

Seneca Foods Corp
Form 10-Q/A
September 07, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-Q/A

(Amendment No. 1)

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

For the Quarter Ended September 30, 2017 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 (I. R. S. Employer
incorporation or organization) Identification No.)

3736 South Main Street, Marion, New York 14505
(Address of principal executive offices) (Zip Code)

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

Not Applicable

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

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

Emerging growth company

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

Yes No

If an emerging growth company, indicate by checkmark if the Company has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act

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

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| <u>Class</u> | <u>Shares Outstanding at October 20, 2017</u> |
|---------------------------------|---|
| Common Stock Class A, \$.25 Par | 7,875,188 |
| Common Stock Class B, \$.25 Par | 1,884,439 |

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Explanatory Note

Restatement of Consolidated Condensed Financial Statements

Seneca Foods Corporation ("the "Company") is filing this Amendment No. 1 ("Form 10-Q/A") to our Form 10-Q for the quarterly period ended September 30, 2017, which was originally filed on October 26, 2017 ("Original Filing"), to restate our Consolidated Condensed Financial Statements and the related notes for the three and six months ended September 30, 2017 and October 1, 2016, including the financial information included in Management's Discussion and Analysis of Financial Condition and Results of Operations. We are also providing an update in our disclosures regarding the material weakness in Item 4 of this amended Form 10-Q/A.

As previously disclosed in the Form 10-K for March 31, 2018, on June 28, 2018, the Company's Audit Committee, in consultation with the Board of Directors, concluded that the Company's previously issued financial statements for the three and six months ended September 30, 2017 and October 1, 2016 (among other periods, see below) could no longer be relied upon. This decision was reached after discussions with the Company's senior management and outside advisers.

In reviewing the accounting for certain transactions related to the Company's contract packing agreement with Green Giant, our management identified a deficiency in the effectiveness of a control intended to properly document and review relevant facts in connection with our revenue recognition policy with respect to bill and hold transactions. The Company has determined that (1) the audited consolidated financial statements as of and for the years ended March 31, 2016 and 2017 and the independent registered public accounting firm's reports thereon and (2) the unaudited condensed consolidated financial statements as of and for each of the interim periods within the years ended March 31, 2017 and 2018 should be restated to correct inadvertent errors in the application of generally accepted accounting principles dealing with complex and technical accounting issues relating to "bill and hold" revenue recognition. For more information, see footnote 2 of the Company's March 31, 2018 10-K filed on June 29, 2018.

To correct this misstatement and to address matters related to the foregoing with respect to our disclosure controls and procedures and our internal control over financial reporting, we have restated our Consolidated Condensed Financial Statements and the related notes as of and for the three and six months ended September 30, 2017 and October 1, 2016, including the financial information included in Management's Discussion and Analysis of Financial Condition and Results of Operations.

See Note 2 - Restatement of Consolidated Condensed Financial Statements, which is included in the "Financial Statements" in Item 1 of this amended Form 10-Q/A for more detail.

Amended Items in this Form 10Q/A

The following items in the Original Filing have been amended:

Part I, Item 1. Financial Statements

Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I, Item 4. Controls and Procedures

Part II, Item 6. Exhibits

We are also filing currently dated certifications from our Chief Executive Officer and Chief Financial Officer as Exhibits 31.1, 31.2, 32, as well as various exhibits related to XBRL.

This amended Form 10-Q/A does not reflect events occurring after the Original Filing on October 26, 2017, or modify or update those disclosures affected by subsequent events, except for the effects of the restatement. Disclosures not affected by the restatement are unchanged and reflect the disclosures made at the time of the Original Filing.

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**SENECA FOODS
CORPORATION
AND
SUBSIDIARIES
CONDENSED
CONSOLIDATED
BALANCE
SHEETS**

(In Thousands,
Except Per Share
Data)

| | Unaudited September 30, 2017 (Restated) | Unaudited October 1, 2016 (Restated) | March 31, 2017 (Restated) |
|---|---|---|-------------------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | \$ 14,940 | \$ 10,124 | \$ 11,992 |
| Accounts Receivable, Net | 112,297 | 102,727 | 72,080 |
| Assets Held For Sale | - | 5,025 | - |
| Inventories: | | | |
| Finished Goods | 721,575 | 669,291 | 466,126 |
| Work in Process | 32,287 | 18,098 | 32,528 |
| Raw Materials and Supplies | 105,284 | 114,295 | 130,281 |
| Total Inventories | 859,146 | 801,684 | 628,935 |
| Refundable Income Taxes | 336 | - | 2,471 |
| Other Current Assets | 2,649 | 15,157 | 3,671 |
| Total Current Assets | 989,368 | 934,717 | 719,149 |
| Property, Plant and Equipment, Net | 272,176 | 207,474 | 237,476 |
| Deferred Income Taxes, Net | 5,217 | 22,165 | 1,370 |
| Other Assets | 5,183 | 20,847 | 20,273 |
| Total Assets | \$ 1,271,944 | \$ 1,185,203 | \$ 978,268 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Notes Payable | \$- | \$- | \$ 166 |
| Accounts Payable | 249,803 | 237,008 | 72,824 |
| Deferred Revenue | 75,150 | 47,716 | 46,100 |
| Accrued Vacation | 12,656 | 11,936 | 11,867 |
| Accrued Payroll | 12,178 | 10,120 | 6,593 |
| Other Accrued Expenses | 38,340 | 38,639 | 31,880 |

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| | | | |
|---|--------------|--------------|------------|
| Income Taxes Payable | - | 4,172 | - |
| Current Portion of Long-Term Debt and Capital Lease Obligations | 9,440 | 9,987 | 8,334 |
| Total Current Liabilities | 397,567 | 359,578 | 177,764 |
| Long-Term Debt, Less Current Portion | 395,128 | 354,905 | 329,138 |
| Capital Lease Obligations, Less Current Portion | 37,879 | 18,425 | 34,194 |
| Pension Liabilities | 9,220 | 41,119 | 8,193 |
| Other Long-Term Liabilities | 13,440 | 11,559 | 3,775 |
| Total Liabilities | 853,234 | 785,586 | 553,064 |
| Commitments and Contingencies | | | |
| Stockholders' Equity: | | | |
| Preferred Stock | 719 | 1,338 | 1,324 |
| Common Stock, \$.25 Par Value Per Share | 3,038 | 3,024 | 3,024 |
| Additional Paid-in Capital | 98,099 | 97,395 | 97,458 |
| Treasury Stock, at Cost | (69,195) | (66,730) | (66,499) |
| Accumulated Other Comprehensive Loss | (11,073) | (28,396) | (11,175) |
| Retained Earnings | 397,122 | 392,986 | 401,072 |
| Total Stockholders' Equity | 418,710 | 399,617 | 425,204 |
| Total Liabilities and Stockholders' Equity | \$ 1,271,944 | \$ 1,185,203 | \$ 978,268 |

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

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**SENECA FOODS
CORPORATION
AND
SUBSIDIARIES
CONDENSED
CONSOLIDATED
STATEMENTS
OF NET (LOSS)
EARNINGS**

(Unaudited)
(In Thousands,
Except Per Share
Data)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|------------|
| | September | October | September | October |
| | 30, | 1, | 30, | 1, |
| | 2017 | 2016 | 2017 | 2016 |
| | (Restated) | (Restated) | (Restated) | (Restated) |
| Net Sales | \$338,470 | \$352,606 | \$627,397 | \$624,741 |
| Costs and Expenses: | | | | |
| Cost of Product Sold | 321,059 | 321,581 | 594,451 | 571,761 |
| Selling, General and Administrative | 18,865 | 18,702 | 36,318 | 35,907 |
| Plant Restructuring (Credit) Charge | (25) | 277 | 56 | 1,462 |
| Other Operating (Income) Loss | (20) | 31 | (2,632) | 19 |
| Total Costs and Expenses | 339,879 | 340,591 | 628,193 | 609,149 |
| Operating Income | (1,409) | 12,015 | (796) | 15,592 |
| Loss (Earnings) From Equity Investment | - | 270 | (21) | (167) |
| Interest Expense, Net | 3,433 | 2,151 | 6,650 | 4,295 |
| (Loss) Earnings Before Income Taxes | (4,842) | 9,594 | (7,425) | 11,464 |
| Income Taxes (Benefit) Expense | (1,884) | 2,773 | (3,487) | 3,678 |
| Net (Loss) Earnings | \$(2,958) | \$6,821 | \$(3,938) | \$7,786 |
| (Loss) Earnings Applicable to Common Stock | \$(2,952) | \$6,753 | \$(3,928) | \$7,703 |
| Basic (Loss) Earnings per Common Share | \$(0.30) | \$0.69 | \$(0.40) | \$0.79 |
| Diluted (Loss) Earnings per Common Share | \$(0.30) | \$0.69 | \$(0.40) | \$0.78 |

*The
accompanying*

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

**SENECA FOODS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

(Unaudited)
(In Thousands)

| | Three Months Ended | | Six Months Ended | |
|---|-----------------------|---------------|------------------|---------------|
| | September 30, | October 1, | September 30, | October 1, |
| | 2017 | 2016 | 2017 | 2016 |
| | (Restated) | (Restated) | (Restated) | (Restated) |
| Comprehensive (loss) income: | | | | |
| Net (loss) earnings | \$(2,958) | \$ 6,821 | \$(3,938) | \$ 7,786 |
| Change in pension, post retirement benefits and other (net of tax of \$26 and \$63) | 43 | - | 102 | - |
| Total | \$(2,915) | \$ 6,821 | \$(3,836) | \$ 7,786 |

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

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**SENECA FOODS
CORPORATION
AND
SUBSIDIARIES
CONDENSED
CONSOLIDATED
STATEMENTS
OF CASH FLOWS**

(Unaudited)

(In Thousands)

| | Six Months Ended | |
|---|------------------|------------|
| | September 30, | October 1, |
| | 2017 | 2016 |
| | (Restated) | (Restated) |
| Cash Flows from Operating Activities: | | |
| Net (Loss) Earnings | \$(3,938) | \$7,786 |
| Adjustments to Reconcile Net Loss (Earnings) to Net Cash Used In Operations (Net of Acquisition): | | |
| Depreciation & Amortization | 15,349 | 12,018 |
| (Gain) Loss on the Sale of Assets | (1,591) | 48 |
| Bargain Purchase Gain | (1,096) | - |
| Provision for Restructuring and Impairment | 56 | 1,462 |
| Earnings From Equity Investment | (21) | (167) |
| Deferred Income Tax Benefit | (3,503) | (1,378) |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (34,173) | (25,939) |
| Inventories | (214,135) | (192,203) |
| Other Current Assets | 1,106 | 608 |
| Income Taxes | 2,126 | 1,198 |
| Accounts Payable, Deferred Revenue, Accrued Expenses and Other Liabilities | 222,030 | 168,146 |
| Net Cash Used in Operations | (17,790) | (28,421) |
| Cash Flows from Investing Activities: | | |
| Additions to Property, Plant and Equipment | (13,743) | (14,518) |
| Cash Paid for Acquisition (Net of Cash Acquired) | (14,420) | - |
| Proceeds from the Sale of Assets | 1,790 | 13 |
| Net Cash Used In Investing Activities | (26,373) | (14,505) |
| Cash Flow from Financing Activities: | | |
| Long-Term Borrowing | 282,862 | 183,744 |
| Payments on Long-Term Debt and Capital Lease Obligations | (232,706) | (136,613) |
| Payments on Notes Payable | (166) | (402) |
| Other Assets | (171) | (1,248) |
| Purchase of Treasury Stock | (2,696) | (1,021) |
| Dividends | (12) | (12) |

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| | | |
|---|-----------|-----------|
| Net Cash Provided by Financing Activities | 47,111 | 44,448 |
| Net Increase in Cash and Cash Equivalents | 2,948 | 1,522 |
| Cash and Cash Equivalents, Beginning of the Period | 11,992 | 8,602 |
| Cash and Cash Equivalents, End of the Period | \$ 14,940 | \$ 10,124 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Noncash Transactions: | | |
| Property, Plant and Equipment Purchased Under Capital Lease Obligations | \$7,155 | \$15,416 |

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

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**SENECA FOODS
CORPORATION
AND
SUBSIDIARIES
CONDENSED
CONSOLIDATED
STATEMENT OF
STOCKHOLDERS'
EQUITY**

(Unaudited)

(In Thousands)

| | Preferred Stock | Common Stock | Additional Paid-In Capital | Treasury Stock | Accumulated Other Comprehensive Loss | Retained Earnings |
|---|--------------------|-----------------|----------------------------------|-------------------|---|----------------------|
| Balance March 31, 2017 (Restated) | \$ 1,324 | \$ 3,024 | \$ 97,458 | \$(66,499) | \$(11,175) | \$ 401,072 |
| Net loss | - | - | - | - | - | (3,938) |
| Cash dividends paid on preferred stock | - | - | - | - | - | (12) |
| Equity incentive program | - | - | 50 | - | - | - |
| Preferred stock conversion | (605) | 14 | 591 | - | - | - |
| Purchase treasury stock | - | - | - | (2,696) | - | - |
| Change in pension, post retirement benefits, other adjustment (net of tax of \$63) | - | - | - | - | 102 | - |
| Balance September 30, 2017 (Restated) | \$ 719 | \$ 3,038 | \$ 98,099 | \$(69,195) | \$(11,073) | \$ 397,122 |

| | Preferred Stock | | Common Stock | | | |
|---|---|--|---|--|--|--|
| | 6% Cumulative Par Value \$.25 Callable at Par Voting | 10% Cumulative Par Value \$.025 Convertible Voting | Participating Convertible Par Value \$.025 | 2003 Series Participating Convertible Par Value \$.025 | Class A Common Stock Par Value \$.25 | Class B Common Stock Par Value \$.25 |
| Shares authorized and designated: September 30, 2017 | 200,000 | 1,400,000 | 38,542 | 500 | 20,000,000 | 10,000,000 |
| Shares outstanding: September 30, 2017 | 200,000 | 807,240 | 38,542 | 500 | 7,875,188 | 1,884,439 |

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

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

September 30, 2017

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 30, 2017 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, 2017 balance sheet was derived from the audited consolidated financial statements.

The results of operations for the three and six month periods ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year.

The accounting policies followed by the Company are set forth in Note 1 to the Company's Consolidated Financial Statements in the Company's 2017 Annual Report on Form 10-K.

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 2017 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.

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

Restatement of Previously Issued Financial Statements—On June 28, 2018, the Company concluded that it did not meet all of the criteria for bill and hold treatment under Staff Accounting Bulletin Topic 13 for the Green Giant contract. In particular, the Company determined that performance obligations were not complete at the time title transferred to the customer as the unlabeled products under this contract were not ready for shipment. The Company has determined that the audited consolidated financial statements as of and for the years ended March 31, 2016 and 2017 and the unaudited condensed consolidated financial statements as of and for each of the interim periods within the years ended March 31, 2017 and 2018 should be restated to correct these inadvertent errors in the application of generally accepted accounting principles dealing with complex and technical accounting issues relating to “bill and hold” revenue recognition. For more information, see footnote 2 of the Company’s March 31, 2018 10-K filed on June 29, 2018.

The Consolidated Statements of Cash Flows are not presented in the following tables because there is no impact on total cash flows from operating activities, investing activities and financing activities. The impact from the restatements for the three and six month periods ended September 30, 2017 and October 1, 2016 within the operating activities section of the cash flow statement is illustrated in the balance sheet adjustments and income statement corrections presented below.

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

September 30, 2017

The following tables present a summary of the effects of these restatements:

Consolidated Statements of Earnings (Loss)

| | Three Months Ended | | | | | |
|-------------------------------------|--------------------------------|--------------|----------------|-----------------------------|-------------|----------------|
| | September 30, 2017 (Unaudited) | | | October 1, 2016 (Unaudited) | | |
| | As Reported | Correction | As Restated | As Reported | Correction | As Restated |
| Net Sales | \$376,308 | \$ (37,838) | \$338,470 | \$357,247 | \$ (4,641) | \$352,606 |
| Cost of Products Sold | 355,904 | (34,845) | 321,059 | 327,035 | (5,454) | 321,581 |
| Gross Profit | 20,404 | (2,993) | 17,411 | 30,212 | 813 | 31,025 |
| Operating Income/(Loss) | 1,584 | (2,993) | (1,409) | 11,202 | 813 | 12,015 |
| Earnings/(Loss) Before Income Taxes | (1,849) | (2,993) | (4,842) | 8,781 | 813 | 9,594 |
| Income Tax (Benefit) Expense | (737) | (1,147) | (1,884) | 2,637 | 136 | 2,773 |
| Net Earnings (Loss) | (1,112) | (1,846) | (2,958) | 6,144 | 677 | 6,821 |
| Earnings Per Common Share-Basic | \$(0.11) | \$(0.19) | \$(0.30) | \$0.62 | \$ 0.07 | \$0.69 |
| Earnings Per Common Share-Diluted | \$(0.11) | \$(0.19) | \$(0.30) | \$0.62 | \$ 0.07 | \$0.69 |

| | Six Months Ended | | | | | |
|-------------------------------------|--------------------------------|--------------|----------------|-----------------------------|------------|----------------|
| | September 30, 2017 (Unaudited) | | | October 1, 2016 (Unaudited) | | |
| | As Reported | Correction | As Restated | As Reported | Correction | As Restated |
| Net Sales | \$656,495 | \$ (29,098) | \$627,397 | \$609,861 | \$ 14,880 | \$624,741 |
| Cost of Products Sold | 620,331 | (25,880) | 594,451 | 559,674 | 12,087 | 571,761 |
| Gross Profit | 36,164 | (3,218) | 32,946 | 50,187 | 2,793 | 52,980 |
| Operating Income/(Loss) | 2,422 | (3,218) | (796) | 12,799 | 2,793 | 15,592 |
| Earnings/(Loss) Before Income Taxes | (4,207) | (3,218) | (7,425) | 8,671 | 2,793 | 11,464 |
| Income Tax (Benefit) Expense | (2,256) | (1,231) | (3,487) | 2,589 | 1,089 | 3,678 |
| Net Earnings (Loss) | (1,951) | (1,987) | (3,938) | 6,082 | 1,704 | 7,786 |
| Earnings Per Common Share-Basic | \$(0.20) | \$(0.20) | \$(0.40) | \$0.61 | \$ 0.18 | \$0.79 |
| Earnings Per Common Share-Diluted | \$(0.20) | \$(0.20) | \$(0.40) | \$0.61 | \$ 0.17 | \$0.78 |

Consolidated Balance Sheets

As of March 31, 2017 (Audited)

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As of September 30, 2017
(Unaudited)

| | As Reported | Correction | As Restated | As Reported | Correction | As Restated |
|----------------------|----------------|------------|----------------|----------------|------------|----------------|
| <u>Assets</u> | | | | | | |
| Inventory | \$802,387 | \$56,759 | \$859,146 | \$598,056 | \$30,879 | \$628,935 |
| Total Current Assets | 932,609 | 56,759 | 989,368 | 688,270 | 30,879 | 719,149 |
| Total Assets | 1,209,968 | 61,976 | 1,271,944 | 946,019 | 32,249 | 978,268 |

Liabilities and Stockholders' Equity

| | | | | | | |
|--|-----------|-----------|-----------|---------|----------|----------|
| Deferred Revenue | \$542 | \$74,608 | \$75,150 | \$545 | \$45,555 | \$46,100 |
| Total Current Liabilities | 322,982 | 74,585 | 397,567 | 132,277 | 45,487 | 177,764 |
| Total Liabilities | 780,214 | 73,020 | 853,234 | 511,758 | 41,306 | 553,064 |
| Stockholders' Equity | 429,754 | (11,044) | 418,710 | 434,261 | (9,057) | 425,204 |
| Total Liabilities and Stockholders' Equity | 1,209,968 | 61,976 | 1,271,944 | 946,019 | 32,249 | 978,268 |

As of October 1, 2016 (Unaudited)

| | As Reported | Correction | As Restated |
|----------------------|----------------|------------|----------------|
| <u>Assets</u> | | | |
| Inventory | \$771,996 | \$29,688 | \$801,684 |
| Total Current Assets | 905,029 | 29,688 | 934,717 |
| Total Assets | 1,148,714 | 36,489 | 1,185,203 |

Liabilities and Stockholders' Equity

| | | | |
|--|-----------|-----------|-----------|
| Deferred Revenue | \$550 | \$47,166 | \$47,716 |
| Total Current Liabilities | 312,466 | 47,112 | 359,578 |
| Total Liabilities | 738,474 | 47,112 | 785,586 |
| Stockholders' Equity | 410,240 | (10,623) | 399,617 |
| Total Liabilities and Stockholders' Equity | 1,148,714 | 36,489 | 1,185,203 |

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

September 30, 2017

3. Acquisition

In April 2014, the Company purchased a 50% equity interest in Truitt Bros. Inc. ("Truitt") for \$16,242,000 which was accounted for as an equity investment. The purchase agreement granted the Company the right to acquire the remaining 50% ownership of Truitt in the future under certain conditions. On April 3, 2017, the Company purchased the remaining 50% equity interest in Truitt. This was considered a step acquisition, whereby the Company remeasured the previously held investment to fair value during the first quarter of 2018. As a result, the Company's first quarter 2018 net loss includes a non-taxable bargain purchase gain of \$1,096,000 of which \$562,000 was related to the remeasurement of the previously held investment. Gross profit in the first quarter of fiscal 2018 included a charge of \$542,000 related to the recognition of the Truitt inventory step-up through cost of sales for the portion of acquired inventory that was sold during the period. The business, based in Salem, Oregon, has two state-of-the-art plants located in Oregon and Kentucky. The purchase price for the more recent 50% was \$14,420,000 (net of cash acquired of \$3,030,000) plus the assumption of certain liabilities. The Company had an equity method investment of \$17,422,000, so the total investment was \$34,872,000. In conjunction with the closing, the Company paid off \$3,608,000 of liabilities acquired. The rationale for the acquisition was twofold: (1) the business is a complementary fit with our existing business and (2) Truitt is known for its industry innovation related to packing shelf stable foods in trays, pouches and bowls. This acquisition was financed with proceeds from the Company's revolving credit facility. The purchase price to acquire Truitt Bros., Inc. was allocated based on the internally developed fair value of the assets acquired and liabilities assumed and the independent valuation of inventory, intangibles, and property, plant, and equipment. The total purchase price of \$31,842,000 has been allocated as follows (in thousands):

| | |
|---|----------|
| Purchase Price (net of cash received) | \$31,842 |
| Approximate fair values of assets acquired and liabilities assumed: | |
| Current assets | \$22,823 |
| Other long-term assets | 1,744 |
| Property, plant and equipment | 28,696 |
| Current liabilities | (5,068) |
| Deferred taxes | 407 |
| Other long-term liabilities | (15,664) |
| Bargain purchase gain | (1,096) |
| Total | \$31,842 |

The Company is continuing to evaluate the purchase price allocation and these preliminary estimates could change. Proforma results of operations for the Truitt acquisition are not presented because the effects are not material to the consolidated financial statements.

Inventories

First-In, First-Out (“FIFO”) based inventory costs exceeded LIFO based inventory costs by \$163,193,000 as of the end of the second quarter of fiscal 2018 as compared to \$156,351,000 as of the end of the second quarter of fiscal 4. 2017. The change in the LIFO Reserve for the three months ended September 30, 2017 was an increase of \$12,053,000 as compared to an increase of \$1,361,000 for the three months ended October 1, 2016. The LIFO Reserve increased by \$19,354,000 in the first six months of fiscal 2018 compared to an increase of \$2,413,000 in the first six months of fiscal 2017. This reflects the projected impact of an overall cost increase expected in fiscal 2018 versus fiscal 2017.

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

September 30, 2017

Revolving Credit Facility

The Company completed the closing of a new five-year revolving credit facility (“Revolver”) on July 5, 2016. Maximum borrowings under the Revolver total \$400,000,000 from April through July and \$500,000,000 from August through March. The Revolver balance as of September 30, 2017 was \$272,609,000 and is included in Long-Term Debt in the accompanying Condensed Consolidated Balance Sheet since the Revolver matures on July 5, 2021. 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 six months of fiscal 2018 compared to the first six months of fiscal 2017 was attributable to the \$100,000,000 term loan from Farm Credit less the acquisition of \$14,420,000 made during the first six months of fiscal 2018, Accounts Receivables which are \$3,526,000 higher than the same period last year (excluding the amount from the acquisition), and total Inventories, excluding the inventories of the acquisition, which are \$41,386,000 higher than the same period last year, partially offset by net earnings in the last twelve months ended September 30, 2017 of \$4,171,000.

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 second quarter and year-to-date periods of fiscal 2018 and fiscal 2017:

| Second Quarter | | Year-to-Date | |
|----------------|------|----------------|------|
| 2018 | 2017 | 2018 | 2017 |
| (In thousands) | | (In thousands) | |

Reported end of period:

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| | | | | |
|--------------------------------|-----------|-----------|-----------|-----------|
| Outstanding borrowings | \$272,609 | \$342,935 | \$272,609 | \$342,935 |
| Weighted average interest rate | 2.75 % | 1.88 % | 2.75 % | 1.88 % |
| Reported during the period: | | | | |
| Maximum amount of borrowings | \$274,117 | \$361,800 | \$274,117 | \$361,800 |
| Average outstanding borrowings | \$244,160 | \$314,102 | \$229,235 | \$284,287 |
| Weighted average interest rate | 2.58 % | 1.78 % | 2.45 % | 1.93 % |

Stockholders' Equity

6. During the six-month period ended September 30, 2017 the Company repurchased 92,582 shares or \$2,689,000 of its Class A Common Stock as Treasury Stock and 200 shares or \$7,000 of its Class B Common Stock also as Treasury Stock. As of September 30, 2017, there are 2,392,928 shares or \$69,195,000 of repurchased stock. These shares are not considered outstanding.

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

September 30, 2017

Retirement Plans

7.

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

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|----------------------------------|---|---------|---|---------|
| | 2017 | 2016 | 2017 | 2016 |
| | (In thousands) | | | |
| Service Cost | \$1,981 | \$2,164 | \$3,963 | \$4,328 |
| Interest Cost | 1,985 | 1,919 | 3,971 | 3,838 |
| Expected Return on Plan Assets | (3,482) | (2,978) | (6,967) | (5,957) |
| Amortization of Actuarial Loss | - | 679 | - | 1,358 |
| Amortization of Transition Asset | 30 | 27 | 60 | 55 |
| Net Periodic Benefit Cost | \$514 | \$1,811 | \$1,027 | \$3,622 |

There was no contribution to the pension plan in the six month period ended September 30, 2017. There was a contribution of \$300,000 made in the six month period ended October 1, 2016.

Plant Restructuring

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

| | Long-Lived Asset Charges | Other Costs | Total |
|----------------|--------------------------------|----------------|-------|
| Severance | | | |
| (In thousands) | | | |

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| | | | | |
|--------------------------------|-------|----------|--------|---------|
| Balance March 31, 2017 | \$37 | \$ 4,773 | \$305 | \$5,115 |
| First quarter charge | 36 | 9 | 36 | 81 |
| Second quarter charge (credit) | - | 8 | (33) | (25) |
| Cash payments/write offs | (73) | (3,888) | (308) | (4,269) |
| Balance September 30, 2017 | \$- | \$ 902 | \$- | \$902 |

| | | | | |
|--------------------------------|-------|----------|---------|---------|
| Balance March 31, 2016 | \$- | \$ 4,975 | \$3,897 | \$8,872 |
| First quarter charge (credit) | 127 | (6) | 1,064 | 1,185 |
| Second quarter charge (credit) | 112 | (286) | 451 | 277 |
| Cash payments/write offs | (123) | 240 | (3,242) | (3,125) |
| Balance October 1, 2016 | \$116 | \$ 4,923 | \$2,170 | \$7,209 |

During fiscal 2016, the Company recorded a restructuring charge of \$10,302,000 related to the closing of a plant in the Northwest of which \$162,000 was related to severance cost, \$5,065,000 was related to asset impairments (contra fixed assets), and \$5,075,000 was related to other costs (mostly operating lease costs). During fiscal 2017, the Company adjusted this restructuring charge by \$1,829,000 related to the closing of this Northwest plant of which a charge of \$1,578,000 was related to severance cost, a credit of \$384,000 was related to asset impairments (contra fixed assets), and charge of \$635,000 was related to other costs (mostly operating lease costs).

During the six months ended September 30, 2017, the Company recorded an additional restructuring charge of \$57,000 related to the previous closing of this Northwest plant.

Other Operating Income and Expense

During the six months ended September 30, 2017, the Company sold unused fixed assets which resulted in a gain of \$1,591,000 as compared to a loss of \$48,000 during the six months ended October 1, 2016. \$1,081,000 of the current year gain was related to the sale of a closed plant in the Midwest. In addition, the Company recorded a bargain purchase gain of \$1,096,000 as discussed in the Acquisition footnote. These items are included in other operating income in the Unaudited Condensed Consolidated Statements of Net Earnings.

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

September 30, 2017

Recently Issued Accounting Standards

10. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard will be effective for the Company on April 1, 2018 (beginning of fiscal 2019). Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has selected the modified retrospective approach for its transition method and applied the five-step model of the new standard to a selection of contracts within each of the revenue streams and has compared the results to our current accounting practices. The Company has evaluated the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has substantially completed its evaluation of significant contracts and is currently assessing the impact of adopting the standards update on our consolidated financial statements. The Company will continue its evaluation of the standards update through the date of adoption.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018 (beginning fiscal 2020 for the Company), including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. While we are still evaluating the impact of our pending adoption of the new standard on our consolidated financial statements, we expect that upon adoption we will recognize ROU assets and lease liabilities and that the amounts could be material.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01 ("ASU 2017-01"), which clarifies the definition of a business, with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and early adoption is permitted for transactions which occur before the issuance or effective date of the amendments, only when the transaction has not been reported in the financial statements that have been issued or made available for issuance. ASU 2017-01 is to be applied on a prospective basis. The Company does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements.

There were no other 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 September 30, 2017.

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

September 30, 2017

(Loss) Earnings per Common Share

11. (Loss) earnings per share for the quarters ended September 30, 2017 and October 1, 2016 are as follows:

| (Thousands, except share amounts) | Q U A R T E R | | Y E A R T O D A T E | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | Fiscal 2018 (Restated) | Fiscal 2017 (Restated) | Fiscal 2018 (Restated) | Fiscal 2017 (Restated) |
| <u>Basic</u> | | | | |
| Net (loss) earnings | \$(2,958) | \$ 6,821 | \$(3,938) | \$ 7,786 |
| Deduct preferred stock dividends paid | 6 | 6 | 12 | 12 |
| Undistributed (loss) earnings | (2,964) | 6,815 | (3,950) | 7,774 |
| (Loss) earnings attributable to participating preferred | (12) | 62 | (22) | 71 |
| (Loss) earnings attributable to common shareholders | \$(2,952) | \$ 6,753 | \$(3,928) | \$ 7,703 |
| Weighted average common shares outstanding | 9,792 | 9,792 | 9,803 | 9,800 |
| Basic (loss) earnings per common share | \$(0.30) | \$ 0.69 | \$(0.40) | \$ 0.79 |
| <u>Diluted</u> | | | | |
| (Loss) earnings attributable to common shareholders | \$(2,952) | \$ 6,753 | \$(3,928) | \$ 7,703 |
| Add dividends on convertible preferred stock | 5 | 5 | 10 | 10 |
| (Loss) earnings attributable to common stock on a diluted basis | \$(2,947) | \$ 6,758 | \$(3,918) | \$ 7,713 |
| Weighted average common shares outstanding-basic | 9,792 | 9,792 | 9,803 | 9,800 |
| Additional shares issued related to the equity compensation plan | - | 3 | - | 3 |
| Additional shares to be issued under full conversion of preferred stock | - | 67 | - | 67 |
| Total shares for diluted | 9,792 | 9,862 | 9,803 | 9,870 |

Diluted (loss) earnings per common share \$(0.30) \$ 0.69 \$(0.40) \$ 0.78

Note: For fiscal 2018, add backs for equity compenstion and additional shares that were dilutive were excluded.

Fair Value of Financial Instruments

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 \$398,725,000 and an estimated fair value of \$398,597,000 as of September 30, 2017. As of March 31, 2017, the carrying amount was \$332,633,000 and the estimated fair value was \$332,926,000. Capital lease obligations, including current portion had a carrying amount of \$43,722,000 and an estimated fair value of \$41,164,000 as of September 30, 2017. As of March 31, 2017, the carrying amount was \$39,033,000 and the estimated fair value was \$37,505,000. The fair values of all the other financial instruments approximate their carrying value due to their short-term nature.

Income Taxes

The effective tax rate was 47.0% and 32.1% for the six month periods ended September 30, 2017 and October 1, 2016, respectively. The 14.9% percentage point increase in the effective tax rate represents an increase in tax benefit as a percentage of book loss when compared to the same period last year. The major contributors to this increase are a result of the Truitt acquisition. The bargain purchase gain is non-taxable and the deferred tax liability related to the outside basis difference in the Truitt investment was written off because the investment can now be recovered in a tax-free manner.

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

September 30, 2017

Seneca Foods Corporation (the "Company") is a leading provider of packaged fruits and vegetables, with facilities located throughout the United States. 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®, Cherryman®, Green Valley®, READ® and Seneca Farms®. 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 90 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 B&G Foods North America ("B&G") under a contract packing agreement.

The Company's raw product is harvested mainly between June through November.

Results of Operations:

Sales:

Second fiscal quarter 2018 results include net sales of \$338,470,000, which represents a 4.0% decrease, or \$14,136,000, from the second quarter of fiscal 2017. The decrease in sales is sales volume decrease of \$13,266,000 and to lower selling prices/sales mix of \$870,000. The decrease in sales is primarily a \$19,587,000 decrease in B&G Foods, Inc. sales, a \$13,527,000 decrease in Canned Fruit sales, a \$2,945,000 decrease in Other sales, and a \$461,000 decrease in Snack sales, partially offset by from acquisition of Truitt during the current year with sales of \$19,446,000, a \$2,141,000 increase in Frozen sales, a \$797,000 increase in Canned Vegetable sales,

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Six months ended September 30, 2017 include net sales of \$627,397,000, which represents a 0.4% increase, or \$2,656,000, from the first six months of fiscal 2017. The increase in sales is sales volume increase of \$3,000,000 partially offset by lower selling prices/sales mix of \$344,000. The increase in sales is primarily from the acquisition of Truitt during the current year with sales of \$41,138,000, a \$13,286,000 increase in Canned Vegetable sales, \$5,927,000 increase in Frozen sales, partially offset by a \$22,794,000 decrease in Canned Fruit sales, a \$29,905,000 decrease in B&G Foods, Inc. sales, a \$2,846,000 decrease in Other sales, and a \$2,150,000 decrease in Snack sales.

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

| | Three Months Ended | | Six Months Ended | |
|-------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|
| | September 30, 2017 (Restated) | October 1, 2016 (Restated) | September 30, 2017 (Restated) | October 1, 2016 (Restated) |
| Canned Vegetables | \$184.9 | \$184.1 | \$338.7 | \$325.4 |
| B&G* | 33.0 | 52.6 | 52.3 | 82.2 |
| Frozen | 24.2 | 22.0 | 51.2 | 45.2 |
| Fruit Products | 70.7 | 84.3 | 130.7 | 153.5 |
| Chip Products | 3.3 | 3.7 | 5.5 | 7.7 |
| Truitt | 19.4 | 0.0 | 41.1 | 0.0 |
| Other | 3.0 | 5.9 | 7.9 | 10.7 |
| | \$338.5 | \$352.6 | \$627.4 | \$624.7 |

*B&G includes frozen vegetable sales exclusively for B&G.

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

September 30, 2017

Operating Income:

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

| | Three Months Ended | | Six Months Ended | |
|------------------------|--------------------|-----------------|--------------------|-----------------|
| | September 30, 2017 | October 1, 2016 | September 30, 2017 | October 1, 2016 |
| | (Restated) | (Restated) | (Restated) | (Restated) |
| Gross Margin | 5.1 % | 8.8 % | 5.3 % | 8.5 % |
| Selling | 2.7 % | 2.6 % | 2.8 % | 2.8 % |
| Administrative | 2.8 % | 2.7 % | 2.9 % | 2.9 % |
| Plant Restructuring | 0.0 % | 0.1 % | 0.0 % | 0.2 % |
| Other Operating Income | 0.0 % | 0.0 % | -0.4 % | 0.0 % |
| Operating Income | -0.4 % | 3.4 % | -0.1 % | 2.5 % |
| Interest Expense, Net | 1.0 % | 0.6 % | 1.1 % | 0.7 % |

For the three month period ended September 30, 2017, the gross margin decreased from the prior year quarter from 8.8% to 5.1% due primarily to the LIFO charge for the second quarter ended September 30, 2017 which was \$12,053,000 as compared to a charge of \$1,361,000 for the second quarter ended October 1, 2016 and reflects the impact on the quarter of higher cost increases expected in fiscal 2018, compared with smaller cost increases to fiscal 2017. On an after-tax basis, LIFO net earnings decreased by \$7,834,000 for the quarter ended September 30, 2017 and decreased LIFO net earnings by \$885,000 for the quarter ended October 1, 2016, based on the statutory federal income tax rate.

For the six month period ended September 30, 2017, the gross margin decreased from the prior year period from 8.5% to 5.3% due primarily to a higher LIFO charge in the current year. The LIFO charge for the six months ended September 30, 2017 was \$19,354,000 as compared to a charge of \$2,413,000 for the six months ended October 1, 2016 and reflects the impact on the six months of cost increases expected in fiscal 2018, compared to cost decreases in

fiscal 2017. On an after-tax basis, LIFO decreased net earnings by \$12,580,000 for the six months ended September 30, 2017 and decreased net earnings by \$1,568,000 for the six months ended October 1, 2016, based on the statutory federal income tax rate.

For the three month period ended September 30, 2017, selling costs as a percentage of sales increased from 2.6% to 2.7% for the same period in the prior year. For the six month period ended September 30, 2017, selling costs as a percentage of sales remained unchanged at 2.8% from the same period in the prior year. The three month increase is primarily as a result of the Green Giant sales decrease, which don't incur selling costs.

For the three month period ended September 30, 2017, administrative expense as a percentage of sales increased from 2.7% to 2.8%. For the six month period ended September 30, 2017, administrative expense as a percentage of sales was unchanged at 2.9%.

During the six months ended September 30, 2017, the Company sold some unused fixed assets which resulted in a gain of \$1,591,000. \$1,081,000 of the current year gain was related to the sale of a closed plant in the Midwest. In addition, the Company recorded a bargain purchase gain of \$1,096,000 as discussed in the Acquisition footnote to the Condensed Consolidated Financial Statements. During the six months ended October 1, 2016, the Company sold some unused fixed assets which resulted in a loss of \$48,000. These items are included in other operating income in the Unaudited Condensed Consolidated Statements of Net Earnings.

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

September 30, 2017

Interest expense for the second quarter ended September 30, 2017, as a percentage of sales, increased from 0.6% to 1.0% in second quarter ended October 1, 2016. For the six month period ended September 30, 2017, interest expense as a percentage of sales increased from 0.7% to 1.1% compared to six months ended October 1, 2016. During fiscal 2018, overall borrowings and interest rates were higher than the previous year.

Income Taxes:

The effective tax rate was 47.0% and 32.1% for the six month periods ended September 30, 2017 and October 1, 2016, respectively. The 14.9% percentage point increase in the effective tax rate represents an increase in tax benefit as a percentage of book loss when compared to the same period last year. The major contributors to this increase are a result of the Truitt acquisition. The bargain purchase gain is non-taxable and the deferred tax liability related to the outside basis difference in the Truitt investment was written off because the investment can now be recovered in a tax-free manner.

Earnings per Share:

Basic (loss) earnings per share were \$(0.30) and \$0.69 for the three months ended September 30, 2017 and October 1, 2016, respectively. Diluted (loss) earnings per share were \$(0.30) and \$0.69 for the three months ended September 30, 2017 and October 1, 2016, respectively. Basic (loss) earnings per share were \$(0.40) and \$0.79 for the six months ended September 30, 2017 and October 1, 2016, respectively. Diluted earnings per share were \$(0.40) and \$0.78 for the six months ended September 30, 2017 and October 1, 2016, respectively. For details of the calculation of these amounts, refer to footnote 11 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:

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| | September 30, 2017 (Restated) | October 1, 2016 (Restated) | March 31, 2017 (Restated) | March 31, 2016 (Restated) |
|--|--|----------------------------------|---------------------------------|---------------------------------|
| Working Capital: | | | | |
| Balance | \$591,801 | \$575,139 | \$541,385 | \$254,200 |
| Change in Quarter | \$38,965 | 79,306 | | |
| Long-Term Debt, Less Current Portion | 395,128 | 354,905 | 329,138 | 35,967 |
| Capital Lease Obligations, Less Current Portion | 37,879 | 18,425 | 34,194 | 4,988 |
| Total Stockholders' Equity Per Equivalent Common Share (see Note below) | 42.44 | 40.21 | 42.72 | 39.40 |
| Stockholders' Equity Per Common Share | 42.83 | 40.72 | 43.27 | 39.90 |
| Current Ratio | 2.49 | 2.60 | 4.05 | 1.55 |

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 7 of the Notes to Consolidated Financial Statements of the Company's 2017 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 \$17,790,000 in the first six months of fiscal 2018, compared to \$28,421,000 in the first six months of fiscal 2017. The \$10,631,000 decrease in cash used is primarily attributable to an \$214,135,000 increase in inventory in the first six months of fiscal 2018 as compared to \$192,203,000 increase in inventory in the first six months of fiscal 2017, a \$53,884,000 increase in cash provided by accounts payable, deferred revenue, accrued expenses and other liabilities, a \$928,000 increase in cash provided by income taxes partially offset by decreased net earnings of \$11,724,000 as previously discussed and an \$8,234,000 increase in cash used by accounts receivable.

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

September 30, 2017

As compared to October 1, 2016, inventory increased \$57,462,000 to \$859,146,000 at September 30, 2017 (including \$16,076,000 increase from the Truitt Bros. Inc. acquisition). The components of the inventory increase reflect a \$52,284,000 increase in finished goods, a \$14,189,000 increase in work in process and a \$9,011,000 decrease in raw materials and supplies. The finished goods increase is primarily due to the Truitt acquisition and reflects higher inventory quantities due to the magnitude and timing of the fiscal year 2018 pack versus fiscal year 2017 pack partially offset by increased sales volume as 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 \$163,193,000 as of the end of the second quarter of 2018 as compared to \$156,351,000 as of the end of the second quarter of 2017.

Cash used in investing activities was \$26,373,000 in the first six months of fiscal 2018 compared to cash used in investing activities of \$14,505,000 in the first six months of fiscal 2017. Additions to property, plant and equipment were \$13,743,000 in the first six months of fiscal 2018 as compared to \$14,518,000 in first six months of fiscal 2017. The prior year purchases include \$4,767,000 of fixed assets purchased from Monsanto in connection with our seed processing in August 2016. In April 2017, the Company acquired the other 50% of Truitt Bros., Inc. for \$14,420,000 (net of cash acquired).

Cash provided by financing activities was \$47,111,000 in the first six months of fiscal 2018, which included borrowings of \$282,862,000 and the repayment of \$232,706,000 of long-term debt, principally consisting of borrowing and repayment on the revolving credit facility ("Revolver"). Cash provided by financing activities was \$44,448,000 in the first six months of fiscal 2017, which included borrowings of \$183,744,000 and the repayment of \$136,613,000 of long-term debt, principally consisting of borrowing and repayment on the Revolver. Other than borrowings under the Revolver, there was no new long-term debt during the first six months of fiscal 2018. During the six months ended October 1, 2016, the Company paid off \$22,596,000 of Industrial Revenue Bonds. During the six months ended September 30, 2017, the Company repurchased \$2,696,000 of its Class A and Class B Common Stock as treasury stock compared to \$1,021,000 in the prior period.

During the six months ended September 30, 2017, the Company entered into \$7,155,000 of equipment capital leases compared to \$15,416,000 in the same period in the prior year.

The Company completed the closing of a new five-year revolving credit facility on July 5, 2016. Available borrowings on the Revolver total \$400,000,000 from April through July and \$500,000,000 from August through March with a maturity date of July 5, 2021. 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 September 30, 2017, the interest rate was approximately 2.75% on a balance of \$272,609,000. 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 September 30, 2017, the Company was in compliance with all such financial covenants.

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

September 30, 2017

New Accounting Standards

Refer to footnote 10 of the Notes to Condensed Consolidated Financial Statements.

Seasonality

The Company's revenues are typically higher in the second and third fiscal quarters. The Company's sales 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 to events 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.

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

September 30, 2017

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

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 uses the lower of cost, determined under the LIFO (last-in, first out) method, or market, to value substantially all of its inventories. In a high inflation environment that the Company was experiencing, the Company believes that the LIFO method was preferable over the FIFO method because it better compares the cost of current production to current revenue.

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.

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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 and the \$100,000,000 term loan. To manage interest rate risk, the Company uses both fixed and variable interest rate debt plus fixed interest rate capital lease obligations. There have been no material changes to the Company's exposure to market risk since March 31, 2017.

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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 September 30, 2017, our disclosure controls and procedures were not effective due to the material weakness in the Company's internal control over financial reporting reported in the Company's Annual Report on Form 10-K for the year ended March 31, 2018 that the Company determined was also present as of September 30, 2017.

As a result of the control deficiencies identified in the Company's Annual Report on Form 10-K for the year ended March 31, 2018, the Company restated its unaudited quarterly financial information for the fiscal quarters ended September 30, 2017 and October 1, 2016. During the fiscal quarter ended September 30, 2017, there were no changes to the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Refer to footnote 13 to the Consolidated Financial Statements included in Part II Item 8 of the Annual Report on Form 10-K.

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, 2017 except to the extent factual information disclosed elsewhere in this Form 10-Q relates to such risk factors.

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

| Period | Total Number of Shares Purchased | | 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 | | |
| 7/01/2017 – 7/31/2017 | - | - | \$- | \$ - | | |
| 8/01/2017 – 8/31/2017 | 89,532 | 200 | \$29.02 | \$ 32.53 | 89,732 | |
| 9/01/2017 – 9/30/2017 | 3,050 | - | \$29.92 | \$ - | 3,050 | |
| Total | 92,582 | 200 | \$29.06 | \$ 32.53 | 92,782 | 1,088,579 |

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)

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)

The following materials from Seneca Foods Corporation's Quarterly Report on Form 10-Q for the six months ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of net loss, (iii) condensed consolidated statements of comprehensive loss, (iv) condensed consolidated statements of cash flows, (v) condensed consolidated statement of stockholders' equity and (vi) the notes to condensed consolidated financial statements.

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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

September 7, 2018

Kraig H. Kayser

President and

Chief Executive Officer

/s/Timothy J. Benjamin

September 7, 2018

Timothy J. Benjamin
Chief Financial Officer