and \$1.52 for the three months ended December 29, 2012 and December 31, 2011, respectively. Basic earnings per share was \$3.21 and \$1.10 for the nine months ended December 29, 2012 and December 31, 2011, respectively. Diluted earnings per share was \$3.19 and \$1.10 for the nine months ended December 29, 2012 and December 31, 2011, respectively. For details of the calculation of these amounts, refer to footnote 10 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:

	December 29, 2012	December 31, 2011	March 31, 2012	March 31, 2011
Working capital:				
Balance	\$443,332	\$496,014	\$425,082	\$294,712
Change during quarter	(32,507 )	(26,560 )		
Long-term debt, less current portion	228,412	285,910	226,873	90,060
Total stockholders' equity per equivalent common share (see Note)	32.41	30.09	29.14	28.96
Stockholders' equity per common share	33.18	30.78	29.81	29.61
Current ratio	3.33	4.22	4.60	2.13

Note: 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 of the Company's 2012 Annual Report on Form 10-K for conversion details.

As shown in the Condensed Consolidated Statements of Cash Flows, net cash used in operating activities was \$0.6 million in the first nine months of fiscal 2013, compared to net cash used in operating activities of \$48.0 million in the first nine months of fiscal 2012. The \$47.4 million decrease in cash used is primarily attributable to increased net earnings of \$24.1 million as previously discussed, a \$3.2 million increase in cash provided by accounts receivable as compared to the first nine months ended December 31, 2011, a \$34.4 million increase in cash provided by accounts payable, accrued expenses and other liabilities as compared to the first nine months ended December 31, 2011, partially offset by a \$12.5 million increase in cash used for inventory.

As compared to December 31, 2011, inventory decreased \$10.3 million. The components of the inventory decrease reflect a \$7.6 million increase in finished goods, a \$5.6 million decrease in work in process and a \$12.3 million decrease in raw materials and supplies. The finished goods increase reflects higher inventory quantities attributable to decreased sales volume as compared to the prior year partially offset by decreased production during the last harvest season. The work in process decrease is primarily due to a decrease in the quantity of steel sheets used in can manufacturing compared to the prior year. The raw materials and supplies decrease is primarily due to a decrease in cans and raw steel quantities compared to the prior year. FIFO based inventory costs exceeded LIFO based inventory costs by \$136.1 million as of the end of the third quarter of 2013 as compared to \$119.9 million as of the end of the third quarter of 2012.



Cash used in investing activities was \$3.8 million in the first nine months of fiscal 2013 compared to \$12.8 million in the first nine months of fiscal 2012. The repayment of the Loan Receivable of \$10.0 million in the first nine months of fiscal 2013 was more than offset by the additions to property, plant and equipment of \$14.1 million in the first nine months of fiscal 2013. There were \$13.7 million of additions to property, plant and equipment in first nine months of fiscal 2012.

Cash provided by financing activities was \$7.5 million in the first nine months of fiscal 2013, which included borrowings of \$489.1 million and the repayment of \$453.4 million of long-term debt principally consisting of borrowings and repayments on the Revolver. The Company repurchased \$28.4 million of its stock during the first nine months of fiscal 2013. Excluding the Revolver and scheduled principal payments, borrowings and repayments during the first nine months of fiscal 2013 and fiscal 2012 were zero and \$3.6 million, respectively.

The Company completed the closing of a new five year revolving credit facility on July 20, 2011. Available borrowings on the Revolver total \$250,000,000 from April through July and \$350,000,000 from August through March with a maturity date of July 20, 2016. The interest rate on the Revolver is based on LIBOR plus an applicable margin based on excess availability and the Company's fixed charge coverage ratio. As of December 29, 2012, the interest rate was approximately 1.48% on a balance of \$185.9 million. We believe that cash flows from operations, availability under our Revolver and other financing sources will provide adequate funds for our working capital needs, planned capital expenditures, and debt obligations for at least the next 12 months.

The Company's credit facilities contain standard representations and warranties, events of default, and certain affirmative and negative covenants, including various financial covenants. At December 29, 2012, the Company was in compliance with all such financial covenants.

#### New Accounting Standards

Refer to footnote 9 of the Notes to Condensed Consolidated Financial Statements.

#### Seasonality

The Company's revenues are typically 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 a specified fee for each equivalent case. 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 retail sales due to holidays that occur during that quarter.

#### Forward-Looking Information

The information contained in this report contains, or may contain, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of the Company or its officers (including statements preceded by, followed by or that include the words "believes," "expects," "anticipates" or similar expressions) with respect to various matters, including (i) the Company's anticipated needs for, and the availability of, cash, (ii) the Company's liquidity and financing plans, (iii) the Company's ability to successfully integrate acquisitions into its operations, (iv) trends affecting the Company's financial condition or results of operations, including anticipated sales price levels and anticipated expense levels, in particular higher production, fuel and transportation costs, (v) the Company's plans for expansion of its business (including through acquisitions) and cost savings, and (vi) the impact of competition.



Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Investors are cautioned not to place undue reliance on such statements, which speak only as of the date the statements were made. Among the factors that could cause actual results to differ materially are:

- 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;
  - the availability of financing;
- leverage and the Company's ability to service and reduce its debt;
  - foreign currency exchange and interest rate fluctuations;
- effectiveness of the Company's 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 and health and safety regulations; and
  - other risks detailed from time to time in the reports filed by the Company with the SEC.

Except for ongoing obligations to disclose material information as required by the federal securities laws, the Company does not undertake any obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of the filing of this report or to reflect the occurrence of unanticipated events.

#### Critical Accounting Policies

During the nine months ended December 29, 2012, the Company sold \$151,240,000 of Green Giant finished goods inventory to General Mills Operations, LLC ("GMOL") for cash, on a bill and hold basis, as compared to \$150,981,000 for the nine months ended December 31, 2011. Under the terms of the bill and hold agreement, title to the specified inventory transferred to GMOL. The Company believes it has met the revenue recognition criteria required 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 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.

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.

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, 2012.

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. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of December 29, 2012, our disclosure controls and procedures were effective. The Company continues to examine, refine and formalize its disclosure controls and procedures and to monitor ongoing developments in this area.

There have been no 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, 2012.

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		
10/01/12 – 10/31/12	29,592	-	\$29.92	-	19,492	
11/01/12 – 11/30/12	6,300	-	\$30.13	\$-	-	
12/01/12 – 12/31/12	10,063	-	\$30.87	-	-	
<b>Total</b>	<b>45,955</b>	<b>-</b>	<b>\$30.16</b>	<b>\$-</b>	<b>19,492</b>	<b>346,121</b>

(1) 26,463 shares were purchased 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 Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

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)

Edgar Filing: Seneca Foods Corp - Form 10-Q

31.2 Certification of Timothy J. Benjamin 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)  
101 The following materials from Seneca Foods Corporation's Quarterly Report on Form 10-Q for the quarter ended December 29, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) consolidated balance sheets, (ii) consolidated statements of net earnings, (iii) condensed consolidated statements of comprehensive income, (iv) consolidated statements of cash flows, (v) consolidated statement of stockholders' equity and (vi) the notes to the consolidated financial statements.\*\*

20

---

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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  
January 31, 2013  
Kraig H. Kayser  
President and  
Chief Executive Officer

/s/Timothy J. Benjamin  
January 31, 2013  
Timothy J. Benjamin  
Chief Financial Officer

